SSP 南海石油

South Sea Petroleum Holdings Limited

Annual Report 2007

Stock Code : 76

Contents

Corporate Information

DIRECTORS

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

COMPANY SECRETARY

Lam Lee Yu

REGISTERED OFFICE

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

SHARE REGISTRAR

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

PRINCIPAL BANKERS

Standard Chartered Bank

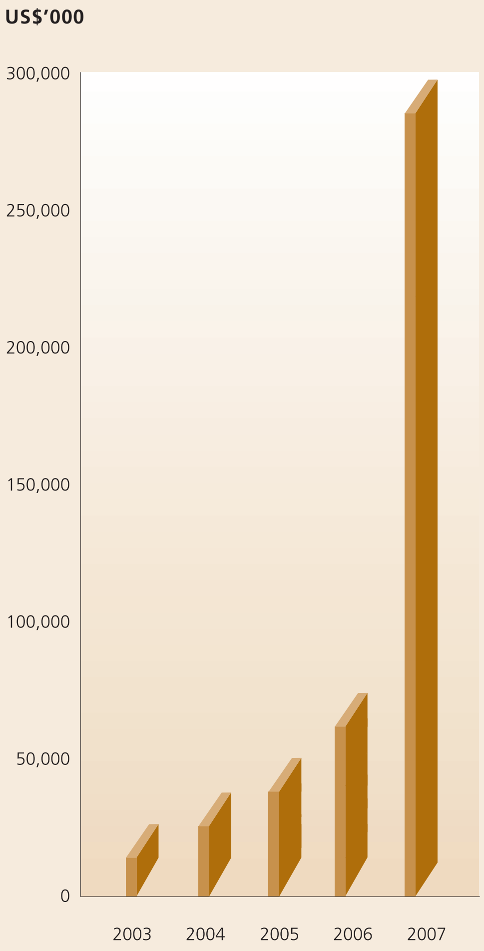
AUDITORS

JP Union & Co.

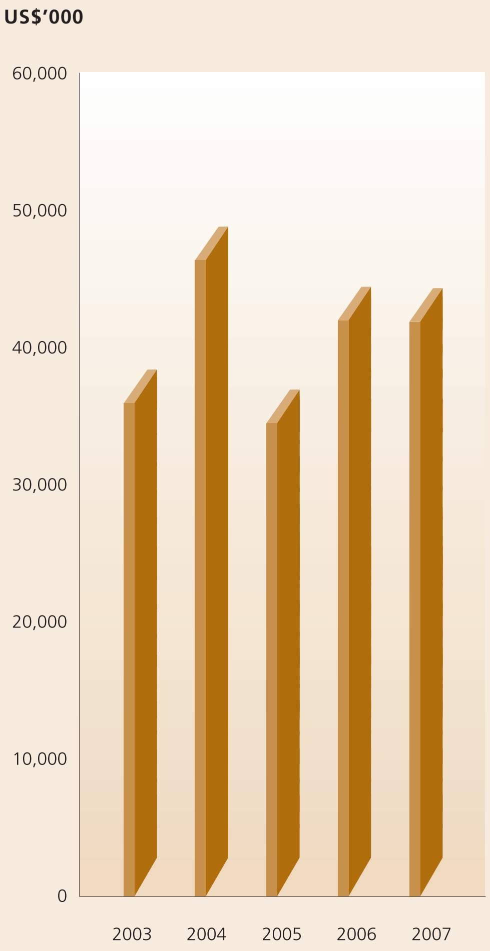
Financial Highlights

	2007 US$'000	2006 US$'000
Turnover	**41,840**	41,940
Loss from Operating Activities	**(28,703)**	(6,683)
Net Loss Attributable to Shareholders	**(29,629)**	(6,971)
Funds Attributable to Equity Holders of the Company	**285,468**	61,529
Basic Loss Per Share (US Cents)	**(0.55)**	(0.61)

FUNDS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY



TURNOVER



Directors' Business Review

OVERVIEW

For the year ended 31 December 2007, the Group's turnover was US$41.84 million, as compared to US$41.94 million for the previous year. The net loss attributable to shareholders was US $29.63 million, or US $0.55 cents per share, as compared to net loss of US $7.0 million, or US$0.61 cents per share, for the year of 2006. On the balance sheet, the total assets of the Group as at 31 December 2007 were US$309.41 million representing an increase of US$231.91 million, or 299.2%, as compared US $77.50 million as at 31 December 2006, and the net assets of the Group were US$293.87 million representing an increase of US$231.53 million, or 371.40%, as at 31 December 2007, as compared US$62.34 million as at 31 December 2006.

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 currently operates 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"), which was entered into with BPMIGAS, Department of Petroleum of Indonesia, on 22 May 2000. The Bula PSC will expire in 2019.

Agusan-Davao Basin Oilfield is operated by South Sea Petroleum (Philippines) Corp., a wholly owned subsidiary of the Company. Under the Service Contract with the Department of Energy, the Republic of Philippines, the Group has been 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, and follows with a 25-year of production term. The Company is currently conducting seismic surveys and other preparation work programs on the area.

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

From 1994 to the end of 2004, the Group had crude oil operations at Limau Oilfields in South Sumatra, Indonesia under an Enhance Oil Recovery Contract ("EOR") with Pertamina, an Indonesian state-owned oil company. The EOR Contract expired on 31 December 2004. The Group has been negotiating with BPMIGAS, Department of Petroleum of Indonesia, for some time in order to renew the Contract or enter into a new contract for the oil production at this Limau Oilfield the Group previously operated. On 16 June 2007, Seaunion Development Limited, a 100% owned subsidiary of the Company, entered into a legally binding Strategic Alliance Agreement with PT Pertamina (Persero), an Indonesian state-owned oil company, to form a strategic alliance for the exploration and/or production of crude oil in Limau Oilfields in form of a 50-50 joint venture company. The initial term for the cooperation is 15 years, which can be extended by mutual agreement subject to evaluation. Currently, the production capacity of the Limau Oilfields is about 7,000 barrels of crude oil a day.

Directors' Business Review (continued)

In April 2007, the Group set up a joint venture company, Mega Resources International Enterprises Limited ("Mega Resources"), in Hong Kong. Under the joint venture agreement, the Group contributed HK$70 million for 70% of equity interest, and the minority investors contributed HK$30 million for 30% of the equity interest of Mega Resources. The purpose of Mega Resources is to acquire 95% of capital stock of a Chinese company, which will acquire exploration and mining rights on a 2.89 square kilometer area in Panzhihua, Sichuan, China. According to technical assessment reports prepared by SRK Consulting, an Europe-based valuer and BMI Appraisals, the mineral deposits and estimated tonnage found on or under the mining area include: copper (2,570,216 tons), graphite (90,376,000 tons), lead-zinc (67,685 tons), sulphur and silver. The gross sales revenue for the above minerals is estimated at RMB18,496,041,400. After deducting all the mining and operating costs, the net market value of such material deposits was appropriately RMB3,347,000,000.

On 25 July 2007, Global Select Limited, a wholly owned subsidiary of the Company, entered into a joint venture agreement with China Resources Development Cooperation Holdings Limited ("CRDC") to set up a joint venture company, China Resources Development Group Limited ("CRDG") in Hong Kong. The purpose of CRDG is for seeking business opportunities in natural resources industry in China. Under the joint venture agreement, the Group will contribute US$8.50 million for 85% of equity interest in CRDG, and CRDC will contribute US$1.50 million for 15% of equity interest in CRDG.

On 2 October 2007, CRDG, a wholly owned subsidiary of the Company, entered into a joint venture agreement with a third party investor to acquire Heilongjiang Sinorth Graphite Co., Ltd. ("Heilongjiang Sinorth") to produce and sale of graphite products in Luobei, Helongjiang Province of China. Pursuant to the agreement, CRDG contributed US$9,950,000 in cash for 83% of equity interest, whereas the investor contributed US$2,050,000 in cash for 17% of equity interest in CRDG.

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

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

The Company intends to continue making investments in exploiting and developing crude oil and natural gas in Asian countries, including Indonesia and the Philippines. At Bula Block Oilfield in Indonesia, the Company 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 Company intends to conduct more seismic surveys and drill more test wells.

Directors' Business Review (continued)

For the year ended 31 December 2007, the Company's electronics manufacturing services operations in UK continues to make progress with both revenues and operating profits. Business in current market sectors continues to be relatively 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.

RESULTS OF OPERATIONS

For the year ended 31 December 2007, the Group's turnover was US $41.84 million, a slight decrease of US $100,000, or 0.2%, compared to US$41.94 million for the prior year. During the year, the turnover of the Group's crude oil operation increased by US$1.61 million, and the turnover of the Group's electronics manufacturing service operation decreased by US$1.69 million, mainly due to the completion of the Psion Contract in late 2006 which totaled US$5.1 million. This was a high sales value but low margin contract. However, a number of new customers have been added in 2007 in new market sectors. Though these contributed small amounts to revenue in 2007, it is believed that they will move into full volume in 2008.

For the year ended 31 December 2007, the Group had net loss of US$29.66 million, or US$0.55 cents per share, as compared to net loss of US$7.02 million, or US$0.61 cents per share for the last year. The loss of the Company's operating activities in 2007 was largely due to exploratory dry hole costs of US$18.3 million, unrealised loss in financial assets at fair value through profit or loss of US$7,280,000, foreign exchange losses of US$442,000 million and tax expense of US$492,000.

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.

As at 31 December 2007 the Group's cash and cash equivalents were US$93.26 million, as compared to US$3.87 million as at 31 December 2006. For the year ended 31 December 2007, the Group's operating activities used net cash of US$37.17 million, largely due to net loss from operating activities, decrease in financial assets at fair value through profit or loss of US$26.43 million, increase in trading receivable of US$3.94 million, unrealized loss on trading securities of US$7.28 million, increase in inventory US$1.86 million and trade receivables of US$3.94 million. For the year, the Group's investing activities used net cash of US$133.80 million, primarily attributable to increase in additions to oil properties of US$117.58 million, and project advance of US$14.67 million. For the year ended 31 December 2007, the Group's financing activities provided net cash of US$259.73 million, largely from proceeds of issuing convertible debenture of US$250.28 million, contribution from minority shareholders of US$5.35 million and loan from discounted debtor of US$3.96 million.

On 2 February 2007, the Company contracted to issue convertible debentures for an aggregate amount of HK$40 million nil interest and due 2010. The net proceeds were used to increase production of crude oil in Bula Block Oilfields in Indonesia.

On 28 February 2007, the Company contracted to issue convertible debentures for an aggregate amount of US$100 million nil interest and due 2012. The net proceeds were used in the exploration of crude oil and gas at Agusan-Davao Basin in Davao Province, the Philippines, and to increase production of crude oil at Bula Block Oilfields in Indonesia.

On 14 June 2007, the Company contracted to issue convertible debentures for an aggregate amount of US$200 million nil interest and due 2012. The net proceeds are intended to be used in exploration of Indonesia oilfields, seeking for potential oilfields for acquisition, and for the exploration and mining production in Sichuan, China.

As at 31 December 2007, 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.

OFF BALANCE SHEET ARRANGEMENTS

As of 31 December 2007, the Company had no off balance sheet arrangements.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's largest customer and five largest customers accounted for 86% and 26% respectively of the Group's total turnover for the year. The aggregate purchases attributable to the Group's five largest suppliers accounted for 56% of the Group's total purchases of which approximate 25% attributable to the largest supplier. None of the Company's directors, their associates, or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in the Group's five largest customers in 2007 and 2006.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2007, the Group had a total of approximately 528 full-time employees in Indonesia, the United Kingdom, China 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 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.

Directors' Business Review (continued)

CHANGE IN THE COMPANY'S AUDITORS

On 10 December 2007, K.M. Choi & Au Yeung Limited resigned as auditors of the Company and its subsidiaries for the reason that it could not agree on the proposed audit fee for the year ended 31 December 2007.

The auditor's report issued by K.M. Choi & Au Yeung Limited on the Group's financial statements for the year ended 31 December 2006 contained no 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 K.M. Choi & Au Yeung Limited for the previous year 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 K.M. Choi & Au Yeung Limited, would have caused them to make reference to the subject matter of the disagreement in connection with its report. K.M. Choi & Au Yeung Limited further confirmed that there were no circumstances connected with its resignation which it considered should be brought to the attention of the shareholders and creditors of the Group.

On 7 January 2008, the Company appointed JP Union & Co., Certified Public Accountants, as its auditors to fill the casual vacancy following the resignation of K.M.Choi & Au Yeung Limited, until the conclusion of the coming annual general meeting of the Company.

The Company considered that there were no circumstances in respect of the appointment of new auditors which should be brought to the attention of the shareholders of the Company.

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 2007 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, 23 April 2008

Report of the Directors

The directors are pleased to present their annual report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2007, which were approved by the Board of Directors on 23 April 2008.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company.

The principal activities of Company and its subsidiaries are set out in note 17 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 23.

For the year ended 31 December 2007, the Company has not declared or paid any dividend on its ordinary shares (2006: Nil). The Company currently intends to retain all available funds for use in the operations and expansion of its business.

RESERVES

Movements during the year in the reserves of the Group and the Company are set out in the consolidated statement of changes in equity on page 27 and note 30(b) to the financial statements, respectively.

FIXED ASSETS

During the year the Group's fixed assets increased to US$136,939 million from US$33.75 million at the end of 2006.

Details of the movements during the year in the fixed assets of the Group and the Company are set out in note 16 to the financial statements.

DIVIDENDS

The Directors have decided not to declare any dividend for the year ended 31 December 2007 (2006: Nil).

SHARE CAPITAL

During the year, the Company issued 9,406,350,771 ordinary shares. Details of movements in the share capital of the Company are set out in note 28 to the financial statements.

Report of the Directors (continued)

BOARD OF DIRECTORS

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

Zhou Ling, age of 59, has been the Chairman of the Board of Directors of the Company since August 2003. Mr. Zhou also serves president of Fortune World Publishing Co., Ltd., and president of Shen-Shen Venture Capital Investment Co., Ltd. in China.

Lee Sin Pyung, age of 44, has been the Company's Managing Director since 2002. Prior to her joining the company, Ms. Lee had worked for a number of multi-international companies, and has experience and exposure to international business.

Sit Mei, age of 36, has been the Company's executive director since 2002. Ms. Sit graduated from Holmes College in Melbourne, Australia. She joined the Company in January 2001.

Lu Ren Jie, age of 73, has been an independent non-executive director of the Company since 1999 and is a member of the audit committee. Mr. Lu has over 40 years experience in petroleum industry and had been responsible for many oilfield projects in China. He was an associate of the World Associate of Production Science and Chairman of Shengli Branch of Society of Petroleum Engineers. Mr. Lu is currently a part-time professor at Shanghai Communication University and Petroleum University.

Chai Woon Chew, age of 50, has been the Company's independent non-executive director since 2002. From 1994 to the present, Mr. Chai has been a partner at Michael Chai & Co., a law firm in Kuala Lumpur, Malaysia. From 1991 to 1994, he was a legal associate with Shook Lin & Bok, a law firm in Kuala Lumpur, Malaysia. Mr. Chai holds a Bachelor of Laws (Hons) degree from the University of Buckingham and a Bachelor of Science (Hons) degree in Chemistry from University of Surrey, UK. Mr. Chai is qualified as Barrister at Law from Lincoln's Inn, England.

Ho Choi Chiu, age of 76, has been an independent non-executive director of the Company since 2004. Mr. Ho is a practicing Certified Public Accountant and a partner of C.C. Ho & Co., a public accounting firm in Hong Kong. Mr. Ho is a member of the Audit Committee of the Board of Directors of the Company.

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

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

CORPORATE GOVERNANCE AND CODE OF BEST PRACTICE

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

Throughout the year, the Company has complied with all applicable Code Provisions in the Corporate Governance Code. For more information on the Company's corporate governance practices, please see the Company's Corporate Governance Report beginning on page 13.

AUDIT COMMITTEE AND FINANCIAL REPORTING

The Audit Committee is made up of three (3) members, all of them are independent non-executive Directors. The principal duties of the Audit Committee are to review the internal controls and the financial reporting requirements of the Group. The Audit Committee meeting normally hold twice of each financial year immediate before the board of directors meeting for approving the interim and the final results. After reviewing and discussing with management and the Company's independent auditors, the Committee is satisfied with the Company's internal control procedures and the financial reporting disclosures for the year ended 31 December 2007.

DIRECTORS' INTERESTS IN SHARES

Details of Directors' interests in shares of the Company are set out in the Company's Corporate Governance Report on page 16 under the section of Compliance of the Model Code for Securities Transactions by Directors.

All directors have confirmed that they complied with the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules throughout the review period.

DIRECTORS' INTERESTS IN CONTRACTS

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

At no time during the year was the Company or any of the Company's subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

As at 31 December 2007, no person, other than Mr. Zhou Ling's interests which are disclosed in the "Corporate Governance Report," had registered an interest or short position in the shares or underlying shares or debentures of the Company that was required to be kept record by the Company pursuant to Section 336 of the Securities and Futures Ordinance.

Report of the Directors (continued)

RELATED PARTY TRANSACTIONS

During the year under review, the Group didn't enter into any transactions with any related party under the Listing Rules and applicable accounting principles.

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

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

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's largest customer and five largest customers accounted for 86% and 26% respectively of the Group's total turnover for the year.

The aggregate purchases attributable to the Group's five largest suppliers accounted for 56% of the Group's total purchases of which approximate 25% attributable to the largest supplier.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

SUFFICIENCY OF PUBLIC FLOAT

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

CONFIRMATION OF INDEPENDENCE

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

INDEPENDENT AUDITORS

A resolution for the re-appointment of JP Union & Co. as auditors of the Company and its subsidiaries is to be proposed at the forthcoming annual general meeting.

On Behalf of the Board

Zhou Ling
Chairman

Hong Kong, 23 April 2008

COMMITMENT TO CORPORATE GOVERNANCE

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

Throughout the year ended 31 December 2007, the Company was in compliance with the Code of Corporate Governance Practices, save for a deviation from code provision A.4.1 of the Code in respect of the service term of independent non-executive directors.

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

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

BOARD OF DIRECTORS

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

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

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

- Zhou Ling, Chairman of the Board;
- Lee Sin Pyung, Managing Director;
- Sit Mei, Executive Director;
- Lu Ren Jie, Independent Non-Executive Director;

Corporate Governance Report (continued)

- Chai Woon Chew, Independent Non-Executive Director; and
- Ho Choi Chiu, Independent Non-Executive Director

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

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

The details of all directors, including Chairman, executive directors and independent non-executive directors are given on page 10 of the Company's Report of the Directors.

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

During the year ended 31 December 2007, the Board at all times fulfilled the minimum requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors.

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

BOARD MEETINGS

The full Board meets at least quarterly and on other occasions when a board decision is required on major issues. The following table sets out the details of Directors' attendance at the annual general meeting ("AGM"), Board and Board Committee Meetings held in 2007:

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

CHAIRMAN AND MANAGING DIRECTOR

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

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

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

NON-EXECUTIVE DIRECTORS

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

INDEPENDENCE

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

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

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

Corporate Governance Report (continued)

APPOINTMENT OF DIRECTORS

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

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

COMPLIANCE OF THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in Appendix 10 of the Listing Rules. All directors have confirmed that, following specific enquiry by the Company, they complied with the required standard as set out in the Model Code throughout the year of 2007.

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

At 31 December 2007, the directors of the Company held following long position in the ordinary share of the Company:

	Number of Ordinary Shares held		Approximate %
Name	**Personal Interests**	**Corporate Interests**	**of shareholding**
Zhou Ling	–	32,000,000	0.29%

Save as disclosed above, as at 31 December 2007, none of the directors and executive officers of the Company and their respective associates had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations that were required, pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), to be entered in the register referred to therein or which were required, pursuant to the Model Code contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

All Directors have confirmed that throughout the year ended 31 December 2007 they complied with the required standard set out in the Model Code.

REMUNERATION OF DIRECTORS

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

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

- No individual should determine his or her own remuneration;

- Remuneration should be broadly aligned with companies with whom the Company competes for human resources; and

- Remuneration should reflect performance, complexity and responsibility with a view to attracting, motivating and retaining high performing individuals and promoting the enhancement of the value of the Company to its shareholders.

NON-EXECUTIVE DIRECTORS' REMUNERATION

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

Non-executive directors of the Company are paid fees in line with market practice. Executive Directors serving on the Board and Board Committee are not entitled to any Directors' fees. The non-executive Directors of the Company received no other compensation from the Company except for the fees disclosed above.

EXECUTIVE DIRECTORS' REMUNERATION

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

The remuneration paid to the Executive Directors of the Company in 2007 was as below:

Name of Executive Directors	Compensation Per Annum US$'000
Mr. Zhou Ling	113
Ms. Lee Sin Pyung	101
Ms. Sit Mei	60

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

At present the Company does not have a share option scheme.

Corporate Governance Report (continued)

AUDIT COMMITTEE

As of 31 December 2007, the Audit Committee of the Company consists of the following three directors: Mr. Ho Choi Chiu, Mr. Lu Ren Jie and Mr. Chai Woon Chew. Mr. Ho was the Committee Chairman. All of the Committee members were independent non-executive Directors.

Audit Committee members meet at least twice a year. Special meetings may be called at the discretion of the Chairman or at the request of the Managing Director to review significant control or financial issues.

During 2007, the Audit Committee met twice and discharged its responsibilities in its review of the half-yearly and annual results and system of internal control, and its other duties as set out in Listing Rules of the Hong Kong Stock Exchange.

In 2007, the Audit Committee discharged its responsibilities by:

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

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

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

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

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

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

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

The Audit Committee oversees the financial reporting process and the adequacy and effectiveness of the Company's system of internal control. During the year, the Committee carried out their own independent review of the interim and annual financial statements and financial reports and statements included in circulars of the Company published during the year. The Audit Committee is authorized by the Board to obtain external legal or other independent professional advice and to ensure the attendance of outsiders with relevant experience and expertise if it considers necessary in the performance of its functions. The Audit Committee is provided with sufficient resources by the Company to discharge its duties.

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

Based on these review and discussions, and the report of the external auditors, the Audit Committee recommended to the Board of Directors approval of the consolidated financial statements for the year ended 31 December 2007 with the Auditors' Report thereon.

The Committee recommended to the Board that the shareholders be asked to re-appoint JP Union & Co., Certified Public Accountants, as the Company's external auditors for 2008.

AUDITORS' REMUNERATION

Prior to 10 December 2007, the Company's independent auditors were K. M. Choi & Au Yeung Limited, and since 7 January 2008, the Company's independent auditors has been JP Union & Co. In order to maintain their independence, the Company's independent auditors will not be employed for non-audit work unless it is permissible under the Listing Rules of the Hong Kong Stock Exchange and approved by the Audit Committee of the Company.

The following is a summary of the fees billed to us by our principal independent auditors during the financial years ended 31 December 2007 and 2006:

Fee Category	**2007** **US$'000**	2006 US$'000
Audited fees	**168**	168
Other services	**12**	26

The Audit Committee has resolved the re-appointment of JP Union & Co., for statutory audits for the financial year 2008. This resolution has been approved by the Board of Directors and is subject to final approval and authorization by the shareholders at the 2008 annual general meeting.

INTERNAL CONTROLS

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

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

For the year ended 31 December 2007, based on the evaluation of the Company's internal control, the Board considered its internal control system effective and adequate. No significant areas of concern that might affect shareholders were identified.

Corporate Governance Report (continued)

FINANCIAL REPORTING

The Directors acknowledge their responsibilities for preparing all information and representations contained in the financial statements of the Company for the year under review. The Directors consider that the financial statements have been prepared in conformity with the generally accepted accounting standards published by the Hong Kong Institute of Certified Public Accountants, and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgment of the Board and Management with an appropriate consideration to materiality. As at 31 December 2007, the Directors, having made appropriate enquiries, are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the Directors have prepared the financial statements of the Company on a going concern basis.

In 2007, the Company adopted some new and revised Hong Kong Financial Reporting Standards, including Hong Kong Accounting Standards and applicable Interpretations which came into effect on 1 January 2007. They are set out in note 3 to the Accounts on page 33.

The responsibilities of the external auditors with respect to financial reporting are set out in the Report of the Auditors on pages 21 to 22.

By Order of the Board

Lam Lee Yu
Company Secretary

Hong Kong, 23 April 2008

Independent Auditor's Report

中順聯合會計師事務所

JP UNION & CO., Certified Public Accountants

TO THE SHAREHOLDERS OF SOUTH SEA PETROLEUM HOLDINGS LIMITED

(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of South Sea Petroleum Holdings Limited (the "Company") set out on pages 23 to 69, which comprise the consolidated and Company balance sheets as at 31 December 2007, the consolidated income statement, consolidated statement of changes in equity and 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 the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

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

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

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

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

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements gives a true and fair view of the state of the affairs of the Company and of the Group as at 31 December 2007 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

JP Union & Co.
Certified Public Accountants
Hong Kong, 23 April 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Notes	2007 US$'000	2006 US$'000
TURNOVER	*7*	**41,840**	41,940
COST OF SALES		**(30,392)**	(33,337)
		11,448	8,603
Other income	*7*	**3,364**	3,732
General and administrative expenses		**(17,668)**	(16,241)
Loss in fair value of financial assets through profit or loss		**(7,464)**	(115)
Exploratory dry hole costs		**(18,383)**	–
Impairment loss of amount due from a related company		**–**	(2,662)
LOSS FROM OPERATNG ACTIVITIES	*8*	**(28,703)**	(6,683)
Finance costs	*9*	**(464)**	(467)
LOSS BEFORE TAX		**(29,167)**	(7,150)
INCOME TAX	*12*	**(492)**	126
LOSS FOR THE YEAR		**(29,659)**	(7,024)
ATTRIBUTABLE TO:			
Equity shareholders of the Company	*13*	**(29,629)**	(6,971)
Minority interests		**(30)**	(53)
		(29,659)	(7,024)
LOSS PER SHARE – Basic (US cents)	*14*	**(0.55)**	(0.61)

Consolidated Balance Sheet

As at 31 December 2007

	Notes	2007 US$'000	2006 US$'000
NON-CURRENT ASSETS			
Goodwill	*15*	**2,523**	2,523
Fixed assets	*16*	**136,939**	33,749
Available-for-sale investments	*18*	**–**	–
Project advances for oil field exploration and mining		**27,813**	13,139
Deferred tax assets	*19*	**284**	617
		167,559	50,028
CURRENT ASSETS			
Cash and bank balances		**90,519**	3,865
Fixed deposit		**2,741**	–
Financial assets at fair value through profit or loss	*20*	**19,398**	103
Trade receivables	*21*	**8,346**	4,411
Inventories	*22*	**8,391**	5,477
Prepayments, deposits and other receivables		**12,451**	13,613
		141,846	27,469
CURRENT LIABILITIES			
Trade payables	*23*	**5,021**	7,743
Other payables and accrued expenses		**2,614**	3,233
Due to a minority shareholder		**1,282**	–
Bank loan on discounted debtors		**3,964**	–
Finance lease-current portion	*24*	**212**	193
Bank loan		**–**	18
Government grant received in advance-current portion	*25*	**556**	894
Taxation		**154**	100
		13,803	12,181
NET CURRENT ASSETS		**128,043**	15,288
TOTAL ASSETS LESS CURRENT LIABILITIES		**295,602**	65,316
NON-CURRENT LIABILITIES			
Finance lease	*24*	**474**	343
Government grant received in advance	*25*	**671**	865
Provisions	*26*	**590**	664
Convertible debentures	*27*	**–**	1,103
		1,735	2,975
		293,867	62,341

Consolidated Balance Sheet (continued)

As at 31 December 2007

	Notes	2007 US$'000	2006 US$'000
CAPITAL AND RESERVES			
Share capital	*28*	**109,722**	15,659
Revaluation reserve		**5,147**	3,615
Special capital reserve		**12,037**	12,037
Share premium		**199,947**	42,627
Translation reserve		**7,791**	7,138
Accumulated losses		**(49,176)**	(19,547)
Funds attributable to equity shareholders of the Company		**285,468**	61,529
Minority interests		**8,399**	812
		293,867	62,341

LEE SIN PYUNG
Managing Director

ZHOU LING
Chairman

Balance Sheet

As at 31 December 2007

	Notes	2007 US$'000	2006 US$'000
NON-CURRENT ASSETS			
Fixed assets	*16*	**36**	68
Interests in subsidiaries	*17*	**261,042**	46,374
		261,078	46,442
CURRENT ASSETS			
Cash and bank balances		**24,380**	810
Financial assets at fair value through profit or loss	*20*	**4**	103
Prepayments, deposits and other receivables		**100**	142
		24,484	1,055
CURRENT LIABILITIES			
Other payables and accrued expenses		**94**	391
NET CURRENT ASSETS		**24,390**	664
TOTAL ASSETS LESS CURRENT LIABILITIES		**285,468**	47,106
NON CURRENT LIABILITIES			
Convertible debentures	*27*	**–**	1,103
		285,468	46,003
CAPITAL AND RESERVES			
Share capital	*28*	**109,722**	15,659
Reserves	*30*	**175,746**	30,344
		285,468	46,003

LEE SIN PYUNG
Managing Director

ZHOU LING
Chairman

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Attributable to equity holders of the Company								
	Share capital US$'000	Share premium US$'000	Special capital reserve US$'000	Translation reserve US$'000	Revaluation reserve US$'000	Accumulated losses US$'000	Total US$'000	Minority interests US$'000	Total equity US$'000
At 1.1.2007	15,659	42,627	12,037	7,138	3,615	(19,547)	61,529	812	62,341
Exchange differences	–	–	–	653	367	–	1,020	152	1,172
Revaluation of land and buildings	–	–	–	–	1,165	–	1,165	64	1,229
Net income recognized directly in equity	–	–	–	653	1,532	–	2,185	216	2,401
Loss for the year	–	–	–	–	–	(29,629)	(29,629)	(30)	(29,659)
Total recognized income and expenses for the year	–	–	–	653	1,532	(29,629)	(27,444)	186	(27,258)
Issue of shares upon conversion of convertible debentures	94,063	157,320	–	–	–	–	251,383	–	251,383
Acquisition of subsidiary	–	–	–	–	–	–	–	2,051	2,051
Contribution from minority shareholders	–	–	–	–	–	–	–	5,350	5,350
At 31.12.2007	109,722	199,947	12,037	7,791	5,147	(49,176)	285,468	8,399	293,867

Consolidated Statement of Changes in Equity (continued)

For the year ended 31 December 2007

	Attributable to equity holders of the Company								
	Share capital US$'000	Share premium US$'000	Special capital reserve US$'000	Translation reserve US$'000	Revaluation reserve US$'000	Accumulated losses US$'000	Total US$'000	Minority interests US$'000	Total equity US$'000
At 1.1.2006	6,505	24,764	12,037	3,839	3,174	(12,576)	37,743	867	38,610
Exchange differences	–	–	–	3,389	441	–	3,830	243	4,073
Release on dilution of equity interests in subsidiaries	–	–	–	(90)	–	–	(90)	–	(90)
Net income recognized directly in equity	–	–	–	3,299	441	–	3,740	243	3,983
Loss for the year	–	–	–	–	–	(6,971)	(6,971)	(53)	(7,024)
Total recognized income and expenses for the year	–	–	–	3,299	441	(6,971)	(3,231)	190	(3,041)
Issue of shares upon open offering	3,252	4,879	–	–	–	–	8,131	–	8,131
Issue of shares upon conversion of convertible debentures	5,902	12,984	–	–	–	–	18,886	–	18,886
Dilution of equity interests in subsidiaries	–	–	–	–	–	–	–	(245)	(245)
At 31.12.2006	15,659	42,627	12,037	7,138	3,615	(19,547)	61,529	812	62,341

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Notes	2007 US$'000	2006 US$'000
NET CASH (USED IN) FROM OPERATING ACTIVITIES	*31(a)*	**(37,168)**	445
INVESTING ACTIVITIES			
Additions of fixed assets		**(119,970)**	(19,988)
Payment for project advances for oil field and mining exploration		**(14,674)**	(7,195)
Cash outflow on dilution of interests in subsidiaries	*31(c)*	**–**	(31)
Cash outflow on acquisition of subsidiaries	*31(b)*	**(133)**	–
Interest received		**973**	49
Net cash outflow from investing activities		**(133,804)**	(27,165)
FINANCING ACTIVITIES			
Issue of convertible debentures		**250,280**	20,019
Proceeds from issue of shares		**–**	8,131
Contribution from minority shareholders		**5,350**	–
Government grant received		**–**	368
Capital element of finance lease		**150**	(144)
Net proceeds from bank loan		**(18)**	(59)
Net proceeds from loan from debtors discounted		**3,964**	(2,294)
Net cash from financing activities		**259,726**	26,021
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**88,754**	(699)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**3,865**	1,871
EFFECT OF FOREIGN EXCHANGE RATES		**641**	2,693
CASH AND CASH EQUIVALENTS AT END OF YEAR		**93,260**	3,865
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**90,519**	3,865
Fixed deposit		**2,741**	–
		93,260	3,865

Notes to Financial Statement

31 December 2007

1. CORPORATE INFORMATION

South Sea Petroleum Holdings Limited (the "Company") is incorporated in Hong Kong with limited liabilities. Its shares are listed on the Stock Exchange of Hong Kong Limited. The Company's registered office is Unit 6605, The Center, 99 Queen's Road Central, Hong Kong.

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

During recent years, the Company has made several crude oil properties acquisitions in Asia to strengthen its crude oil business. In December 2004, the Company entered into a Service Contract, through the Department of Energy, with the Government of the Republic of Philippines. Under the Contract, the Company is granted a permission to exploit crude oil and natural gas in an area with 748,000 hectares, approximately 7,478 square kilometers, at Agusan-Davas Basin in Davas province, south of the Philippines. The initial exploitation term is seven years. After that, there are 25 years of production term. Pursuant to the Contract, the Company may sell the crude oil and natural gas it produces at market price on free market. A wholly owned subsidiary of the Company has been set up in Philippines to conduct the exploitation and production operations.

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

On 27 September 2005, Global Select Ltd. entered into a share purchase agreement with Lion Energy Limited, an Australian listed company, to acquire 100% equity interests in Kalrez Petroleum (Seram) Limited ("Kalrez"). Kalrez is engaged in the business of exploitation and production of crude oil in Bula Block Oilfield on the Island of Seram in Indonesia. Kalrez holds 100% interest in Bula Petroleum Production Sharing Contract ("Bula PSC") that was entered into with BPMIGAS, Department of Petroleum of Indonesia, on 22 May 2000. The Bula PSC will be expired in 2019. Kalrez is the operator of the Bula Block Oilfields. The acquisition of Kalrez is closed on 30 October 2005.

1. CORPORATE INFORMATION (Continued)

From 1994 to the end of 2004, the Group had crude oil operations at Limau Oilfields in South Sumatra, Indonesia under an Enhance Oil Recovery Contract ("EOR") with Pertamina, an Indonesia state-owned oil company. The EOR Contract expired on 31 December 2004. The Group has been negotiating with PT Pertamina (Persero), an Indonesian state-owned oil company, in order to renew the contract or enter into a new contract for the oil production at this Limau Oilfield the Group previously operated. On 16 June 2007, Seaunion Development Limited, a 100% owned subsidiary of the Company, entered into a legally binding Strategic Alliance Agreement to form a strategic alliance for the exploration and/or production of crude oil in Limau Oilfields in form of a 50-50 joint venture company. The initial term for the cooperation is 15 years, which can be extended by mutual agreement subject to evaluation. Currently, the production capacity of the Limau Oilfields is about 7,000 barrels of crude oil a day.

In April 2007, the Group set up a joint venture company, Mega Resources International Enterprises Limited, in Hong Kong. Under the joint venture agreement, the Group contributed HK$70 million for 70% of equity interest in the joint venture company ("JVC"), and the minority investors contributed HK$30 million for 30% of the JVC's equity interest. The purpose of the JVC is to acquire 95% of capital stock of a Chinese company, which will acquire exploration and mining rights on a 2.89 square kilometer acquire area in Panzhihua, Sichuan, China. According to technical assessment reports prepared by SRK Consulting, an Europe-based valuer and BMI Appraisals, the mineral deposits and estimated tonnage found on or under the mining area include: copper (2,570,216 tons), graphite (90,376,000 tons), lead-zinc (67,685 tons), sulphur and silver. The gross sales revenue for the above minerals is estimated at RMB18,496,041,400. After deducting all the mining and operating costs, the net market value of such material deposits was appropriately RMB3,347,000,000.

On 25 July 2007, Global Select Limited, a wholly owned subsidiary of the Company, entered into a joint venture agreement with China Resources Development Cooperation Holdings Limited ("CRDC") to set up a joint venture company, China Resources Development Group Limited ("CRDG") in Hong Kong. The purpose of CRDG is seeking for business opportunities in natural resources industry in China. Under the JV agreement, the Group contributed US$8.50 million for 85% of equity interest, and CRDC contributed US$1.50 million for 15% of equity interest in CRDG.

On 2 October 2007, China Resources Development, a wholly owned subsidiary of the Company, entered into a JV Agreement with a third party investor to set up a joint venture company to produce and sale of graphite products in Luobei, Helongjiang Province of China. Pursuant to the agreement, China Resources Development contributed US$9,950,000 in cash for 83% of equity interest for the JVC, whereas the investor contributed US$2,050,000 in cash for 17% of equity interest in the JVC.

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

Notes to Financial Statement (continued)

31 December 2007

1. CORPORATE INFORMATION (Continued)

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

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, these financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The measurement basis in the preparation of the financial statements is historical cost, except for the measurement of land and buildings, investment properties and certain financial instrument, which are measured at revalued amount or fair values, as explained in the accounting policies set out below.

The preparation of the consolidated financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5 to the financial statements.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2007. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

3. APPLICATION OF NEW AND REVISED HKFRS(S)

The Group adopted the following new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2007.

HKAS 1	Presentation of Financial Statements – Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The adoption of the above new and revised HKFRSs has no material impact on the financial statements.

There is also a number of new standards, amendments to standards and interpretations issued that are not yet effective for the financial year ended 31 December 2007. The Group has carried out a preliminary assessment of these standards, amendments and interpretations and considered that HKAS 23 (Revised), HK(IFRIC)-Int 11, HK(IFRIC)-Int 12, HK(IFRIC)-Int 13 and HK(IFRIC)-Int 14 may not have significant impact on the Group's results of operations and financial position but a detailed assessment is still being carried on. The Group is also in the process of assessing the impact of HKFRS 8.

4. SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Goodwill

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

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

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

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

Notes to Financial Statement (continued)

31 December 2007

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Oil properties

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

Depreciation, depletion and amortisation of oil properties

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

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

Land and buildings

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses. Revaluations are performed by qualified valuers with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the consolidated income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset.

Investment properties

Investment properties are land and buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. They are stated in the consolidated balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognized in profit or loss.

Fixed assets and depreciation

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed assets and depreciation (Continued)

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

Freehold land	Nil
Buildings	10 – 36 years
Machinery and equipment	10% – 20%
Furniture, fittings and computers	14% – 50%
Motor vehicles	10% – 30%

An item of fixed asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Construction in progress

Construction in progress includes fixed assets in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of fixed assets when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended uses.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term.

Gains or losses on investments held for trading are recognised in profit or loss. The net fair value gain or loss recognised in the profit or loss does not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

Notes to Financial Statement (continued)

31 December 2007

4. SIGNIFICANT ACCOUNTING POLICIES (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. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity are included in the income statement. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale investment revaluation reserve.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

(i) *The Group as lessor*

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

(ii) *The Group as lessee*

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of tangible assets other than goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

Impairment of financial assets other than financial assets at fair value through profit or loss

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Revenue recognition

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

(a) Revenue from sale of goods is recognised when the goods are delivered and title has passed.

(b) Interest income is recognized as it accrues using the effective interest method.

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

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

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

Notes to Financial Statement (continued)

31 December 2007

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Government grants

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

Deferred income tax

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

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

Convertible debentures

The component of convertible debentures that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of convertible debentures, the fair value of the liability component is determined using a market rate for an equivalent non-convertible debentures; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible debentures based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

If the conversion option of convertible debentures exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the convertible debentures is measured at fair value using the Black-Scholes model and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible debentures based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the income statement.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Trade and other receivables

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

Trade payable

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

Foreign currency transactions

(i) *Functional and presentation currency*

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

(ii) *Transactions and balances*

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

(iii) *Group companies*

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

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

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

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

Notes to Financial Statement (continued)

31 December 2007

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions

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

Segmental reporting

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

Employee benefits

Salaries, bonus and leave entitlements

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

Retirement benefits

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

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

Cash equivalents

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

5. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

(a) Provision for bad debts

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

(b) Impairment of goodwill

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

(c) Impairment of oil properties

The Group reviews the carrying amounts of the oil properties to determine whether there is any indication that these assets have suffered an impairment loss. The determination involves management estimates and judgements as to the future crude oil price and production.

6. FINANCIAL RISK MANAGEMENT

6A Financial risk factors

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

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

Notes to Financial Statement (continued)

31 December 2007

6. FINANCIAL RISK MANAGEMENT (Continued)

6A Financial risk factors (Continued)

(a) *Market Risk*

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

(ii) *Interest rate risk.* The interest rate risk arises from debt borrowing. Borrowing issued at variable rates exposes the Group to cash flow interest rate risk while borrowing issued at fixed rates expose the Group to fair value interest rate risk.

(iii) *Price risk.* Global Select Ltd., a wholly owned subsidiary of the Company, sells crude oil it produces in Indonesia to BP MIGAS, the national petroleum company of Indonesia, at market prices, which exposes the Group at price risk, if the crude oil price falls significantly. During the year of 2006, the crude oil price keeps increasing, and therefore, no measures have been taken. However, the Group intends to actively monitor and manage the crude oil price risk.

(b) *Credit Risk*

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

(c) *Liquidity Risk*

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

As 31 December 2007, the Group had no material exposure to any other market risks.

6. FINANCIAL RISK MANAGEMENT (Continued)

6B Fair value of financial instruments

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

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

(ii) The fair value of other financial assets and financial liabilities (including derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

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

6C Capital risk management

The purpose of the Group's capital management is to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from the previous year.

The capital structure of the Group consists of debt, which includes the bank loan on discounted debtors, cash and cash equivalents, and equity attributable to equity holders of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure periodically. As part of this review, the directors consider the cost of capital and the risks associated with the capital. Based on recommendations of the directors, the Group will balance its overall capital structure through payment of dividends, issuance of new capital shares or issuance of new debts.

Notes to Financial Statement (continued)

31 December 2007

7. TURNOVER, INCOME AND SEGMENT INFORMATION

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

	2007	2006
	US$'000	US$'000
An analysis of the Group's turnover and income is as follows:		
Turnover		
Crude oil sales	**7,383**	5,207
Sales of goods and services	**34,457**	36,733
	41,840	41,940
Other income		
Interest income	**981**	49
Rental income	**1,184**	941
Release of Government grant	**552**	736
Dividend income	**183**	–
Gain on revaluation of investment properties	**218**	–
Sundry income	**246**	103
Unrealised gain on financial assets at fair value through profit or loss	**–**	102
Gain on dilution of interests in subsidiaries	**–**	1,032
Provision for plug and abandonment written back	**–**	769
	3,364	3,732
	45,204	45,672

7. TURNOVER, INCOME AND SEGMENT INFORMATION (Continued)

Primary reporting format – business segment

	Oil and mining		Contract electronic manufacturing		Trading securities		Unallocated		Total	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
Revenue from external customers	**7,383**	5,207	**34,439**	36,682	**–**	–	**18**	51	**41,840**	41,940
Segment results	**(21,280)**	(2,379)	**2,003**	508	**(7,180)**	–	**–**	–	**(26,457)**	(1,871)
Unallocated income and expenses									**(2,246)**	(4,812)
Loss from operation									**(28,703)**	(6,683)
Finance costs	**–**	–	**(464)**	(464)	**–**	–	**–**	(3)	**(464)**	(467)
Taxation	**–**	–	**(492)**	126	**–**	–	**–**	–	**(492)**	126
Loss attributable to shareholders									**(29,659)**	(7,024)
Segment assets	**224,091**	42,014	**29,799**	25,199	**19,394**	–	**–**	–	**273,284**	67,,213
Unallocated assets									**36,121**	10,284
Total assets									**309,405**	77,497
Segment liabilities	**(4,523)**	(4,231)	**(10,832)**	(9,356)					**(15,355)**	(13,587)
Unallocated liabilities									**(183)**	(1,569)
Total liabilities									**(15,538)**	(15,156)
Depreciation	**249**	198	**1,012**	753	**–**	–	**85**	67	**1,346**	1,018
Significant non-cash expenses	**18,643**	802	**182**	1,940	**7,380**	–	**–**	2,712	**26,205**	5,454
Capital expenditure										
– Additions	**118,828**	19,018	**1,100**	1,014	**–**	–	**4**	286	**119,932**	20,318
– Acquisition of a subsidiary	**822**	–	**–**	–	**–**	–	**–**	–	**822**	–

Secondary reporting format – geographical segments

	Turnover		Total assets		Capital expenditure	
	2007	2006	**2007**	2006	**2007**	2006
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
Indonesia	**7,383**	5,207	**168,442**	36,854	**105,655**	19,018
United Kingdom	**34,439**	36,682	**29,798**	25,199	**1,100**	1,014
China	**–**	–	**27,253**	1,855	**2,071**	5
Philippine	**–**	–	**22,201**	5,159	**11,924**	–
America	**–**	–	**165**	153	**–**	–
Hong Kong	**18**	51	**61,546**	8,277	**4**	281
	41,840	41,940	**309,405**	77,497	**120,754**	20,318

Notes to Financial Statement (continued)

31 December 2007

8. LOSS FROM OPERATING ACTIVITIES

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

	2007 US$'000	2006 US$'000
Depreciation:		
– owned fixed assets	1,111	877
– leased fixed assets	234	141
Operating lease rentals on		
– land and buildings	590	685
– plant and machinery	528	261
Costs of inventories sold	33,689	35,156
Staff costs (including directors' remuneration – note 10)	10,940	8,770
Auditors' remuneration		
– audit fee	168	168
– other services	12	26
Loss in fair value of financial assets at fair value through profit or loss		
– realized	84	–
– unrealised	7,380	115
Bad debt	–	731
Foreign exchange losses, net	442	1,945

9. FINANCE COSTS

	2007 US$'000	2006 US$'000
Bank discounting charges	169	203
Bank interest paid	223	233
Interest on finance lease	34	28
Bank charges	38	3
	464	467

Notes to Financial Statement (continued)

31 December 2007

10. DIRECTORS' REMUNERATION

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

Name of directors	**Fees US$'000**	**Salaries, allowances and benefits in kind US$'000**	**Pension scheme contributions US$'000**	**2007 Total US$'000**
Executive directors				
Zhou Ling	**–**	**111**	**2**	**113**
Lee Sin Pyung	**–**	**101**	**–**	**101**
Sit Mei	**–**	**59**	**1**	**60**
Independent non-executive directors				
Lu Ren Jie	**20**	**–**	**–**	**20**
Chai Woon Chew	**15**	**–**	**–**	**15**
Ho Choi Chiu	**15**	**–**	**–**	**15**
	50	**271**	**3**	**324**

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

Notes to Financial Statement (continued)

31 December 2007

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year did not include any director (2006: one), details of whose remuneration are set out in note 8 above. The details of the remuneration of the four remaining non-directors (2006: four), highest paid employees are set out below.

	2007 US$'000	2006 US$'000
Salaries, allowances and benefits in kind	**834**	590

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

	Number of non-directors 2007	2006
US$Nil to US$129,000	**–**	–
US$129,001 to US$192,300	**4**	4
US$192,301 to US$256,410	**1**	–
	5	4

12. INCOME TAX

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

	2007 US$'000	2006 US$'000
Overseas tax charge	**153**	94
Deferred tax charge (credited) – *note 19*	**339**	(220)
Tax charge (credit) for the year	**492**	(126)

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

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

Tax represented deferred tax assets reversed (2006: deferred tax assets provided) and corporate tax provided in an England subsidiary.

12. INCOME TAX (Continued)

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

	2007 US$'000	2006 US$'000
Loss before tax	**(29,167)**	(7,150)
(Tax credit)/notional tax on loss before tax, calculated at the rates applicable to profits in the countries concerned	**(13,311)**	(1,898)
Tax effect of non-deductible expenses	**65**	791
Tax effect of non-taxable income	**(2)**	(179)
Tax effect of unused tax losses not recognized	**13,772**	2,103
Tax loss recognized	**(221)**	(249)
Other timing difference	**189**	(694)
Tax expenses (tax credit)	**492**	(126)

13. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders dealt with in the financial statements of the Company is US$12,022,000 (2006: US$7,610,000).

14. BASIC LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of US$29,629,000 (2006: US$6,971,000), and the weighted average of 5,344,873,172 (2006: 1,139,577,477) ordinary shares in issue during the year.

There is no fully diluted earnings per share for the year (2006: Nil).

15. GOODWILL

Group

	2007 US$'000	2006 US$'000
Net carrying value		
At 1 January	**2,523**	2,934
Dilution of equity interests in subsidiaries – note 31 (c)	**–**	(411)
At 31 December	**2,523**	2,523

Notes to Financial Statement (continued)

31 December 2007

16. FIXED ASSETS

Group

	Oil properties US$'000	Land and buildings US$'000	Investment properties US$'000	Plant and machinery US$'000	Furniture, fittings and computers US$'000	Motor vehicles US$'000	Contruction in progress US$'000	Total US$'000
Cost or valuation:								
At 1.1.2007	67,864	10,382	1,855	19,590	7,406	299	–	107,396
Exchange differences		146	–	307	99	5	–	557
Additions	117,579	–	–	2,232	73	47	39	119,970
Acquisition of a subsidiary	–	222	–	440	–	161	128	951
Written off	(41,542)	–	–	–	–	–	–	(41,542)
Dry hole costs	(18,383)	–	–	–	–	–	–	(18,383)
Revaluation	–	1,229	218	–	–	–	–	1,447
At 31.12.2007	**125,518**	**11,979**	**2,073**	**22,569**	**7,578**	**512**	**167**	**170,396**
Representing:								
Cost	125,518	222	–	22,569	7,578	512	167	156,344
Valuation	–	11,757	2,073	–	–	–	–	14,052
	125,518	11,979	2,073	22,569	7,578	512	167	170,396
Accumulated depreciation:								
At 1.1.2007	48,825	331	–	17,549	6,820	122	–	73,647
Exchange difference	–	7	–	243	92	–	–	342
Charge for the year	236	336	–	569	151	53	–	1,345
Written back	(41,542)	–	–	–	–	–	–	(41,542)
Revaluation	–	(335)	–	–	–	–	–	(335)
At 31.12.2007	**7,519**	**339**	**–**	**18,361**	**7,063**	**175**	**–**	**33,457**
Net book value:								
At 31.12.2007	**117,999**	**11,640**	**2,073**	**4,208**	**515**	**337**	**167**	**136,939**

Notes to Financial Statement (continued)

31 December 2007

16. FIXED ASSETS (Continued)

	Oil properties US$'000	Freehold land and buildings US$'000	Investment properties US$'000	Plant and machinery US$'000	Furniture, fittings and computers US$'000	Motor vehicles US$'000	Total US$'000
Cost or valuation:							
At 1.1.2006	48,846	9,118	1,855	16,452	6,884	105	83,260
Exchange differences	–	1,264	–	2,280	865	–	4,409
Additions	19,018	–	–	858	248	194	20,318
Dilution of equity interests of subsidiaries	–	–	–	–	(63)	–	(63)
Disposal	–	–	–	–	(528)	–	(528)
At 31.12.2006	67,864	10,382	1,855	19,590	7,406	299	107,396
Representing:							
Cost	67,864	–	–	19,590	7,406	299	95,159
Valuation	–	10,382	1,855	–	–	–	12,237
	67,864	10,382	1,855	19,590	7,406	299	107,396
Accumulated depreciation:							
At 1.1.2006	48,627	–	–	15,080	6,422	98	70,227
Exchange difference	–	20	–	2,113	813	–	2,946
Charge for the year	198	311	–	356	129	24	1,018
Dilution of equity interests of subsidiaries	–	–	–	–	(17)	–	(17)
Written back on disposal	–	–	–	–	(527)	–	(527)
At 31.12.2006	48,825	331	–	17,549	6,820	122	73,647
Net book value:							
At 31.12.2006	19,039	10,051	1,855	2,041	586	177	33,749

Notes to Financial Statement (continued)

31 December 2007

16. FIXED ASSETS (Continued)

Company

	Furniture, fittings and computers US$'000	Motor vehicles US$'000	Total US$'000
Cost:			
At 1.1.2006	575	105	680
Addition	87	–	87
Disposal	(528)	–	(528)
At 31.12.2006	134	105	239
Addition	4	–	4
At 31.12.2007	138	105	243
Accumulated depreciation:			
At 31.12.2005	565	98	663
Charge for the year	33	3	36
Written back	(528)	–	(528)
At 31.12.2006	70	101	171
Charge for the year	33	3	36
At 31.12.2007	103	104	207
Net book value:			
At 31.12.2007	35	1	36
At 31.12.2006	64	4	68

The analysis of net book value of land and building is as follows:

	2007 US$	2006 US$
Land and buildings		
– freehold outside Hong Kong	**11,757**	10,051
– medium lease outside Hong Kong	**222**	–
	11,979	10,051

16. FIXED ASSETS (Continued)

Investment properties of the Group are held on long lease situated outside Hong Kong. The freehold land and buildings are pledged to secure general banking facilities.

The Freehold land and buildings were revalued on 4 February 2008 on the basis of their open market value by Cookie & Arkwright, an independent firm of chartered surveyors. In the opinion of the directors, the carrying amount of the freehold land and buildings as at 31.12.2007 is not different materially from this valuation.

Had the Group's Freehold land and buildings been measured on a historical cost basis, their carrying amount would have been US$6,908,000 (2006: US$6,993,000).

The investment properties were revalued on 18 March 2008 on the basis of their open market value by Youlanda, an independent firm of chartered surveyors. The value is not different materially from the carrying amount at 31.12.2007.

The net book value of plant and machinery held under finance leases of the Group was US$992,000 (2006: US$851,000).

17. INTERESTS IN SUBSIDIARIES

	Company	
	2007	2006
	US$'000	US$'000
Unlisted shares, at cost	**414**	414
Amounts due from subsidiaries	**284,647**	60,067
Amount due to a subsidiary	**(250)**	(50)
	284,811	60,431
Provision for impairment in values	**(23,769)**	(14,057)
Carrying value at 31 December	**261,042**	46,374

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

Notes to Financial Statement (continued)

31 December 2007

17. INTERESTS IN SUBSIDIARIES (Continued)

Details of the subsidiaries are as follows:

Company	Place of incorporation	Place of operations	Issued/ registered share capital	Percentage of issued share capital held by the Company Directly %	Indirectly %	Principal activities
Global Select Limited*	British Virgin Islands	Indonesia	3 ordinary shares of US$1 each	100	–	Investment holding, securities trading and exploration of oil and gas
Seaunion Energy (Limau) Limited*	British Virgin Islands	Indonesia	100 ordinary shares with no par value	–	100	Operator of an enhanced oil recovery contract for hydrocarbons
PT. Seaunion Energy Resources*	British Virgin Islands	Indonesia	10,000 ordinary shares of US$100 each	5	95	Dormant
PT. Global Select Indonesia*	Indonesia	Indonesia	500,000 ordinary shares of US$1 each	–	100	Exploration of oil and gas
Kalrez Petroleum (Seram) Limited*	Maritius	Indonesia	2 ordinary shares of US$1 each	–	100	Development and production of crude oil
Kalrez Petroleum Limited*#	British Virgin Islands	Indonesia	1 ordinary share of US$1 each	–	100	Investment holding
South Sea Petroleum (Philippines) Corporation*	Philippines	Philippines	10,870,000 ordinary share of Peso 1 each	–	100	Exploration of oil and gas
Great Admirer Limited	Hong Kong	Hong Kong	200 ordinary shares of HK$1 each	100	–	Investment holding and providing management services

Notes to Financial Statement (continued)

31 December 2007

17. INTERESTS IN SUBSIDIARIES (Continued)

Company	Place of incorporation	Place of operations	Issued/ registered share capital	Percentage of issued share capital held by the Company Directly %	Indirectly %	Principal activities
Axiom Manufacturing Services Limited*	United Kingdom	United Kingdom	13,564,002 ordinary shares of ¢G1 each	–	94.81	Assemble of electronic components
Comp Hotel International Limited	British Virgin Island	PRC	1 ordinary shares of US$1 each	100	–	Properties investment
Comp International Limited	British Virgin Island	Hong Kong	64,300 ordinary shares of US$1 each	100	–	Travelling agency
Comp Property International Limited	British Virgin Island	Hong Kong	1 ordinary shares of US$1 each	100	–	Dormant
Comp Media & Advertising Limited	Hong Kong	Hong Kong	200 ordinary shares of US$1 each	99.5	0.5	Dormant
Comp Assets International Limited	British Virgin Island	Hong Kong	1 ordinary shares of US$1 each	100	–	Dormant
Prime Reward Group Limited	British Virgin Island	Hong Kong	1 ordinary shares of US$1 each	–	100	Dormant
Oxford Technologies Inc.*	USA	USA	18,564,002 ordinary shares of US$0.0001 each	–	94.81	Investment holding
Easton Technologies Corp.*	USA	USA	5,000,000 ordinary shares of US$0.0001 each	–	85	Dormant

Notes to Financial Statement (continued)

31 December 2007

17. INTERESTS IN SUBSIDIARIES (Continued)

Company	Place of incorporation	Place of operations	Issued/ registered share capital	Percentage of issued share capital held by the Company Directly %	Indirectly %	Principal activities
Cowley Technologies Inc.*	USA	USA	16,100,000 ordinary shares of US$0.0001 each	–	88.51	Investment holding
Greenway Technologies Inc.*	USA	USA	2,000,000 ordinary shares of US$0.0001 each	85	–	Dormant
Sen Hong Resources Holdings Limited	Hong Kong	Hong Kong	1 ordinary shares of HK$1 each	100	–	Dormant
Mega Resources International Enterprises Limited#	Hong Kong	Hong Kong	10 ordinary shares of HK$1 each	–	70	Investment holding
China Resources Development Group Limited#	Hong Kong	Hong Kong	100,000,000 shares of ordinary HK$1 each	–	85	Investment holding
Heilongjiang Sinorth Graphite Co., Limited#+	PRC	PRC	RMB90,023,000	–	70	Exploration, production and selling of mineral products
Chengdu An Xiao Mining Company Limited#+	PRC	PRC	RMB1,000,000	–	66.5	Exploration of mineral products

acquired during the year
* not audited by JP Union & Co.
+ established in PRC as sino-foreign joint ventures with limited liability

17. INTERESTS IN SUBSIDIARIES (Continued)

In April 2007, the Group set up a joint venture company, Mega Resources International Enterprises Limited (Mega Resources), in Hong Kong. Under the joint venture agreement, the Group contributed HK$70 million for 70% of equity interest and the minority investors contributed HK$30 million for 30% of the equity interest in Mega Recoruses.

At 11 June 2007 Mega Resources acquired 95% of capital of a Chengdu An Xiao PRC Mining Company Limited (Chengdu An Xiao) at a consideration of HK$1 million. Chengdo An Xiao will acquire exploration and mining rights on a 2.89 square kilometer area in Panzhihua, Sichuan, China.

According to technical assessment reports prepared by SRK Consulting, an Europe-based valuer and BMI Appraisals, the mineral deposits and estimated tonnage found on or under the mining area include: copper (2,570,216 tons), graphite (90,376,000 tons), lead-zinc (67,685 tons), sulphur and silver. The gross sales revenue for the above minerals is estimated at RMB18,496,041,400. After deducting all the mining and operating costs, the net market value of such material deposits was approximately RMB3,347,000,000.

On 25 July 2007, Global Select Limited, a wholly owned subsidiary of the Company, entered into a joint venture agreement with China Resources Development Cooperation Holdings Limited ("CRDC") to set up a joint venture company China Resources Development Group Limited (CRDG) in Hong Kong. The purpose of CRDG is seeking business opportunities in natural resources industry in China. Under the JV agreement, the Group will contribute US$8.50 million for 85% of equity interest and CRDC will contribute US$1.50 million for 15% of equity interest in CRDG.

On 2 October 2007, CRDG entered into a JV Agreement with a third party investor to acquire Heilongjiang Sinorth Graphite Co., Limited (Heilongjiang Sinorth) to produce and sale of graphite products in Luobei, Helongjiang Province of China. Pursuant to the agreement, CRDG will contribute US$9,950,000 in cash for 83% of equity interest of Heilongjiang Sinorth, whereas the investor will contribute US$2,050,000 in cash for 17% of the remaining equity interest. The investor acquired Helongjiang Sinorth first and then Helongjiang Sinorth issued capital to CRDG.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group.

18. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2007	2006
	US$'000	US$'000
Unlisted shares, at cost		
Balance at beginning of year	**1,287**	1,287
Less: Impairment	**1,287**	1,287
	–	–

Notes to Financial Statement (continued)

31 December 2007

19. DEFERRED TAX ASSETS

	Group	
	2007	2006
	US$'000	US$'000
At 1 January	**617**	335
Reversed for the year – *note 12*	**(339)**	–
Credited for the year	**–**	220
Exchange difference	**6**	62
At 31 December	**284**	617

The balance of the deferred tax assets consists of the tax effect of timing differences in respect of excess of depreciation over taxation allowances on fixed assets US$50,000 (2006: US$231,000) and tax losses available of US$234,000 (2006: US$386,000).

Deferred tax assets not recognized in the financial statements comprised of excess depreciation over capital allowances of US$367,000 (2005: US$400,000) and unused losses of US$8,040,000 (2006: US$7,926,000).

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
	2007	2006	**2007**	2006
	US$'000	US$'000	**US$'000**	US$'000
Hong Kong listed shares	**19,398**	103	**4**	103

21. TRADE RECEIVABLES

The ageing analysis of the trade receivables is as follows:

	Group	
	2007	2006
	US$'000	US$'000
0 – 30 days	**3,116**	3,280
31 – 60 days	**2,817**	850
61 – 90 days	**1,281**	263
Over 90 days	**1,132**	18
	8,346	4,411

At 31.12.2007, nearly all of the receivable are pledged to bank to secure a loan on discounted debtors.

Notes to Financial Statement (continued)

31 December 2007

22. INVENTORIES

	Group	
	2007	2006
	US$'000	US$'000
Production supplies and raw materials	**5,799**	4,982
Work in progress	**2,313**	–
Finished goods	**279**	495
	8,391	5,477

23. TRADE PAYABLES

The ageing analysis of the trade payables is as follows:

	Group	
	2007	2006
	US$'000	US$'000
0 – 30 days	**2,452**	1,839
31 – 60 days	**1,471**	2,348
61 – 90 days	**408**	852
Over 90 days	**690**	2,704
	5,021	7,743

24. OBLIGATIONS UNDER FINANCE LEASE

At 31 December 2007, the group had obligations under finance lease repayable as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2007	2006	**2007**	2006
	US$'000	US$'000	**US$'000**	US$'000
Within one year	**246**	212	**212**	194
After one year but within two years	**269**	144	**235**	135
After two year but within five years	**295**	220	**239**	207
	810	576	**686**	536
Less : future finance charges	**124**	40		
Present value of finance lease	**686**	536		
Less: Amount shown under current liabilities			**212**	193
			474	343

Notes to Financial Statement (continued)

31 December 2007

25. GOVERNMENT GRANT RECEIVED IN ADVANCE

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

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

26 PROVISIONS

	Employee benefits US$'000	Plug and abandonment US$'000	Total US$'000
At 1.1.2006	342	1,218	1,560
Provision made	146	–	146
Provision written back	–	(769)	(769)
Payment	(273)	–	(273)
At 1.1.2007	215	449	664
Provision written back	(44)	–	(44)
Payment	(30)	–	(30)
At 31.12.2007	**141**	**449**	**590**

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

The Group estimate the expenditure incurred in the abandonment of exploratory wells and the restoration of their drill sites. The amount estimated is recovered from BP MIGAS.

The plug and abandonment provision represents monies received from BP MIGAS for the funding of any estimated future abandonment and site restoration program.

27. CONVERTIBLE DEBENTURES

	Group and Company	
	2007	2006
	US$'000	US$'000
Convertible debentures		
2 – 5 years	–	1,103

On 29 March 2006, the Company entered into a subscription agreement with Kelton Capital Group Limited for an aggregate amount of HK$200,000,000 of Nil interest unlisted convertible debentures due 2009 ("Debenture 2009").

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

During the year, the Company issued the Debenture 2009 for HK$43,850,000 and conversion right was exercised to convert HK$52,450,000 of the convertible debenture for 209,800,000 shares of US$0.01 each.

On 2 February 2007, the Company entered into a subscription agreement with Avant Capital Inc. for an aggregate amount of HK$40,000,000 of Nil interest unlisted convertible debentures due 2010 ("Debenture 2010").

The Company will issue the portion of Debenture which is fully paid. The Debenture holder has right to convert the fully paid portion of Debenture into the Company's shares of US$0.01 each at conversion price of 105% of the average share price of five trading days immediately prior to the date of the Conversion Notice, within the conversion period from the time of Debenture issued to the Maturity Date (1 February 2010). The Debentures are redeemable at 100% of the principal amount on the Maturity Date.

During the year, the Company issued the Debenture 2010 for HK$40,000,000 and conversion right was exercised to convert all of the convertible debenture for 196,619,048 shares of US$0.01 each.

On 28 February 2007, the Company entered into a subscription agreement with CFI Financial Coup. for an aggregate amount of US$100,000,000 of Nil interest unlisted convertible debentures due March 2012 ("Debenture March 2012").

The Company will issue the portion of Debenture which is fully paid. The Debenture holder has right to convert the fully paid portion of Debenture into the Company's shares of US$0.01 each at conversion price of 98% of the average share price of five trading days immediately prior to the date of the Conversion Notice, within the conversion period from the time of Debenture issued to the Maturity Date (1 March 2012) provided that the number of shares shall not exceed 3,000,000,000. The Debentures are redeemable at 100% of the principal amount on the Maturity Date.

Notes to Financial Statement (continued)

31 December 2007

27. CONVERTIBLE DEBENTURES (Continued)

During the year, the Company issued the Debenture March 2012 for US$97,935,000 and conversion right was exercised to convert all of the convertible debenture for 2,999,986,763 shares of US$0.01 each.

On 2 June 2007, the Company entered into a subscription agreement with Great Wall Street, Inc. for an aggregate amount of US$200,000,000 of Nil interest unlisted convertible debentures due June 2012 ("Debenture June 2012").

The Company will issue the portion of Debenture which is fully paid. The Debenture holder has right to convert the fully paid portion of Debenture into the Company's shares of US$0.01 each at the conversion price, within the conversion period from the time of Debenture issued to the Maturity Date (1 June 2012) provided that the number of shares shall not exceed 6,000,000,000.

The conversion price shall be 98% of the average share price of five trading days immediately prior to the date of the Conversion Notice. If the conversion takes place within nine months after the Stock Exchange granting approval for listing of, and permission to deal in, the New Shares, then the Conversion Price shall be 96% of the average closing share price of five trading days immediately prior to the date of the Conversion Notice. The Debentures are redeemable at 100% of the principal amount on the Maturity Date.

During the year, the Company issued the Debenture June 2012 for US$141,596,000 and conversion right was exercised to convert all of the convertible debenture for 5,999,944,960 shares of US$0.01 each.

Debenture 2010, Debenture March 2012 and Debenture June 2012 will not result in the exchange of a fixed number of shares of the Company. These Convertible Debentures do not contain equity component and must be separated into two component elements: a derivative component of the conversion option and the liability component of the straight debt element of the Convertible Debentures.

The fair values of these Convertible Debentures are determined by independent professional valuations at the weighted average issue date and weighted average conversion date using the Black-Scholes Option Pricing Model. Their fair values at issue date are approximate to those at the conversion date. No profit or loss for the change in fair values on conversion is recognized.

The followings are the significant assumptions adopted in calculating the fair value of the Convertible Debentures:

(i) Risk free rate of between 3.763% and 3.797% which was determined with reference to the yield of the Hong Kong Exchange Fund Notes.

(ii) Expected life was estimated with reference to the historical Convertible Debentures granted by the Company.

(iii) Volatility of between 15.12% and 287.695% which was determined based on the historical stock price of the Company under the same period as the expected life in (ii).

(iv) The blockage discounts were derived from the put option with reference to "Banister Financial, Inc., Volume X, Number 3".

28. SHARE CAPITAL

	Group and Company	
	2007	2006
	US$'000	US$'000
Authorised:		
14,000,000,000 (2006: 14,000,000,000) ordinary shares of US$0.01 each	**140,000**	140,000
Issued and fully paid:		
10,972,239,359 (2006: 1,565,888,588) ordinary shares of US$0.01 each	**109,722**	15,659

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

	Number of ordinary shares	**Amount** US$'000
At 1 January 2006	650,459,059	6,505
Shares issued upon open offering	325,229,529	3,252
Allotment of shares upon conversion of convertible debentures	590,200,000	5,902
At 31 December 2006	1,565,888,588	15,659
Allotment of shares upon conversion of convertible debentures	9,406,350,771	94,063
At 31 December 2007	**10,972,239,359**	**109,722**

During the year, 9,406,350,771 (2006: 590,200,000) ordinary shares of US$0.01 each were issued by exercising the convertible debentures for an aggregate consideration of approximately US$251,383,000 (2006: US$18,886,400).

Notes to Financial Statement (continued)

31 December 2007

29. SHARE OPTION SCHEME

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

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

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

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

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

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

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

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

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

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

No share option was granted during the year.

30. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statements of changes in equity on page 27 of the financial statements.

(b) Company

	Share premium US$'000	Special capital reserve US$'000	Exchange reserve US$'000	Accumulated losses US$'000	Total US$'000
At 1.1.2006	24,764	12,037	164	(17,141)	19,824
Issue of shares	17,863	–	–	–	17,863
Translation difference	–	–	267	–	267
Loss for the year	–	–	–	(7,610)	(7,610)
At 31.12.2006	42,627	12,037	431	(24,751)	30,344
Issue of shares	157,320	–	–	–	157,320
Translation difference	–	–	104	–	104
Loss for the year	–	–	–	(12,022)	(12,022)
At 31.12.2007	**199,947**	**12,037**	**535**	**(36,773)**	**175,746**

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

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

Special capital reserve represents surplus of US$12,037,000 transferred upon capital reduction after eliminating the retained losses of US$54,510,000 by the share capital reduction of US$66,547,000 during the year ended 31 December 2001.

Notes to Financial Statement (continued)

31 December 2007

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Net cash used in operating activities

	2007 US$'000	2006 US$'000
Loss before tax	**(29,167)**	(7,150)
Interest income	**(973)**	(49)
Interest expenses	**464**	467
Government grant released	**(552)**	(736)
Unrealised gain on financial assets at fair value through profit or loss	**–**	(102)
Gain arising on dilution in equity interest in subsidiaries	**–**	(1,032)
Unrealised loss in fair value of financial assets through profit or loss	**7,380**	115
Impairment loss of amount due from a related company	**–**	2,662
Exploratory dry hole costs	**18,383**	–
Gain on revaluation of investment properties	**(218)**	–
Depreciation of fixed assets	**1,345**	1,018
Amortisation of other asset	**–**	4
Operating loss before working capital	**(3,338)**	(4,803)
Increase in financial assets at fair value through profit or loss	**(26,675)**	–
(Increase) decrease in trade receivables	**(3,935)**	3,513
(Increase) decrease in inventories	**(1,858)**	929
Decrease in prepayments, deposits and other receivables	**2,880**	1
(Decrease) increase in trade payables and notes payable	**(2,722)**	1,883
(Decrease) in other payables and accrued expenses	**(2,041)**	(144)
Decrease in provision	**(74)**	(896)
Increase in amount due to a director	**–**	635
Increase in amount due to a minority shareholder	**1,282**	–
(Decrease) increase in amount due to shareholders	**(118)**	2,547
Changes in amount due to/from related companies	**–**	(2,657)
Cash (used in) from operating activities	**(36,599)**	1,008
Overseas tax paid	**(464)**	(66)
Interest paid	**(105)**	(497)
Net cash (used in) from operating activities	**(37,168)**	445

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

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

	2007 US$'000	2006 US$'000
Fair value of net assets acquired		
Fixed assets	**950**	–
Inventories	**1,056**	–
Deposits, prepayments and other receivable	**1,718**	–
Other payable	**(1,422)**	–
Due to former shareholders	**(118)**	–
Minority interest	**(2,051)**	–
Net assets acquired	**133**	–
Satisfied by		
Cash	**133**	–
Outflow of cash and cash equivalents	**133**	–

(c) During the year 2006, the equity interests in Starlight Media and Advertising Limited and its subsidiary, Beijing Fortune World Advertising Ltd. held by the Group were diluted so that they ceased to be subsidiaries of the Company. The following is the net liabilities deemed disposed off upon the dilution.

	2007 US$'000	2006 US$'000
Fixed assets	**–**	46
Other assets	**–**	284
Goodwill	**–**	411
Due from a related company	**–**	1
Accounts receivable	**–**	115
Bank balances and cash	**–**	31
Other receivable	**–**	1,854
Due to a director	**–**	(777)
Due to shareholders	**–**	(2,662)
Exchange reserve	**–**	(90)
Minority interest	**–**	(245)
Gain on dilution	**–**	(1,032)
Outflow of cash and cash equivalents arising on dilution of equity interests in subsidiaries:		
Bank balances and cash disposed of	**–**	(31)

Notes to Financial Statement (continued)

31 December 2007

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

(d) Major non-cash transaction

The convertible debenture holders converted US$251,383,000 (2006: HK$147,550,000) convertible debentures into the Company's shares during the year.

32. COMMITMENTS

Commitments outstanding at 31 December 2007 not provided for in the financial statements were as follows:

	Group		Company	
	2007	2006	**2007**	2006
	US$'000	US$'000	**US$'000**	US$'000
(a) Capital commitments contracted but not provided for in respect of:				
Purchase of subsidiaries	**2,620**	2,620	**–**	–
Purchase of fixed assets	**1,852**	–	**–**	–
Exploration of petroleum	**3,843**	–	**–**	–
Acting as contractor for exploration of petroleum with expected minimum expenditure	**–**	9,941	**–**	–
	8,315	12,561	**–**	–
(b) Total future minimum lease payments under non–cancellable operating leases				
(i) on land and buildings expiring:				
Within one year	**269**	296	248	276
In the second to fifth years, inclusive	**60**	116	19	74
	329	412	267	350
(ii) on other fixed assets expiring:				
Within one year	**3**	45	**–**	–
In the second to fifth years, inclusive	**4**	125	**–**	–
	7	170	**–**	–

Notes to Financial Statement (continued)

31 December 2007

33. PLEDGE OF ASSETS

Fixed and floating charges have been created over all of the assets of the subsidiary in United Kingdom to secure general banking and discounting facilities granted. At 31 December 2007, fixed assets and current assets of this subsidiary pledged were US$14,428,000 (2006: US$12,611,000) and US$7,741,000 (2006: US$12,588,000) respectively.

34. COMPENSATION OF KEY MANAGEMENT PERSONNEL

During the year, the remuneration of directors and other member of key management was as follows:

	2007 **US$'000**	2006 US$'000
Salaries, allowances and benefits in kind	**1,008**	855

35. EVENTS AFTER THE BALANCE SHEET DATE

There are no significant events after balance sheet date.

36. COMPARATIVE FIGURES

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

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 23 April 2008.

Five-Year Financial Summary

RESULTS

For the years ended 31 December

	2007	2006	2005	2004	2003
	US$'000	US$'000	US$'000	US$'000	US$'000
Turnover	**41,840**	41,940	34,462	46,379	35,970
Profit (loss) before tax	**(29,167)**	(7,150)	(5,185)	1,558	(5,853)
Income tax	**(492)**	126	523	(542)	(228)
Profit (loss) for the year	**(29,659)**	(7,024)	(4,662)	1,016	(6,081)
Minority interests	**30**	53	25	128	143
Net profit (loss) attributable to shareholders	**(29,629)**	(6,971)	(4,687)	1,144	(5,938)

ASSETS, LIABILITIES AND MINORITY INTERESTS

As at 31 December

	2007	2006	2005	2004	2003
	US$'000	US$'000	US$'000	US$'000	US$'000
Goodwill	**2,523**	2,523	2,934	(6,549)	(6,920)
Fixed assets	**136,939**	33,749	13,033	13,449	12,995
Unlisted investment	**–**	–	–	1,287	987
Project advance for oil field exploration and mining	**27,813**	10,139	5,944	1,478	–
Deferred tax assets	**284**	617	335	–	–
Other assets	**–**	–	288	–	–
Trade mark	**–**	–	–	–	6
Current assets	**141,846**	29,764	30,321	40,169	26,946
Total assets	**309,405**	76,792	54,565	49,834	34,014
Total liabilities	**(15,538)**	(15,156)	(15,955)	(23,873)	(19,346)
Minority interests	**(8,399)**	(812)	(867)	(588)	(1,032)
	258,468	60,824	37,743	25,373	13,636