



SOUTH SEA PETROLEUM HOLDINGS LIMITED

南海石油控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 076)

Interim Results for the Six Months Ended 30 June 2008

The Board of Directors (“the Board”) of South Sea Petroleum Holdings Limited (“the Company”) is pleased to announce the unaudited condensed consolidated balance sheet as at 30 June 2008 of the Company and its subsidiaries (“the Group”), the unaudited condensed consolidated income statement, the unaudited condensed consolidated cash flow statement and the unaudited consolidated statement of changes in equity for the six months ended 30 June 2008 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

| | Notes | Six months ended | |
|--|-------|---------------------------------------|---|
| | | 30 June 2008 unaudited US\$'000 | 30 June 2007 unaudited US\$'000 (Restated) |
| TURNOVER | 2 | 33,622 | 22,765 |
| Cost of sales | | <u>(18,725)</u> | <u>(15,816)</u> |
| | | 14,897 | 6,949 |
| Other income | | 1,723 | 1,516 |
| General and administrative expenses | | (14,406) | (9,931) |
| Exploratory dry hole costs | | - | (5,283) |
| Taxes other than income tax | | (1,729) | - |
| Net loss in fair value of financial assets held for trading | | <u>(3,517)</u> | <u>-</u> |
| LOSS FROM OPERATING ACTIVITIES | 3 | (3,032) | (6,749) |
| Finance costs | | <u>(320)</u> | <u>(114)</u> |
| LOSS BEFORE TAX | | (3,352) | (6,863) |
| Income tax | 4 | <u>(57)</u> | <u>-</u> |
| LOSS FROM CONTINUING OPERATIONS | | (3,409) | (6,863) |
| DISCONTINUED OPERATIONS | | | |
| Gain (loss) from discontinued operations | 5 | <u>1,723</u> | <u>(317)</u> |
| LOSS FOR THE PERIOD | | <u>(1,686)</u> | <u>(7,180)</u> |

| | | | |
|---|---|----------------|----------------|
| Attributable to: | | | |
| Equity shareholders of the Company | | (1,680) | (7,181) |
| Minority interests | | (6) | 1 |
| | | <u>(1,686)</u> | <u>(7,180)</u> |
| | | | |
| EARNINGS (LOSS) PER SHARE – BASIC | 6 | | |
| (US Cents) | | | |
| From continuing and discontinued operations | | (0.015) | (0.248) |
| From continuing operations | | (0.031) | (0.238) |
| From discontinued operations | | <u>0.016</u> | <u>(0.010)</u> |

CONDENSED CONSOLIDATED BALANCE SHEET

| | Notes | 30 June 2008 Unaudited US\$'000 | 31 December 2007 Audited US\$'000 |
|---|-------|--|--|
| NON-CURRENT ASSETS | | | |
| Goodwill | | 2,523 | 2,523 |
| Fixed assets | 8 | 142,004 | 136,939 |
| Project advances for exploration | | 12,799 | 27,813 |
| Available-for-sale investments | | 11,021 | - |
| Deferred tax assets | | 284 | 284 |
| | | <u>168,631</u> | <u>167,559</u> |
| CURRENT ASSETS | | | |
| Cash and bank balances | | 70,579 | 90,519 |
| Fixed deposit | | - | 2,741 |
| Finance assets at fair value through held for trading | | 17,384 | 19,398 |
| Notes receivable | | 496 | - |
| Trade receivables | 9 | 13,454 | 8,346 |
| Prepayments, deposits and other receivables | | 29,664 | 12,451 |
| Inventories | | 9,081 | 8,391 |
| | | <u>140,658</u> | <u>141,846</u> |
| CURRENT LIABILITIES | | | |
| Trade payables | 10 | 4,639 | 5,021 |
| Other payables and accrued expenses | | 5,553 | 2,614 |
| Due to a minority shareholder | | 641 | 1,282 |
| Due to an investee company | | 1,318 | - |
| Loan from debtors discounted | | 3,861 | 3,964 |
| Finance leases-current portion | | 415 | 212 |
| Bank overdraft | | 688 | - |
| Government grant received in advance-current portion | | 41 | 556 |
| Tax payable | | 197 | 154 |
| | | <u>17,353</u> | <u>13,803</u> |
| NET CURRENT ASSETS | | <u>123,305</u> | <u>128,043</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>291,936</u> | <u>295,602</u> |
| NON-CURRENT LIABILITIES | | | |
| Finance leases | | 1,000 | 474 |
| Government grant received in advance | | 1,082 | 671 |
| Provisions | | 522 | 590 |
| | | <u>2,604</u> | <u>1,735</u> |
| NET ASSETS | | <u>289,332</u> | <u>293,867</u> |

| CAPITAL AND RESERVES | | | |
|--|----|----------------|----------------|
| Share capital | 11 | 109,722 | 109,722 |
| Revaluation reserve | | 5,159 | 5,147 |
| Special capital reserve | | 12,037 | 12,037 |
| Share premium | | 199,947 | 199,947 |
| Translation reserve | | 8,551 | 7,791 |
| Accumulated losses | | (50,856) | (49,176) |
| Funds attributable to equity shareholders of the Company | | <u>284,560</u> | <u>285,468</u> |
| Minority interests | | 4,772 | 8,399 |
| | | <u>289,332</u> | <u>293,867</u> |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

| | Six months ended | |
|--|--|--|
| | 30 June 2008 Unaudited US\$'000 | 30 June 2007 Unaudited US\$'000 |
| NET CASH USED IN OPERATING ACTIVITIES | (5,968) | (4,256) |
| NET CASH USED IN INVESTING ACTIVITIES | (17,950) | (75,716) |
| CASH FLOW (USED IN) FROM FINANCING ACTIVITIES | <u>(296)</u> | <u>124,405</u> |
| (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (24,214) | 44,433 |
| Cash and cash equivalents at 1 January | 93,260 | 3,865 |
| Effect of exchange rate | <u>845</u> | <u>1,672</u> |
| CASH AND CASH EQUIVALENTS AT 30 June | <u>69,891</u> | <u>49,970</u> |
| ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Cash and bank balances | 70,579 | 52,296 |
| Bank overdraft | <u>(688)</u> | <u>(2,326)</u> |
| | <u>69,891</u> | <u>49,970</u> |

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(UNAUDITED)**

For the Six Months Ended 30 June 2008

(Expressed in US\$'000)

| | Attributable to equity holders of the Company | | | | | | | Minority interests | Total Equity |
|--------------------------|---|---------------|-------------------------|---------------------|---------------------|--------------------|---------|--------------------|--------------|
| | Share capital | Share premium | Special capital reserve | Translation reserve | Revaluation reserve | Accumulated losses | Total | | |
| At 1.1.2008 | 109,722 | 199,947 | 12,037 | 7,791 | 5,147 | (49,176) | 285,468 | 8,399 | 293,867 |
| Exchange difference | - | - | - | 760 | 12 | - | 772 | 239 | 1,011 |
| Loss for the period | - | - | - | - | - | (1,680) | (1,680) | (6) | (1,686) |
| Disposal of subsidiaries | - | - | - | - | - | - | - | (3,860) | (3,860) |
| At 30.6.2008 | 109,722 | 199,947 | 12,037 | 8,551 | 5,159 | (50,856) | 284,560 | 4,772 | 289,332 |

| | Attributable to equity holders of the Company | | | | | | | Minority interests | Total Equity |
|---|---|---------------|-------------------------|---------------------|---------------------|--------------------|---------|--------------------|--------------|
| | Share capital | Share premium | Special capital reserve | Translation reserve | Revaluation reserve | Accumulated losses | Total | | |
| At 1.1.2007 | 15,659 | 42,627 | 12,037 | 7,138 | 3,615 | (19,547) | 61,529 | 812 | 62,341 |
| Exchange difference | - | - | - | 1,824 | 91 | - | 1,915 | 40 | 1,955 |
| Loss for the period | - | - | - | - | - | (7,181) | (7,181) | 1 | (7,180) |
| Arising on exercise of convertible debenture to subscribe for new shares in the Company | 34,064 | 74,723 | - | - | - | - | 108,787 | - | 108,787 |
| Contribution from minority shareholders | - | - | - | - | - | - | - | 3,851 | 3,851 |
| At 30.6.2007 | 49,723 | 117,350 | 12,037 | 8,962 | 3,706 | (26,728) | 165,050 | 4,704 | 169,754 |

NOTES TO THE ACCOUNTS

1. Basis of preparation and significant accounting policies

These unaudited consolidated interim financial statements of the Group ("Interim Accounts") have been prepared in accordance with Hong Kong Accounting Standard 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies of these Interim Accounts are consistent with those used in the annual financial statements for the year ended 31 December 2007 with an accounting policy adopted in relation to discontinued operations, which is applicable for the period ended 30 June 2008. Details of the accounting policy on discontinued operations are set out below.

HKICPA has issued a number of new standards, amendments to standards and interpretations that are effective for accounting periods beginning on or after 1 January 2009. The Group has carried out an assessment of these standards, amendments and interpretations and considered that they have no significant impact on these interim financial statements.

Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs when the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the income statement, which comprises:

- the post-tax profit or loss of the discontinued operation; and
- the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

2. Turnover and segment information

Turnover represents oil revenue from the sale of crude oil, assembly of electronic components for the contract electronics manufacturer and sales of mineral products.

An analysis of the Group's turnover and results for the period by business segments is as follows:

(Expressed in US\$'000)

For the six months ended 30 June 2008

| | Continuing operations | | | Discontinued operations | | | Others | Total |
|----------------------------------|-----------------------|------------------|-----------------------------------|-------------------------|-------------------|-------------------------|--------|---------|
| | Oil | Sale of minerals | Contract electronic manufacturing | Trading securities | Oil in Philippine | Exploration of minerals | | |
| Revenue from external customers | | | | | | | 11,640 | 2,119 |
| Segment results | 616 | (309) | 986 | (3,517) | (86) | (36) | - | (2,346) |
| Unallocated income and expenses | | | | | | | | (808) |
| Loss from operation | | | | | | | | (3,514) |
| Gain on disposal of subsidiaries | | | | | | | | 1,845 |
| Finance costs | | | (320) | | | | | (320) |
| Taxation | | | (57) | | | | | (57) |
| Loss for the period | | | | | | | | (1,686) |

For the six months ended 30 June 2007

| | Continuing operations | | | Discontinued operations | | | Others | Total |
|---------------------------------|-----------------------|------------------|-----------------------------------|-------------------------|-------------------|-------------------------|--------|---------|
| | Oil | Sale of minerals | Contract electronic manufacturing | Trading securities | Oil in Philippine | Exploration of minerals | | |
| Revenue from external customers | | | | | | | 4,982 | - |
| Segment results | (5,991) | - | 181 | 361 | (320) | 2 | - | (5,767) |
| Unallocated income and expenses | | | | | | | | (1,299) |
| Loss from operation | | | | | | | | (7,066) |
| Finance costs | | | | | | | | (114) |
| Taxation | | | | | | | | - |
| Loss for the period | | | | | | | | (7,180) |

3. Loss from operating activities

Loss from operating activities is arrived at after charging:

| | Six months ended | |
|------------------------------|---------------------------------------|---------------------------------------|
| | 30 June 2008 Unaudited US\$'000 | 30 June 2007 Unaudited US\$'000 |
| Continuing operations | | |
| Depreciation on fixed assets | 931 | 544 |

4. Income tax

| | Six months ended | |
|------------------------------|---------------------------------------|---------------------------------------|
| | 30 June 2008 Unaudited US\$'000 | 30 June 2008 Unaudited US\$'000 |
| Continuing operations | | |
| Overseas tax charges | 57 | - |

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

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 estimated assessable profits for the period.

5. Discontinued operations

On 21 May 2008, the Group disposed the entire interests in its subsidiaries, Comp Assets International Limited, PT. Global Select Indonesia, Mega Resources International Enterprises Limited and South Sea Petroleum (Philippines) Corporation, at a consideration of US\$9,700,000. The Group's oil exploration business in Philippines, a small part of oil exploration business in Indonesia and the mineral exploration business in China were discontinued.

The results and the cash flows of the discontinued operations were as follows:

| | 1 January 2008 to 21 May 2008 Unaudited US\$'000 | Six months ended 30 June 2007 Unaudited US\$'000 |
|--|---|---|
| Other revenue | 4 | 4 |
| Administration expenses | (126) | (321) |
| Loss from discontinued operations | (122) | (317) |
| Gain on disposal of discontinued operations | 1,845 | - |
| | 1,723 | (317) |
| Net cash used in operating activities | (87) | (1,685) |
| Net cash used in investing activities | (54) | (4,835) |
| Net cash (used in) generated from financing activities | (6,720) | 14,981 |
| (Decrease) increase in cash and cash equivalent | (6,861) | 8,461 |

The unaudited net assets of the discontinued operations at 21 May 2008 are as follows:

| | US\$'000 |
|---|-----------------|
| Fixed assets | 14,241 |
| Project advances for oil field exploration and mining | 11,141 |
| Cash and bank balances | 1,339 |
| Prepayments, deposits and other receivables | 4,851 |
| Other payable and accrued expenses | (19,849) |
| Exchange reserve | (8) |
| Minority interests | (3,860) |
| Net assets disposed | 7,855 |
| Gain on disposal | 1,845 |
| | 9,700 |
| Satisfied by: | |
| Shares in new Joint Venture | 9,700 |

6. Basic earnings (loss) per share

(i) From continuing and discontinued operations

The calculation of basic loss per share is based on the net loss attributable to shareholders for the period of US\$1,680,000 (2007: US\$7,181,000), and 10,972,239,359 (2007: weight average of 2,890,710,785) ordinary shares in issue during the period.

(ii) From continuing operations

The calculation of basic loss per share is based on the net loss attributable to shareholders for the period of US\$3,403,000 (2007: US\$6,864,000), and 10,972,239,359 (2007: weight average of 2,890,710,785) ordinary shares in issue during the period.

(iii) From discontinued operations

The calculation of basic earning (loss) per share is based on the net profit attributable to shareholders for the period of US\$1,723,000 (2007: net loss of US\$317,000), and 10,972,239,359 (2007: weight average of 2,890,710,785) ordinary shares in issue during the period.

7. Dividend

The Directors have decided not to declare any interim dividend for the six months ended 30 June 2008 (2007: Nil).

8. Fixed assets

During the six months ended 30 June 2008 the Group acquired approximately US\$15,380,000 of fixed assets.

9. Trade receivables

| | 30 June 2008 Unaudited <i>US\$'000</i> | 31 December 2007 Audited <i>US\$'000</i> |
|-------------------------|--|---|
| Receivable from BPMIGAS | 3,280 | - |
| Receivable from others | 10,174 | 8,346 |
| | 13,454 | 8,346 |

The receivable from BPMIGAS, the state-owned oil company of Indonesia, represents a trade receivable balance arising in the normal course of business recovered out of BPMIGAS' share of incremental crude oil production.

The ageing analysis of the trade receivables is as follows:

| | 30 June 2008 Unaudited <i>US\$'000</i> | 31 December 2007 Audited <i>US\$'000</i> |
|--------------|--|---|
| 0-30 days | 11,341 | 3,116 |
| 31-60 days | 1,747 | 2,817 |
| 61-90 days | 259 | 1,281 |
| Over 90 days | 107 | 1,132 |
| | 13,454 | 8,346 |

10. Trade payables and notes payable

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

| | 30 June 2008 Unaudited <i>US\$'000</i> | 31 December 2007 Audited <i>US\$'000</i> |
|--------------|--|--|
| 0-30 days | 3,352 | 2,452 |
| 31-60 days | 282 | 1,471 |
| 61-90 days | 531 | 408 |
| Over 90 days | 474 | 690 |
| | <u>4,639</u> | <u>5,021</u> |

11. Share capital

| | 30 June 2008 Unaudited <i>US\$'000</i> | 31 December 2007 Audited <i>US\$'000</i> |
|--|--|--|
| Authorised: 14,000,000,000 ordinary shares of US\$ 0.01 each | <u>140,000</u> | <u>140,000</u> |
| Issued and fully paid: 10,972,239,359 shares of US\$ 0.01 each | <u>109,722</u> | <u>109,722</u> |

12. Acquisition of a subsidiary

On 11 June 2007, the Company acquired 66.5% of the issued capital of Chengdu An Xiao Mining Company Limited (Chengdu An Xiao) at a cash consideration of US\$133,000.

The details of the unaudited net liabilities acquired and goodwill are as follows:

| | US\$'000 |
|---------------------|-----------------|
| Fixed assets | 128 |
| Deposits paid | 251 |
| Other payable | (128) |
| Due to shareholders | (118) |
| Net assets acquired | <u>133</u> |
| Satisfied by: | |
| Cash | <u>133</u> |

13. Capital commitments

At 30 June 2008, capital commitments not provided for are as follows:

| | 30 June 2008 Unaudited <i>US\$'000</i> | 31 December 2007 Audited <i>US\$'000</i> |
|----------------|--|--|
| Contracted for | <u>706</u> | <u>8,315</u> |

14. Approval of the Interim Accounts

The Board of Directors of the Company approved the Interim Accounts on 19 September 2008.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the six months ended 30 June 2008, the Group's turnover was US\$33.62 million, an increase of 48%, as compared to US\$22.77 million for the same period of the previous year. The net loss attributable to shareholders was US\$1.68 million, or US \$0.015 cents per share, as compared to net loss of US\$7.18 million, or US\$0.25 cents per share, for the same period of 2007. On the balance sheet, the total assets of the Group as at 30 June 2008 were US\$309.29 million, as compared US\$309.41 million as at 31 December 2007, and the net assets of the Group were US\$289.33 million at 30 June 2008, as compared US\$293.87 million as at 31 December 2007.

BUSINESS DEVELOPMENT

The Group has two principal lines of business. The first line of business is to develop, explore, produce crude oil and mining, such as graphite, in Asia countries. The second line of business is to provide electronic manufacturing services in the United Kingdom.

Through its wholly owned subsidiary, Kalrez Petroleum (Seram) Limited, the Group operates oilfields in Indonesia under Bula Petroleum Production Sharing Contract ("Bula PSC"), which the Group entered into with BPMIGAS, Department of Petroleum of Indonesia, on 22 May 2000. The Bula PSC will expire in 2019.

Prior to 2005, 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. In 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.

On 25 July 2007, Global Select Ltd., 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 to seek business opportunities in natural resources industry in China. Under the joint venture agreement, the Group contributed US\$8.50 million for 85% of equity interest in CRDG, and CRDC contributed US\$1.50 million for 15% of equity interest in CRDG.

On 2 October 2007, CRDG 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\$9.95 million in cash for 83% of equity interest, whereas the investor contributed US\$2.05 million in cash for 17% of equity interest in CRDG.

On 21 May 2008, Global Select Ltd., a wholly owned subsidiary of the Company, entered into a joint venture agreement with a U.S. based company (the "Investor"), to form a joint venture

company in the Cayman Islands. The Investor shall contribute US\$55,000,000 for 85% of equity interest in the JVC, whereas Global Select shall contribute the equity interests in three (3) of the Company's subsidiaries (the "Subsidiaries) with a total consideration of US\$9,700,000, being their respective registered capital as follows:

- (1) Transfer to the JVC 100% of its equity interest in Comp Assets International Limited;
- (2) Transfer to the JVC 100% of its equity interest in PT. Global Select Indonesia; and
- (3) Transfer to the JVC 70% of its equity interest in Mega Resources International Enterprises Limited.

Global Select will own 15% of equity interest in the JVC. The Investor has agreed that (a) the Investor will be responsible for all the future capital needs of the JVC, (b) the JVC will assume all the liabilities of Comp Assets, PT Global and Mega Resources, and (c) in case of an initial public offering ("IPO") of the shares of the JVC, the value of the 15% equity interest in the JVC held by the Company shall not be less than US\$30,000,000 based on the IPO price.

Through its wholly owned subsidiary Axiom Manufacturing Services Limited in the UK, the Company provides electronics manufacturing services in the business to business or business to industry sectors and to original equipment manufacturers in the following market sectors:

- Medical devices
- Industrial control equipment
- Domestic appliances
- Computer and related products
- Testing and instrumentation products
- Ministry of Defense products

As a result of efficiently managing costs and assets, the Company is able to offer its customers an outsourcing solution that represents a lower total cost of acquisition than that typically provided by the OEM's own manufacturing operation. OEM's contract with the Company to build their products or to obtain services related to product development and prototyping, volume manufacturing or aftermarket support.

In many cases the Company builds products that carry the brand name of its customers and substantially all of the Company's manufacturing services are provided on a turnkey basis where the Company purchases customer specific components from suppliers, assembles the components onto printed circuit boards, performs post production testing and provide the customer with production process and test documentation. The Company also provides manufacturing services on a consignment basis where material is free issued by the customer for the Company to build into finished printed circuit boards or product. The Company offers its customers flexible just in time delivery programs, which allow product shipments to be closely coordinated with the customers' inventory requirements. Additionally the Company completes the assembly of final product for our customers by integrating the manufactured printed circuit boards into the customers' finished products. Most of the Company's customers are located within the United Kingdom.

The Company intends to continue making investments in exploiting and developing crude oil and natural gas in Asian countries. For the six months ended 30 June 2008, the Company's electronics manufacturing service operations in UK have been relatively stable, and the Company is seeking to develop business opportunities within military and aerospace sectors – the Company's effort has already led to approved supplier status with one major multinational defense contractor.

RESULTS OF OPERATIONS

For the six months ended 30 June 2008, the Group's turnover was US\$33.62 million, an increase of US\$10.85 million, or 48%, compared to US\$22.765 million for the same period of the prior year. During the six-month period, the turnover of the Group's crude oil operation increased by US\$6.66 million, the turnover of the Group's electronics manufacturing service operation increased by US\$2.07 million, and the turnover of the Group's sales of mineral products increased by 2.12 million. The increase of turnover in crude oil was primarily due to an increase in oil produced for the period and an increase in oil price. The increase of turnover in electronic manufacturing services was largely due to sales from a new customer under a contract which started in fourth quarter of 2007, although three of the Company's other major customers also showed an increase in sales from the same period last year.

For the six months ended 30 June 2008, the Group had net loss of US\$1.68 million, or US\$0.015 cents per share, as compared to net loss of US\$7.18 million, or US\$0.25cents per share for the same period of the last year. The loss of the Company's operating activities for the six months ended 30 June 2008 was largely due to loss in fair value of financial assets held for trading of US\$3.52 million and other tax expenses of US\$1.73 million. The reason to pay such tax is that under the profit sharing contract (PSC), the Company was entitled to receive net 20% of the First Tranche Petroleum (FTP) in its crude oil operations. Prior to 2008, the Company's portion of the FTP was not taxable. However, with a new BPKP (the government auditors of the Indonesian Government) ruling across the industries, all PSC has to pay tax for the FTP portion of crude oil produced, and the ruling is applied retrospectively.

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.

As at 30 June 2008 the Group's cash and cash equivalents were US\$69.81 million, as compared to US\$90.52 million as at 31 December 2007. For the six months ended 30 June 2008, the Group's operating activities used net cash of US\$ 5.97 million, largely due to net loss from operating activities, decrease in financial assets at fair value held for trading of US\$3.52 million, increase in trading receivable of US\$5.11 million. During the period in 2008, the Group's investing activities used net cash of US\$17.95 million, primarily attributable to increase in additions to oil properties of US\$13.90 million. For the six months ended 30 June 2008, the Group's financing activities used net cash of US\$0.3 million.

As at 30 June 2008, the Group had no contingent liabilities. The Group believes that its cash balance and the cash generated from operations 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 30 June 2008, the Company had no off balance sheet arrangements.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2008, the Group had a total of approximately 578 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, Renmibi 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' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 30 June 2008, the directors and Chief Executive Officer of the Company held following long positions in the ordinary share of the Company:

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

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As of 30 June 2008, none of the directors of the Company, including their respective associates, are considered to have interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 June 2008, no person, other than a director or chief executive's interests which are disclosed in the section "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had registered an interest, short position, or lending power in the shares or underlying shares or debentures of the Company that was required to be kept by the Company pursuant to Section 336 of the SFO.

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

During the period under review, the Company, or any of its subsidiaries, has not purchased, sold, or redeemed any of the Company's securities.

DIVIDENDS

The Directors have decided not to declare any interim dividend for the six months ended 30 June 2008 (2007: Nil).

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the all the code provisions as set forth in the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited throughout the accounting period covered by the interim report.

COMPLIANCE WITH THE MODE CODE

The Company has adopted the Model Code for Securities Transactions by Directors by Listed Issuers (the “Model Code”) se out in Appendix 10 of the Listing Rules. Upon enquiry by the Company, all directors of the Company have confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2008.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Company and discussed auditing, internal controls and financial reporting matters, including a review of the unaudited Interim Accounts for the six months ended 30 June 2008.

INTERIM REPORT

The Company's Interim Report 2008 will be dispatched to all shareholders of the Company before 30 September 2008 and at the same time be published on the websites of the Company (http://finance.thestandard.com.hk/en/comp_detail_link.asp?code=0076) and the Stock Exchange of Hong Kong Limited (<http://www.hkex.com.hk>).

BOARD OF DIRECTORS

As at the date of this announcement, the board of directors comprised of Mr. Zhou Ling, Ms. Lee Sin Pyung and Ms. Sit Mei being executive directors, Mr. Lu Ren Jie, Mr. Chai Woon Chew and Mr. Ho Choi Chiu being independent non-executive directors.

On behalf of the Board

Zhou Ling
Chairman

Hong Kong, 19 September 2008