



Financial statements
for the year ended 31 December 2007



Contents

3	Directors and advisers
4	Directors' report
6	Report of the independent auditors
7	Consolidated profit and loss account
8	Consolidated balance sheet
9	Group cash flow statement
10	Statement of total recognised gains and losses
10	Reconciliation of movements in shareholders' funds
11	Company balance sheet
12	Notes to the financial statements

Directors and advisers

Directors

Robert F M Adair
Nigel J C Turnbull
Sarah L L Adair

Company Secretary

Alasdair Robinson

Registered Office

Cowesby Hall
Cowesby
Thirsk
North Yorkshire, YO7 2JJ

Registered No.

3340923

Auditors

Grant Thornton UK LLP
Registered Auditors
Chartered Accountants
The Explorer Building
Fleming Way
Manor Royal
Crawley
West Sussex, RH10 9GT

Solicitors

DLA
3 Noble Street
London, EC2V 7EE

Principal bankers

Bank of Scotland
London Chief Office
38 Threadneedle Street
London, EC2P 2EH

and

HSBC Republic Bank (UK) Limited
78 St James's Street
London, SW1A 1JB

Directors' report

The directors present their report together with financial statements for the year ended 31 December 2007.

Principal activity, review of business and result for the year

The Company is a holding company. The Group's principal activities are oil and gas exploration, development and production.

During the previous year, the principal activities included the manufacture and distribution of components, for the construction industry. These activities ceased in 2006 when the Company sold its interest in CCL Veloduct Ltd to Lindab A/S. There were no significant matters to report in the current year.

The Company's oil and gas exploration and production business reported increased turnover to £79,030,000 (2006: £63,127,000) but reported an operating loss of £6,757,000 (2006: profit of £19,768,000).

Overall, the Group profit before taxation fell to a loss of £35,034,000 from a profit of £11,565,000 in the previous year. The Group loss for the year after taxation and minority interests amounted to £23,985,000 (2006: profit of £5,176,000).

Statement of future developments

Melrose Resources plc continued to develop through the period as more fully explained in its releases to the London Stock Exchange.

Dividends and transfer from/to reserves

The Directors do not recommend the payment of a dividend (2006: £nil) and the loss of £23,985,000 (2006: profit of £5,176,000) has been transferred from/to reserves. A dividend has been proposed by the Directors of Melrose Resources plc, a partly owned subsidiary undertaking of the Company. This proposed dividend has not been provided for in the financial statements in accordance with FRS 21.

Directors

The directors in office during the period are listed below. All of the directors served throughout the year except where stated.

R F M Adair
N J C Turnbull
S L L Adair

Directors' responsibilities for the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

Directors' report (continued)

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the directors are aware:

- there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Directors' interests in transactions

No director had, during or at the end of the year, a material interest in any contract which was significant in relation to the Group's business except in respect of service agreements and share options and as disclosed in note 27.

Employee involvement

The Group has continued its practice of keeping employees informed of matters affecting them as employees and the financial and economic factors affecting the performance of the Group. The Melrose Resources plc employee share schemes are open to all employees of that Company and have operated since 1998. Under the terms of these schemes, the directors may offer options to employees to purchase ordinary shares in Melrose Resources plc.

Financial instruments

Details of the group's financial risk management objectives and policies are included in note 24 to the accounts.

Disabled employees

Applications for employment by disabled persons are given full and fair consideration for all vacancies in accordance with their particular aptitudes and abilities. In the event of employees becoming disabled, every effort is made to retrain them in order that their employment with the Company may continue. It is the policy of the Company that training, career development and promotion opportunities should be available to all employees.

Creditors' payment policy

The Group policy is to agree payment terms with individual suppliers and to abide to such terms. At 31 December, Group trade creditors represented 153 days' expenditure (2006: 125 days).

Auditors

A resolution for the reappointment of Grant Thornton UK LLP as auditors of the Company will be put to the forthcoming Annual General Meeting.

On behalf of the Board



R F M Adair

Director

28 January 2009

Report of the independent auditors to the members of Skye Investments limited

We have audited the group and parent company financial statements (the 'financial statements') of Skye Investments Limited for the year ended 31 December 2007 which comprise the group profit and loss account, the group and company balance sheets, the group cash flow statement, the group statement of total recognised gains and losses and notes 1 to 31. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2007 and of the group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Grant Thornton UK LLP

Grant Thornton UK LLP
Registered Auditor, Chartered Accountants

Gatwick

29K

January 2009

Consolidated profit and loss account

for the year ended 31 December 2007

	<i>Note</i>	Year ended 31 December 2007 £000	Year ended 31 December 2006 £000
Turnover			
Continuing activities		79,030	63,127
Discontinued activities		-	35,298
	2	<u>79,030</u>	<u>98,425</u>
Cost of sales		(10,749)	(32,963)
Unsuccessful exploration costs		(30,418)	(4,503)
Depletion		<u>(36,485)</u>	<u>(22,935)</u>
Gross profit		1,378	38,024
Administrative expenses	3	<u>(8,324)</u>	<u>(21,177)</u>
Operating (loss)/profit			
Continuing activities	2	(6,946)	19,768
Discontinued activities	2	<u>-</u>	<u>(2,921)</u>
		(6,946)	16,847
Interest receivable and other income	5	3,646	18,116
Interest payable and similar charges	5	<u>(31,734)</u>	<u>(23,398)</u>
(Loss)/profit on ordinary activities before taxation		(35,034)	11,565
Taxation	6	<u>(4,106)</u>	<u>(6,378)</u>
(Loss)/profit on ordinary activities after taxation		(39,140)	5,187
Minority interest – equity		15,155	(11)
(Loss)/profit for the year transferred from/to reserves	18	<u>(23,985)</u>	<u>5,176</u>

The accounting policies and notes on pages 12 to 30 form part of these financial statements.

Consolidated balance sheet

as at 31 December 2007

	<i>Note</i>	2007 £000	2006 £000
Fixed assets			
Negative goodwill	8	(3,652)	(2,399)
Other intangible	8	72,468	77,522
Total intangible assets	8	68,816	75,123
Tangible	9	260,378	241,514
Investments	10	21,079	2,732
		<u>350,273</u>	<u>319,369</u>
Current assets			
Stock		16,962	12,304
Debtors	12	50,894	32,402
Cash at bank and in hand		11,709	9,366
		<u>79,565</u>	<u>54,072</u>
Creditors: amounts falling due within one year	13	<u>(186,863)</u>	<u>(64,694)</u>
Net current (liabilities)/assets		<u>(107,298)</u>	<u>(10,622)</u>
Total assets less current liabilities		<u>242,975</u>	<u>308,747</u>
Creditors: amounts falling due after more than one year	14	(147,227)	(181,774)
Provision for liabilities and charges	16	(48,496)	(47,553)
		<u>(195,723)</u>	<u>(229,435)</u>
Net assets		<u>47,252</u>	<u>79,420</u>
Capital and reserves			
Called up share capital	17	612	612
Share premium account	18	158	158
Other reserves	18	(31,452)	(10,313)
Profit and loss account	18	9,642	14,336
Equity shareholders' funds		<u>(21,040)</u>	<u>4,793</u>
Minority interests - equity		<u>68,292</u>	<u>74,627</u>
Total equity		<u>47,252</u>	<u>79,420</u>

The Board of Directors approved the financial statements and authorised them for issue on 28 January 2009.
They were signed on its behalf by:

Robert F M Adair

R F M Adair

Director

The accounting policies and notes on pages 12 to 30 form part of these financial statements.

Group cash flow statement

for the year ended 31 December 2007

		Year ended 31 December 2007 £000	Year ended 31 December 2006 £000
	Note		
Net cash inflow from operating activities	19	24,876	59,729
Returns on investments and servicing of finance			
Interest paid		(26,143)	(20,191)
Interest received		690	464
Net cash outflow from returns on investments and servicing of finance		(25,453)	(19,727)
Tax paid		(6,587)	(3,691)
Capital expenditure and financial investment			
Purchase of intangible fixed assets		-	(14,279)
Purchase of tangible fixed assets		(80,670)	(49,115)
Purchase of subsidiary (net of cash received)		-	(136,925)
Purchase of associate		-	(147)
Proceeds of sale of tangible fixed assets		-	81
Purchase of fixed asset investments		(17,122)	(1,080)
Proceeds from sale of fixed asset investments		-	3,286
Proceeds from sale of subsidiary		247	16,453
Net cash outflow from capital expenditure and financial investment		(97,545)	(181,726)
Financing			
Borrowings raised		130,471	255,481
Borrowings repaid		(31,710)	(138,430)
Issue of shares by subsidiary undertaking to minority shareholders		8,111	36,161
Net cash inflow from financing		106,872	153,212
Increase/(decrease) in cash	21	2,163	7,797

The accounting policies and notes on pages 12 to 30 form part of these financial statements.

Statement of total recognised gains and losses
for the year ended 31 December 2007

	2007 £000	2006 £000
(Loss)/profit for the year	(23,985)	5,176
Exchange differences on non-functional currency entities	24	-
Net change in cash flow hedges	(179)	-
Deferred tax on cash flow hedges	68	-
Currency translation difference on foreign currency net investment	-	(345)
	<u>(24,072)</u>	<u>4,831</u>

Reconciliation of movements in shareholders' funds
for the year ended 31 December 2007

	2007 £000	2006 £000
(Loss)/profit for the year	(23,985)	5,176
Other recognised gains and losses relating to the period	<u>(1,848)</u>	<u>(5,544)</u>
Net (decrease)/increase in shareholders' funds	(25,833)	(368)
Opening shareholders' funds	4,793	5,161
Closing shareholders' funds	<u>(21,040)</u>	<u>4,793</u>

The accounting policies and notes on pages 12 to 30 form part of these financial statements.

Company balance sheet

as at 31 December 2007

	Note	At 31 December 2007 £000	At 31 December 2006 £000
Fixed assets			
Investments	10,11	121,660	86,800
Current assets			
Debtors	12	18,285	13,543
Cash at bank and in hand		1	-
		18,286	13,543
Creditors: amounts falling due within one year	13	(135,472)	(34,987)
Net current liabilities		(117,186)	(21,444)
Total assets less current liabilities		4,474	65,356
Creditors: amounts falling due after more than one year	14	-	(54,493)
Net assets		4,474	10,863
Capital and reserves			
Called up share capital	17	612	612
Share premium account	18	158	158
Profit and loss account	18	3,704	10,093
Equity shareholders' funds		4,474	10,863

The Board of Directors approved the financial statements and authorised them for issue on 29 January 2009.
They were signed on its behalf by:

Robert F M Adair

R F M Adair

Director

The accounting policies and notes on pages 12 to 30 form part of these financial statements.

Notes to the financial statements

for the year ended 31 December 2007

1 Accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards and the Statement of Recommended Practice for Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities.

The accounting policies remain unchanged from the previous year and have been consistently applied throughout the year under review.

FRS 21 "Events after the Balance Sheet date" (IAS 10)

Where the company declares dividends to the holders of equity instruments after the balance sheet date, the company does not recognise those dividends as a liability at the balance sheet date. The aggregate amount of equity dividends proposed before approval of the financial statements, which have not been shown as liabilities at the balance sheet date, are disclosed in the notes to the financial statements.

FRS 20 "Share-based Payment" (IFRS 2)

As permitted, the Group has applied FRS 20 to its employee share option schemes for all share options granted after 7 November 2002.

The share option programme allows certain employees of Melrose Resources plc to acquire shares in that company; a subsidiary. These awards are granted by Melrose Resources plc. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

IFRS 6 "Exploration for and evaluation of mineral resources"

Pre-acquisition expenditures on oil and gas assets are recognised as an expense in the income statement when incurred.

The Group adopted IFRS 6, "Exploration for and Evaluation of Mineral Resources", with effect from 1 January 2005. In accordance with IFRS 6, exploration and evaluation costs are capitalised within intangible assets until the success or otherwise of the well or project has been established and are subject to an impairment review as described below.

The costs of unsuccessful wells in an area are written off to the income statement: this is in accordance with the successful efforts accounting policy but is also compatible with IAS 36, "Impairment of Assets", on the basis that the asset is impaired.

If commercial reserves are established then the relevant cost is transferred (following an impairment review as described below) from intangible exploration and evaluation assets to development and production assets within tangible assets. Expenditures incurred after the commerciality of the field has been established are capitalised within development and production assets.

The proceeds from the disposal of oil and gas assets are deducted from the full cost pools.

Expected decommissioning costs of a property are provided for on the basis of the discounted net present value of the liability, discounted at a pre-tax risk free rate and an equivalent amount is added to the tangible cost pool. No provision is currently made for decommissioning costs in Africa as these are not material.

Notes to the financial statements

for the year ended 31 December 2007 (continued)

Accounting policies (continued)

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and all of its subsidiary undertakings using the acquisition method.

Turnover

Turnover derives from amounts receivable during the period in respect of the principal activities of the Group (excluding value added tax).

Stock

Stocks are stated at the lower of cost and net realisable value, where cost includes materials and transportation costs.

Goodwill

Prior to 31 December 1999, goodwill arising on acquisitions was written off directly against reserves. Goodwill previously eliminated against reserves has not been reinstated on implementation of Financial Reporting Standard No. 10, Goodwill and Intangible Assets. Goodwill arising on acquisitions since 1 January 2000 is capitalised as an asset and is amortised over its useful economic life. The Directors estimate that the useful economic life of the Goodwill is 20 years. Negative goodwill is included as a negative asset in intangible assets and is recognised in the profit and loss account over the period during which the assets to which the negative goodwill relates are realised through depletion, depreciation or disposal.

Impairment and ceiling test

Capitalised expenditure which is held as an intangible asset is reviewed each year for possible impairment on a property-by-property basis. Expenditure which is judged to be impaired is transferred to the appropriate tangible cost pool (to the extent of the impairment) and is included in the relevant depletion calculation.

As a test for impairment, the capitalised costs in each cost pool of tangible assets is compared each year with the net present value of future net cash flows expected to be derived from the assets in the pool before corporate taxes. These ceiling test values are calculated on the basis of product prices prevailing at the effective date or, if applicable, at the prices specified in a sale contract and discounting at 10% per annum.

Depletion

Capitalised costs relating to fields which are on production are depleted on a unit of production method based upon the directors' estimates of proven and probable reserves. The depletion charge, which is calculated for each cost pool, takes account of expected future development costs for fields which are on production.

Notes to the financial statements

for the year ended 31 December 2007 (continued)

1 Accounting policies (continued)

Depreciation

Fixed assets, other than oil and gas assets, are depreciated on a straight-line method to write down the cost less estimated residual value over their expected lives, as follows:

	Annual rate
Plant and equipment	10 to 33%

Lease and hire purchase obligations

Assets held on finance leases and hire purchase contracts, where the risks and rewards of ownership have passed to the Group, are capitalised and depreciated in accordance with the Group's depreciation policy. Finance charges included in total lease obligations are charged to the profit and loss account over the period of the lease at a constant proportion of the capital amount outstanding.

Operating lease rentals are charged to the profit and loss account over the term of the lease.

Foreign currencies

Transactions in foreign currencies are translated into sterling at the rates of exchange ruling at the transaction date. Monetary assets and liabilities are translated into sterling at the rate of exchange ruling at the balance sheet date. Differences on exchange arising from the translation of monetary assets and liabilities are dealt with through the profit and loss account.

The balance sheets and profit and loss accounts of overseas subsidiaries are translated at the rate of exchange ruling at the balance sheet date. Exchange differences arising from the retranslation of opening balance sheet amounts are dealt with through reserves.

Deferred taxation

Deferred taxation, which is not discounted, is the taxation attributable to timing differences between profits or losses computed for taxation purposes and results as stated in the financial statements. Deferred taxation is provided for, to the extent that it is probable that a liability or asset will crystallise, at the rate at which it is estimated that the tax will be paid (or recovered) when the timing differences reverse. Unprovided deferred tax is disclosed as a contingent liability.

Financial instruments

Financial assets and liabilities are recognised in the balance sheet at the lower of cost and net realisable value. Provision is made for diminution in value where appropriate.

Pension costs

The Group contributes to personal money-purchase pension schemes. Contributions are charged to the profit and loss account as they become payable.

Notes to the financial statements
for the year ended 31 December 2007

2 Turnover and segmental analysis

<i>Area of activity</i>	Continuing activities			Discontinued activity			Total	
	2007	2006	Oil & gas	2007	2006	Manufacturing	2007	2006
	£000	£000	£000	£000	£000	£000	£000	£000
Turnover	79,030	63,127	-	-	35,298	-	79,030	98,425
Production costs	(10,749)	(15,611)	-	-	(32,215)	-	(10,749)	(47,826)
Unsuccessful exploration costs	(30,418)	(4,503)	-	-	-	-	(30,418)	(4,503)
Depletion and depreciation	(36,887)	(22,935)	-	-	-	-	(36,887)	(22,935)
Operating profit/(loss)	976	20,078	-	-	3,083	-	976	23,161
Common costs							(7,922)	(6,314)
Group operating profit/(loss)							(6,946)	16,847
Net interest payable							(28,088)	(5,282)
(Loss)/profit on ordinary activities before taxation and minority interests							(35,034)	11,565
<i>Net assets</i>								
Continuing operations	51,871	61,420	-	-	-	-	51,871	61,420
Discontinued operations	-	-	-	-	-	-	-	-
Unallocated net liabilities							(72,911)	(56,627)
Total net (liabilities)/assets							(21,040)	4,793

Notes to the financial statements
for the year ended 31 December 2007 (continued)

2 Turnover and segmental analysis (continued)

<i>Geographical area</i>	Africa		Europe		United States of America		United Kingdom		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Turnover	44,514	15,953	21,353	32,813	13,163	14,361	-	35,298	79,030	98,425
Production costs	(2,886)	(3,053)	(2,215)	(3,151)	(5,648)	(6,190)	-	(35,432)	(10,749)	(47,826)
Unsuccessful exploration costs	(4,179)	(4,360)	(26,239)	(143)	-	-	-	-	(30,418)	(4,503)
Depletion and depreciation	(22,474)	(4,670)	(10,606)	(14,680)	(3,807)	(3,585)	-	-	(36,887)	(22,935)
Operating profit/(loss)	14,975	3,870	(17,707)	14,839	3,708	4,586	-	(134)	976	23,161
Common costs									(7,922)	(6,314)
Group operating profit/(loss)									(6,946)	16,847
Net interest payable									(28,088)	(5,282)
(Loss)/profit on ordinary activities before taxation and minority interests									(35,034)	11,565

Turnover by destination does not differ materially from the above.

<i>Net assets</i>	Africa		Europe		United States of America		United Kingdom		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Continuing operations	122,908	93,499	1,868	6,759	(23,408)	(18,294)	(49,497)	(20,544)	51,871	61,420
Unallocated net liabilities									(72,911)	(56,627)
Total net (liabilities)/assets									(21,040)	4,793

Page 17

Notes to the financial statements
for the year ended 31 December 2007 (continued)

5 Net interest payable and similar charges

	2007 £000	2006 £000
Interest payable on bank loans and overdrafts	(20,961)	(14,384)
Interest payable on loans from related parties	(8,270)	(9,014)
	(29,231)	(23,398)
Net gain on disposal of investments	246	16,426
Net (loss)/gain on re-measurement of investments	(2,503)	612
Investment income	6	615
Interest receivable	3,394	463
Net interest payable	(28,088)	(5,282)

6 Taxation

The taxation charge is based on the result for the period, after taking into account losses brought forward from previous periods, and comprises:

	2007 £000	2006 £000
Current tax		
United Kingdom	-	365
Overseas taxes	8,228	3,629
	8,228	3,994
Deferred tax		
Timing differences	(3,831)	1,923
Tax losses	(2,843)	(272)
Prior year adjustment	2,552	733
	(4,122)	2,384
	4,106	6,378

The Group has unrelieved tax losses carried forward and available to offset against future taxable profits:

	2007 £000	2006 £000
UK corporation tax	16,772	17,180
Overseas taxes	3,661	10,130
	20,433	27,310

Utilisation of overseas losses of £3,661,000 (2006: £1,464,000) in aggregate is currently restricted to £915,000 (2006: £373,000) per annum.

Notes to the financial statements
for the year ended 31 December 2007 (continued)

6 Taxation (continued)

Factors affecting the tax charge for period

The tax assessed for the period is higher than the standard rate of corporation tax in the UK of 30% (2006: 30%). The differences are explained as follows:

	2007 £000	2006 £000
Profit/(loss) on ordinary activities before tax	(35,034)	11,565
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	(10,511)	3,470
<i>Effect of:</i>		
Expenses not deductible for tax purposes	6,784	5,553
Non-taxable income	(74)	(4,747)
Deferred tax not recognised on tax losses	4,946	-
Losses carried forward	326	24
Higher tax rates on overseas earnings	3,409	(1,266)
Losses utilised during the year	(42)	40
Other timing differences	3,390	920
Current tax charge for period	8,228	3,994

7 Loss for the period

The parent company has taken advantage of section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The parent company's loss for the year was £6,389,000 (2006: £4,198,000).

8 Fixed assets – intangible

Group	Oil and gas exploration and appraisal assets £000	Goodwill £000	Negative goodwill £000	Total £000
At 1 January 2007	77,522	-	(2,399)	75,123
Additions during the period	3,768	-	(1,445)	2,323
Transferred to tangible fixed assets	(7,331)	-	-	(7,331)
(Amortised)/realised during the period	-	-	192	192
Foreign exchange adjustment	(1,491)	-	-	(1,491)
At 31 December 2007	72,468	-	(3,652)	68,816

Goodwill arising on the acquisition of a subsidiary was being amortised over a 20 year period but was written off during the year when the subsidiary was sold. Negative goodwill is being released to the profit and loss account over a 20 year period.

Notes to the financial statements
for the year ended 31 December 2007 (continued)

9 Fixed assets – tangible

Group	Exploration & development costs £000	Plant & equipment £000	Total £000
Cost			
At 1 January 2007	295,082	1,142	296,224
Foreign exchange translation	(5,524)	(21)	(5,545)
Additions	52,519	475	52,994
Transfer from intangible fixed assets	7,331	-	7,331
At 31 December 2007	349,408	1,596	351,004
Depletion and depreciation			
At 1 January 2007	54,128	582	54,710
Foreign exchange translation	(961)	(10)	(971)
Provided during the year	36,485	402	36,887
At 31 December 2007	89,652	974	90,626
Net book value at 31 December 2007	259,756	622	260,378
Net book value at 31 December 2006	240,954	560	241,514

Exploration and development costs comprise three cost pools identified on the following geographic basis:

	Africa £000	Europe £000	US £000	Total £000
Net book value at 31 December 2007	187,432	21,725	50,599	259,756
Net book value at 31 December 2006	164,660	26,635	49,659	240,954

10 Investments

Group	£000
At 1 January 2007	2,732
Additions	20,996
Provision for diminution	(2,593)
Foreign exchange translations	(56)
At 31 December 2007	21,079

Notes to the financial statements
for the year ended 31 December 2007 (continued)

Company	Investment in subsidiary undertaking £000	Other investments £000	Total £000
Cost/valuation			
At 1 January 2007	86,773	27	86,800
Additions	17,738	7,822	25,560
Capital loan advances	-	9,300	9,300
At 31 December 2007	104,511	17,149	121,660

The investment in subsidiary undertaking is the Company's investment in Melrose Resources plc which is a listed investment that had a market value of £184,749,000 at 31 December 2007 (2006: £143,694,000).

Within other investments is the company investment in Honiton Energy Holdings plc, an unlisted UK holding company with interests in Chinese wind-farm energy production, acquired in May 2007. The company holds 23.5% of the ordinary shares of this company and the cost includes equity and loan capital. In July 2008, this investment was sold for total proceeds, including loan repayments and interest, amounting to £26,282,000.

The remaining other investments represent shares in UK listed companies. The directors consider that the market value of these shares as at 31 December 2007 is not materially different from their cost.

11 Investments in subsidiary undertakings

The Company's principal subsidiary undertakings, all of which are registered in England and Wales unless otherwise stated, are listed below:

	Percentage of equity share capital held	Nature of business
Melrose Resources plc	52.0	Holding company to oil and gas exploration, production and development companies (see below)
Skye Holdings Ltd	100.0	Investment holding company
Skye Securities Ltd	100.0	Investment holding company
Terrace Hill Hampton Ltd	100.0	Investment holding company
Earlycall Ltd	100.0	Investment holding company
Earthrapid Ltd	100.0	Property development

On 30 October 2006, the Group disposed of its 100% holding in CCL Veloduct Limited, a company involved in the manufacturing of building materials.

The principal subsidiary undertakings of Melrose Resources plc (all of which are wholly owned by Melrose Resources plc) and their countries of operation are listed below:

Notes to the financial statements
for the year ended 31 December 2007 (continued)

	Place of incorporation	Class of capital held	Nature of business
USA			
Melrose Energy Company	Texas, USA	Common	Oil and gas exploration, development and production
Merlon Petroleum Company Acquired 29 June 2006	Texas, USA	Common	Oil and gas exploration, development and production
Egypt			
Odyssey Petroleum (Qantara) Limited	Bermuda	Common	Oil and gas exploration, development and production
Odyssey Petroleum (El Mansoura) Limited	Bermuda	Common	Oil and gas exploration, development and production
Merlon Petroleum El Mansoura Company Acquired 29 June 2006	Cayman Islands	Common	Oil and gas exploration, development and production
Merlon Petroleum Qantara Company Acquired 29 June 2006	Cayman Islands	Common	Oil and gas exploration, development and production
Merlon Petroleum South East El Mansoura Company Acquired 29 June 2006	Cayman Islands	Common	Oil and gas exploration, development and production
Bulgaria			
Petresco S.a.r.l.	Luxembourg	Common	Oil and gas exploration, development and production
Petresco (Bulgaria) EOOD	Bulgaria	Common	Oil and gas exploration, development and production

12 Debtors

	Group		Company	
	2007	2006	2007	2006
	£000	£000	£000	£000
Amounts falling due in less than one year				
Trade debtors	24,388	14,853	-	-
Amounts owed by subsidiary undertakings	-	-	15,667	13,541
Amounts owed by associated undertakings	10,179	5,654	-	-
Taxation	7,867	8,408	-	-
Other debtors	2,535	3,010	5	2
Prepayments and accrued income	5,925	477	2,613	-
	<u>50,894</u>	<u>32,402</u>	<u>18,285</u>	<u>13,543</u>

13 Creditors: amounts falling due within one year

	Group		Company	
	2007	2006	2007	2006
	£000	£000	£000	£000
Bank loans and overdrafts	75,717	26,380	31,775	26,380
Trade creditors	4,517	5,998	-	-
Other creditors	2,644	15,338	962	301
Amounts owed to related party creditors	83,105	-	91,190	-
Accruals and deferred income	20,880	16,978	11,545	8,306
	<u>186,863</u>	<u>64,694</u>	<u>135,472</u>	<u>34,987</u>

Notes to the financial statements
for the year ended 31 December 2007 (continued)

14 Creditors: amounts falling due after more than one year

	Group		Company	
	2007	2006	2007	2006
	£000	£000	£000	£000
Bank loans and overdrafts	147,227	146,572	-	-
Other creditors	-	35,202	-	54,493
	<u>147,227</u>	<u>181,774</u>	<u>-</u>	<u>54,493</u>

15 Borrowings

	Amounts falling due:		
	In less	After	2007
	than one	more than	Total
	year	one year	£000
	£000	£000	
Bank loans and overdrafts	75,717	147,227	222,944
Other creditors	83,105	-	83,105
At 31 December 2007	<u>158,822</u>	<u>147,227</u>	<u>306,049</u>
At 31 December 2006	<u>26,380</u>	<u>181,774</u>	<u>208,154</u>

	Group		Company	
	2007	2006	2007	2006
	£000	£000	£000	£000
In less than one year	158,822	26,380	122,965	26,380
Between one and two years	(771)	50,844	-	-
Between two and five years	138,010	90,644	-	-
After five years	9,988	40,286	-	54,493
	<u>306,049</u>	<u>208,154</u>	<u>122,965</u>	<u>80,873</u>

At 31 December 2007 £191,169,000 borrowings were denominated in US dollars (2006: £146,572,000) and £114,880,000 were denominated in £ Sterling (2006: £61,582,000).

The bank loans are secured by fixed and floating charges over the Group's assets, with additional security being provided by the shareholders in the Company. Interest is charged at varying margins over base rate.

Notes to the financial statements
for the year ended 31 December 2007 (continued)

16 Provision for liabilities and charges

Group	Decommissioning £000	Deferred tax £000	Others £000	Total £000
At 1 January 2007	5,809	41,471	273	47,553
Foreign exchange adjustment	(96)	(7,653)	(5)	(7,754)
Provided/(released) during the year	6,560	2,344	(207)	8,697
At 31 December 2007	12,273	36,162	61	48,496

There are no unprovided deferred tax liabilities.

The deferred tax provision represented:

	2007 £000	2006 £000
Timing differences	34,628	38,376
Tax value of losses carried forward	1,534	3,095
	36,162	41,471

17 Share capital

	2007 £000	2006 £000
Authorised		
60,119,816 ordinary shares of 1p each	601	601
1,180,194 convertible ordinary shares of 1p each	12	12
	613	613
Allotted, called-up and fully paid		
60,000,200 ordinary shares of 1p each	600	600
1,180,194 convertible ordinary shares of 1p each	12	12
	612	612

Notes to the financial statements
for the year ended 31 December 2007 (continued)

18 Reserves

Group	Share premium account £000	Other reserves £000	Profit and loss account £000
At 1 January 2007	158	(10,313)	14,336
Transfer	-	(20,027)	20,027
Loss for the year	-	-	(23,985)
Equity settled share based payments	-	-	(1,479)
Dividends paid	-	-	(954)
Exchange differences	-	(1,112)	1,697
At 31 December 2007	158	(31,452)	9,642

The cumulative amount of goodwill arising on acquisitions that has been written off to other reserves in previous years amounts to £3,903,000 (2006: £3,903,000). The cumulative amount of negative goodwill arising from acquisitions which has been credited to other reserves in previous years amounts to £467,000 (2006: £467,000).

Company	Share premium account £000	Profit and loss account £000
At 1 January 2007	158	10,093
Loss for the year	-	(6,389)
At 31 December 2007	158	3,704

19 Net cash inflow from operating activities

	2007 £000	2006 £000
Operating (loss)/profit	(6,946)	16,847
Depletion, depreciation and amortisation	36,419	29,101
Unsuccessful exploration costs	30,418	4,503
Loss on disposal of tangible fixed assets	-	9
Equity settled share based payments	181	238
(Increase) in stocks	(5,574)	(6,308)
(Increase) in debtors	(15,528)	(9,601)
(Decrease)/increase in creditors	(14,094)	24,940
Net cash inflow from operating activities	24,876	59,729

Notes to the financial statements
for the year ended 31 December 2007 (continued)

20 Analysis of changes in net debt

	Cash at bank and in hand £000	Bank overdrafts £000	Debt £000	Total £000
At 1 January 2007	9,366	-	(208,154)	(198,788)
Cash flow	2,163	-	(96,247)	(94,084)
Exchange movement	180	-	(1,648)	(1,468)
At 31 December 2007	11,709	-	(306,049)	(294,340)

21 Reconciliation of net cash flow to movement in net debt

	2007 £000	2006 £000
Increase in cash in the period	2,163	7,797
Cash flow from movement in debt	(96,247)	(102,997)
Change in net debt resulting from cash flows	(94,084)	(95,200)
Foreign exchange movements	(1,468)	(4,000)
Movement of net debt in the period	(95,552)	(99,200)
Net debt at 1 January 2007	(198,788)	(99,588)
Net debt at 31 December 2007	(294,340)	(198,788)

22 Capital commitments and contingent liabilities

The Group had capital commitments of £55,640,000 at 31 December 2007 (2006: £32,300,000). The Group had contingent liabilities in respect of additional consideration payable for asset acquisitions of £nil (2006: £60,000).

At 31 December 2007 the Company had no capital commitments or contingent liabilities (2006: £nil).

23 Operating lease commitments

The Group has the following annual commitments under operating leases:

	2007 £000	2006 £000
Land and buildings - on leases expiring within:		
One year	441	258
Two to five years	1,596	1,078
After five years	2,001	1,028
Other operating leases - on leases expiring within:		
One year	84	23
Two to five years	180	261

Notes to the financial statements

for the year ended 31 December 2007 (continued)

24 Financial instruments

The Group has undrawn committed borrowing facilities available at 31 December 2007 in respect of which all conditions precedent had been met as follows:

	2007 £000	2006 £000
Expiring in one year or less	-	-
Expiring between one and two years	3,012	2,935
	<u>3,012</u>	<u>2,935</u>

The Group does not currently trade in financial derivatives. The Group's use of financial instruments is restricted to borrowings, cash deposits, short-term deposits and various items such as trade debtors and trade creditors which derive from its operations. The main purpose of the financial instruments is to provide financial resources for the Group's activities.

The main risks from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The Group's exposure to interest rate risk derives from the current policy of borrowing at variable interest rates. It has been the Group's policy to borrow at variable interest rates in order to allow flexibility over early repayment of borrowings and in the chosen currency of borrowing. This policy exposes the Group to a risk that interest rates will arise. Consideration will be given to fixing for longer periods the interest rates of borrowings incurred for expenditures on development projects.

In order to manage liquidity risk, the Group has put in place firm borrowing facilities which are fixed for specified periods. Consequently, exposure to liquidity risk is limited. Short-term liquidity is managed by the use of cash and short-term deposits or by bank overdraft.

The Group has an exposure to foreign currency risk as all of its revenue and the majority of its expenditures are denominated in US dollars. In order to manage this risk, it is the Group's policy that borrowings incurred in relation to development projects should be denominated in the same currency as the anticipated cash flows from the project. Similarly, it is Group policy that corporate borrowings should be denominated only in US dollars or in sterling.

25 Pension commitments

The Group contributes to various money purchase personal pension schemes.

26 Share-based payments

No share-based payment awards are operated by the Company, however three share-based payment schemes are operated by a subsidiary company, Melrose Resources plc. Details of these schemes can be found in their 2007 annual report and accounts, copies of which can be obtained from:

The Company Secretary,
Melrose Resources plc,
Exchange Tower,
19 Canning Street,
Edinburgh, EH3 8EG

Notes to the financial statements

for the year ended 31 December 2007 (continued)

27 Related party transactions

Other creditors as at 31 December 2007 includes £45,909,000 (2006: £33,576,000) in respect of amounts owed by the company to life interest trusts for the benefit of Mr R F M Adair and members of his immediate family and £45,281,000 (2006: £20,917,000) in respect of amounts owed to Mr R F M Adair. During the year, interest was charged to the company by Mr R F M Adair amounting to £3,872,000 (2006: £2,395,000). Accrued interest payable by the company to Mr R F M Adair amounted to £3,039,000 (2006: £3,708,000) at the year end. During the year, Mr R F M Adair provided a personal guarantee in respect of bank loans of £31,775,000 (2006: £26,380,000).

R F M Adair was interested in the following transactions by virtue of his contingent and beneficial interests in the Adair Trusts:

- ♦ During the year, interest of £3,735,000 (2006: £2,415,000) was charged to the company by the Adair Trusts. Accrued interest payable by the company amounted to £8,136,000 (2006: £4,900,000) at the year end.

During 2007, the Group paid management and services charges of £15,000 (2006: £20,500) to Terrace Hill Partnership. Mr R F M Adair and Mr N J C Turnbull are partners in Terrace Hill Partnership.

In May 2007, the company acquired 23.5% of Honiton Energy Holdings plc, a company in which Mr R F M Adair is a director, from the Adair Trusts at cost amounting to £5,303,000. Thereafter, a further £9,300,000 of loans were advanced to Honiton. Interest of £2,467,000 and finance arrangement fees amounting to £147,000 were receivable on these loans and advances and the total accrued income due from Honiton amounted to £2,614,000.

28 Controlling related party

Skye Investments Limited is the parent company of the largest group of companies for which group accounts have been drawn up. Copies of the group accounts of Skye Investments Limited are available from Cowesby Hall, Cowesby, Thirsk, North Yorkshire, YO7 2JJ.

Skye Investments Limited is ultimately controlled by Mr R F M Adair and the Adair Trusts.

29 Post balance sheet events

In July 2008, the company disposed of its interests in Honiton Energy Holdings plc and was repaid its outstanding loans and accrued interest in full.

Notes to the financial statements
for the year ended 31 December 2007 (continued)

30 Acquisition of subsidiary company

On 29 June 2006, the Group acquired 100% of the issued share capital of Merlon Petroleum Company for a cash consideration of \$255.6 million. Further costs directly attributable to the acquisition of Merlon amounted to \$1.2 million.

Merlon is an oil and gas exploration and production company, based in the USA with interests in Egypt and the USA.

Net assets acquired	Book value £000	Fair value adjustment £000	Fair value £000
Property, plant and equipment	18,463	117,585	136,048
Intangible assets	12,175	2,104	14,279
Deferred tax assets	1,134	-	1,134
Stock and inventory	3,356	-	3,356
Trade and other receivables	8,482	-	8,482
Cash and cash equivalents	2,429	-	2,429
Trade and other payables	(20,664)	(340)	(21,004)
Deferred tax liabilities	(5,370)	(33,777)	(39,147)
Goodwill	-	33,777	33,777
Net assets	20,005	119,349	139,354
Total consideration satisfied by:			£000
Cash			<u>139,354</u>
The cash consideration was derived as follows:		£000	£000
Acquisition price			143,795
Purchase price adjustments:			
Stock and inventory		3,874	
Net working capital		7,329	
Less: Indebtedness		<u>(16,279)</u>	
			<u>(5,076)</u>
Cash paid to Merlon on acquisition			138,719
Directly attributable costs			635
Total acquisition cost			<u>139,354</u>

Notes to the financial statements
for the year ended 31 December 2007 (continued)

31 Disposal of subsidiary company

On 30 October 2006, the Group sold its 100% interest in the ordinary share capital of CCL Veloduct Limited. The profit of CCL Veloduct Limited up to the date of disposal was £2,206,000, and for its last financial year was £2,418,000.

Net assets disposed of and the related sale proceeds were as follows:	£000
Fixed assets	2,002
Current assets	16,814
Creditors less than one year	(13,165)
Creditors greater than one year	(332)
Net assets	5,319
Selling costs - indebtedness	6,547
Profit on sale	15,134
Sale proceeds	27,000
Total consideration satisfied by:	£000
Cash	23,000
Deferred consideration	4,000
	27,000
Net cash inflows in respect of the sale comprised:	£000
Cash consideration	23,000
Less: Indebtedness	(6,547)
	16,453