

CHAIRMAN'S STATEMENT

GENERAL

The Group's main business continues to be the oil production in the Limau oilfield in Indonesia which provides a positive cash flow to the Group. In December 2000 the Company invested as majority shareholder in a subsidiary in Taiwan, Tianyee Communications Corp. ("Tianyee"), which has been set up to produce high technology communication products. This subsidiary has successfully commenced production and already contributed approximately US\$2.4 million to turnover by the end of the year.



Regrettably the Company's other ventures during the year 2000 to diversify its operations into high technology internet business have suffered along with the worldwide downturn in that business. The Group's investment in "www.clickcellular.com", an online internet site for the sale of mobile telephones has not achieved its expected targets and has been fully provided for, in addition the agreement with Asia2B, which provides an e-commerce trading platform, has been terminated.

FINANCIAL REVIEW



Results

The Group's turnover from oil production declined by about 10% to US\$12.7 million despite the increase in oil price during the year from an average of US\$19 per barrel in 1999 to an average of US\$28 per barrel in 2000 due to the lower cost recoveries following the slow down of capital expenditure pending a decision by Pertamina, the state-owned oil company of Indonesia on the Group's request

for an extension of the enhanced oil recovery contract ("EOR") beyond 2004.

However turnover was boosted by the US\$2.4 million contribution from Tianyee bringing total turnover to US\$15.0 million. Operating results were adversely effected by the provision of US\$8,820,000 made against the investment in Amsara Limited, the associate operating the "clickcellular" business, and the US\$600,000 usage fees paid under the access agreement with Asia2B and the Group incurred a total operating loss for the year of US\$11,460,000 compared with an operating loss of US\$740,000 for 1999.

Capital Structure and Treasury

The Limau oilfield operation continued to provide a positive cash flow during the year. The current ratio of the Group remained healthy at 1.83 (1999: 2.36). The placement and exercise of options by directors and employees resulted in the issue of 446,550,000 shares in total during the year and raised a total of US\$4.5M, before expenses.

Apart from a non-interest bearing short-term loan of US\$1,306,000 in Tianyee, the Group has no borrowings as at 31 December 2000. Gearing expressed as a percentage of net borrowings to the total of net borrowings and net assets was at a low level of 5.8% (1999: no gearing as the Group has no borrowings). An announcement was made on 12 March 2001 of a proposed capital reduction which on becoming effective should enable the Company to be in a position to raise finance by the issue of shares.



The Group's revenues and expenses are predominantly denominated in United States dollars or the Hong Kong dollars. In the light of the Hong Kong dollar peg, the Group has not hedged exposure to Hong Kong dollars denominated assets/liabilities. It is the Group's policy to minimise exposure to other currencies, mainly Indonesian rupiah, New Taiwan dollars and Chinese renminbi by minimising the net assets/liabilities denominated in such currencies.

OPERATIONS

Oil Production

The oil production in the Limau oilfield decreased from 6,961 barrels per day in 1999 to 6,168 barrels per day in 2000. This 11% decrease in production was due to a rising watercut in the horizontal well re-entry and above normal downtime for the electrical submersible pump ("ESP") producers. No wells were drilled during the year, however a re-drill was proposed at mid year but not realized. Four existing producers were converted to 6,000 barrels of fluid per day ("BFPD") ESPs and one well converted to a 10,000 BFPD ESP. This well alone produces over 1,000 barrels of oil per day. Based on the continuing success of the ESPs, an additional five 6,000 BFPD plus one 10,000 BFPD ESPs will be installed in the third quarter of 2001.

To handle the increase in produced water from the ESPs an additional 4 wells were converted to water injectors to maintain reservoir pressure and to assist in produced water handling. Water injection and treatment facilities continue to be upgraded to handle and distribute all produced fluid.

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Reservoir and geological studies are ongoing to maintain and increase the ultimate oil recovery. Based on the pressure transient analysis from a build up pressure on the horizontal well, a production logging programme and chemical clean up is proposed to determine the source of water entry and improve the oil percentage.



The delay from Pertamina, in approving the Group's request for a 10 year extension to the Limau EOR, has resulted in little or no capital spending for the future pending a decision being reached by Pertamina. Existing production will be maintained and optimized to obtain maximum oil recovery at the least cost per barrel of oil produced.

Refinery Operations

The Group's investment in its associate which operates the oil refinery in Hubei continues to disappoint.

The crude oil supply shortage persisted during the year and continues to cause the refinery to operate below capacity. However the directors continue to be of the opinion that the anticipated market force changes in the PRC will in due course alleviate the supply of crude oil and eventually enable the refinery to start operating at a satisfactory rate of throughput. Although it is not possible to predict when exactly these changes will occur the directors continue to be of the opinion that the current carrying value of the interest in this associate is appropriate.

Communications Equipment

Despite the short period of establishment, commercial production and delivery of products has started, Tianyee at present has a work force of about 60. The major business of Tianyee is the design and production of Asymmetric Digital Subscriber Line ("ADSL") Modems and accessory products. The major market is in North America and Asia. In 2000, Tianyee achieved sales of 20,000 units of ADSL Modems and a turnover of US\$2.4 M. Barring unforeseen difficulties it is hoped that the sale of ADSL Modems in 2001 will grow in multiples. In light of the growing market demand, Tianyee will develop other digital subscriber line products such as Very High Bit-rate Digital Subscriber Line ("VDSL") and Symmetric Digital Subscriber Line ("SDSL") products. Testing of these two new products has been finalized and commercial production and delivery of these new products are expected by mid 2001.

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Investment Activities

In November 1999 the Group entered into contracts to acquire a controlling interest in the production rights for the development of the Jatirarangon gas field in Indonesia, 482,243,590 new shares of US\$0.01 each were issued at par in January to complete the acquisition. Mobilization commenced during the year 2000. Studies project a satisfactory return over the expected life of the field, however, in view of the heavy capital investment requirement and the current economical and political situations in Indonesia, the Group is currently negotiating to slow down the development programme. The Group's capital commitment for this project is approximately US\$3.0 million.



In May 2000 the Company successfully placed 196,000,000 new shares of US\$0.01 to raise a total of US\$1,960,000, before expenses. Options issued under the staff share option scheme were exercised resulting in the issue of a total of 250,550,000 shares which raised a further amount of US\$2,505,500, before expenses. Subsequently in October 2000 the Company consolidated its shares so that every ten share of US\$0.01 were consolidated into one share of US\$0.10 and at the same time the board lot was increased from 10,000 shares of US\$0.01 prior to consolidation to 2,000 shares of US\$0.10 after consolidation.

Also in May the Company allotted 882,000,000 new shares of US\$0.01 each to acquire a 35% interest in a high technology internet business operated by Amsara Limited, referred to above, under the name "www.clickcellular.com" mainly to promote and sell mobile telephones. Unfortunately performance has fallen well below target expectation and this had a serious impact on the cash flow of the project. Given the continuing requirement for operating and capital expenditure combined with the unfavourable market sentiment for further investment in such businesses the Company has had to re-evaluate this investment. A recent independent valuation carried out at the Company's request has confirmed a significant drop in value. In view of the poor prospects in the current market it has been decided to make full provision whilst considering what further action to take.

In December the Group acquired a 60% interest in Tianyee, a company established in Taipei, Taiwan to manufacture high technology communication equipment. Production started in December and is planned to expand during 2001 with the introduction of further products.

The Company has a capital commitment of HK\$28,800,000 in respect of its investment in Tianyee of which HK\$18,000,000 has been paid up to the date of this report, the balance is scheduled to be paid during 2001 from internal resources.

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EMPLOYEES

The total number of employees of the Company at the date of this report, including executive directors, is 10. In addition, at the year end there were 34 employees in the Jakarta office and 178 employees in the Limau oilfield under the payroll of the Joint Operating Body. The Jakarta office provides managerial and administrative support to the Limau oilfield project. The number of employees assigned to the Limau project is not expected to change materially during 2001.

The number of staff in Tianyee and the Jatirarangon gas field as at the date of this report are 60 and 21 respectively.

FUTURE

Whilst the Limau oilfield continues to be the Group's main operating unit it is anticipated that Tianyee will make a growing contribution to turnover and cash flow during 2001. The formal application for the extension of the Limau oilfield EOR is still under consideration by Pertamina.

Mobilization has started for the development of the Jatirarangon gas field but as stated above we are currently negotiating to defer full scale development for some time.



The Group's aim is to continue its hydrocarbon reserves interests and to further continue its diversification particularly into high technology communications and similar products which has started with its investment in Tianyee. The Group continues to seek measures to increase its capital to fund future expansion and the proposed capital reduction announced on 12 March 2001 is aimed to help the Group to be in a position to raise capital through the issue of further shares.

Finally I take this opportunity to thank my fellow directors, management and staff for their contribution and assistance over the past year and also the shareholders for their continued support.

Chelsea Ho
Chairman

Hong Kong, 11 April 2001

