NOTES TO FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Company is incorporated in Hong Kong with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). The registered office of the Company is Suite 2602, Cheung Kong Center, 2 Queen's Road Central, Hong Kong. During the year, the Group was involved in investment holding, the exploration and development of hydrocarbon reserves, development and production of natural gas, E-business, manufacture and sale of electronic components, communication equipment and data processing equipment.

The Company purchased Global Select Limited ("Global"), a company incorporated in the British Virgin Islands which holds a 100% interest in Husky Oil (Limau) Ltd. ("HOLL"), from Husky Oil International Corporation, a Canadian corporation, on 30 June 1994. Effective from 1 April 1997, the name of HOLL was changed to Seaunion Energy (Limau) Limited ("SELL"). SELL is engaged in the exploration and production of crude oil in an area of South Sumatra, in the Republic of Indonesia ("Indonesia"), under an Enhanced Oil Recovery Contract ("EOR Contract") with Pertamina, the state-owned oil company of Indonesia. HOLL holds a 50% undivided participating interest in the EOR Contract, which is currently in production.

The Group holds a 30% interest in Hubei Golden Hong Petrochemical Company Limited, which produces and wholesale petrochemical products in The People's Republic of China ("PRC").

The Group through the acquisition of First Union Resources Co. Ltd ("First Union") holds a 70% interest in Wahana First Union (Jatirarangon) Limited ("Wahana First Union"). Wahana First Union is engaged in Technical Assistance Contact ("TAC") for development and production of natural gas in an area of West Java (Jatirarangon), Indonesia for a period of 20 years.

The Group hold a 60% interest in Tianyee Communications Corp ("Tianyee") in Taiwan. The major operating activities of Tianyee are development, production and sale of electronic components, communication equipment, and data processing equipment.

The Group, through its wholly-owned subsidiary Nevigator Holdings Limited ("Nevigator"), holds a 35% interest in Amsara Limited ("Amsara") which provides online purchase of mobile phones for the North American market and is the owner of www.clickcellular.com web site.

The Group's turnover and contribution to operating results are mainly attributable to the exploration and production of crude oil through the EOR Contract in Indonesia. Many Asia Pacific countries, including Indonesia, have experienced severe economic difficulties relating to currency devaluation, volatile stock markets and slow downs in growth or even negative economic growth. The Group's future operations may be significantly affected by the continuation of these economic conditions. For these economic conditions to improve, fiscal and monetary action needs to be undertaken by the Indonesian Government and other overseas institutions such as the International Monetary Fund. Such action is beyond the control of the Group. At the date of these financial statements, the board of directors does not believe that the above situation has had any measurable specific impact on the recoverability of the assets of the Group or the ability of the Group to meet its financial obligations as they fall due.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the measurement of short term investments, as further explained below.

Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2000. The results of subsidiaries acquired during the year are consolidated from the effective date of their acquisition. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors. Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

Associates

An associate is a company, not being a subsidiary, in which the Group has a long term interest of not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of post-acquisition results and reserves of an associate is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's investment in an associate is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less provision for permanent diminution in value deemed necessary by the directors.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Goodwill

Goodwill arising on consolidation of subsidiaries represents the excess purchase consideration paid for subsidiaries over the fair values ascribed to the net underlying assets acquired and is amortised on the unit of production method based on the oil production of subsidiaries or over a period not exceeding 20 years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

Goodwill arising on acquisition of an associate represents the excess purchase consideration paid for the associate over the fair value ascribed to the net underlying assets acquired and is directly written off against reserves in the year in which it arises.

Enhanced Oil Recovery Contract ("EOR Contract")

One of the Company's subsidiaries, SELL, has entered into a joint venture under an EOR Contract with Pertamina. SELL's financial statements incorporate the results and financial position of the joint venture based on its proportionate interest in the EOR Contract. Further details regarding the terms of the EOR Contract are set out in notes 11 and 23 to the financial statements.

Jointly controlled entity

A jointly controlled entity is a joint venture which involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The jointly controlled entity operates under a contractual arrangement between the venturers which establishes joint control over the economic activity of the entity.

The Group's share of post-acquisition results and reserves of a jointly controlled entity is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's investment in a jointly controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less provision for permanent diminution in value deemed necessary by the directors.

Oil properties

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

Depreciation, depletion and amortisation of oil properties

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation

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

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

Leasehold improvements	Over the lease terms
Machinery and equipment	20%
Furniture and fittings	20% – 50%
Computers	30%
Motor vehicles	30%

The gain or loss on disposal or retirement of fixed assets recognised in the profit and loss account is the difference between the sales proceeds and the carrying value of the relevant assets.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Inventories

Inventories are stated at the lower of average cost and net realisable value. Average cost is determined on the first-in first-out basis. Net realisable value is based on estimated selling prices less further costs expected to be incurred to completion and disposal.

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) on the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rates applicable; and

(c) investment income, when earned.

Leased assets

Leases where substantially all the rewards and risks of ownership of assets remain with the lessors are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Foreign currency transactions

Foreign currency transactions are converted into United States dollars at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in other currencies are converted at the rates ruling at the balance sheet date. All exchange differences are dealt with in the profit and loss account, except exchange differences arising from oil development activities which are capitalised to the extent that they are regarded as an adjustment to interest costs.

Cash equivalents

Cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

3. TURNOVER AND REVENUE

Turnover represents oil revenue from the sale of cost recovery oil, profit oil and uplift oil, and manufacture and sale of electronic components, communication equipment and data processing equipment.

	2000	1999
	US$'000	US$'000
An analysis of turnover and revenue is as follows:		
Turnover		
Oil and gas	12,654	13,908
Communication equipment, electronic components and data processing equipment	2,377	–
	15,031	13,908
Interest income	328	300
Other income	18	1
Total revenue	15,377	14,209

4. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging/(crediting):

	2000	1999
	US$'000	*US$'000*
Amortisation of goodwill	**725**	456
Depreciation, depletion and amortisation of oil properties	**1,239**	3,818
Depreciation:		
Owned fixed assets	**130**	140
Leased fixed assets	**–**	27
Operating lease rentals on		
land and buildings	**310**	419
Staff costs (including directors' remuneration – *note 6*)	**3,208**	2,147
Auditors' remuneration	**64**	56
Usage fee	**600**	–
Share issue expenses	**–**	981
Share consolidation expenses	**13**	–
Provision for diminution in value of interest		
in an associate – *note 15*	**8,820**	–
Loss on disposal of short term investments – *note 16*	**46**	–
Unrealised holding gains for short term investments	**(88)**	(233)
Bank interest income	**(328)**	(300)
Foreign exchange losses/(gains), net	**10**	(338)

5. FINANCE COSTS

	2000	1999
	US$'000	*US$'000*
Interest on short term loans	**60**	22
Interest under finance lease payables	**–**	4
	60	26

6. DIRECTORS' REMUNERATION

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

	Group	
	2000	1999
	US$'000	*US$'000*
Fees:		
Executive directors	**7**	–
Non-executive directors	**59**	28
Independent non-executive directors	**65**	52
	131	80
Other emoluments:		
Salaries and other benefits in kind to executive directors	**864**	718
	995	798

The remuneration of the above directors fell within the following bands:

	Group Number of directors	
	2000	1999
US$Nil to US$129,000	**7**	6
US$516,001 to US$580,000	**–**	1
US$580,001 to US$783,000	**1**	–
	8	7

NOTES TO FINANCIAL STATEMENTS

7. TEN HIGHEST PAID EMPLOYEES

The ten highest paid employees during the year included two directors (1999: three), details of whose remuneration are set out in note 6 above. The details of the remuneration of the eight remaining non-directors (1999: seven), highest paid employees are set out below.

	2000	1999
	US$'000	*US$'000*
Salaries, allowances and benefits in kind	**1,039**	1,584

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

	Group	
	Number of non-directors	
	2000	1999
US$Nil to US$129,000	**4**	3
US$129,001 to US$193,500	**4**	4
	8	7

8. TAX

	Group	
	2000	1999
	US$'000	*US$'000*
Overseas tax charge	**2,043**	1,309
Deferred tax charge – *note 24(a)*	**5**	128
Deferred tax credit – *note 24(b)*	**(68)**	–
Tax charge for the year	**1,980**	1,437

The Group's provision for tax represents overseas withholding tax, overseas income tax and deferred tax made in respect of SELL and Tianyee.

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

9. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders dealt with in the financial statements of the Company is US$14,351,000 (1999: US$4,405,000).

10. BASIC LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of US$13,371,000 (1999: US$2,368,000), and the weighted average of 613,651,420 (1999: weighted average of 424,960,568) ordinary shares in issue during the year, adjusted to reflect the consolidaton of shares during the year.

The fully diluted loss per share for the year has not been shown as all the options have been exercised during the year and the effect on basic loss per share for 1999 was anti-dilutive.

11. OIL PROPERTIES

	Group	
	2000	1999
	US$'000	*US$'000*
Cost:		
At 1 January	**32,168**	29,880
Additions	**1,756**	2,288
At 31 December	**33,924**	32,168
Accumulated depreciation, depletion and amortisation:		
At 1 January	**27,122**	23,304
Provided during the year	**1,239**	3,818
At 31 December	**28,361**	27,122
Carrying value at 31 December	**5,563**	5,046

The Group's main oil production asset is the EOR Contract in the Limau Oilfield, Indonesia held through its wholly-owned subsidiary, SELL. This contract is expiring in 2004 (subject to further extension).

The terms of the EOR Contract provide for SELL to recover, out of the proceeds of defined incremental oil produced from the field, substantially all of the costs incurred during each year, as well as a portion of any costs unrecovered from prior years. SELL's share of incremental oil production comprises cost oil, profit oil and uplift oil. Cost oil is the amount of oil that SELL is entitled to take from incremental oil production which is equivalent in value to its expenditure pursuant to the EOR Contract. Profit oil is the amount of oil after deducting cost oil and is shared as to 71.154% by Pertamina and 28.846% by SELL.

11. OIL PROPERTIES (continued)

Uplift oil represents compensation in the form of crude oil from Pertamina to SELL for funds advanced by SELL on behalf of Pertamina for the latter's 50% share of the joint venture's costs. The amount of uplift oil entitlement is 30% of the funds advanced by SELL to Pertamina (excluding operating expenses as defined in the EOR Contract, which are funded by Pertamina on a current basis) for capital and non-capital costs.

Under the terms of the EOR Contract, SELL is required to supply its share of current Indonesian domestic crude oil requirements (Domestic Market Obligation or "DMO") up to a maximum of approximately 7.2% of defined incremental oil produced, out of its profit oil entitlement. SELL receives the prevailing market price per DMO barrel during the first five calendar years of commercial production of a field and thereafter at US$0.20 per DMO barrel.

Other terms of the EOR Contract include the provision that equipment and inventories purchased under the contract become the property of Pertamina when landed in Indonesia. The joint venture continues to have use of such property and inventories until notice is given to and approval is obtained from Pertamina declaring these to be surplus or abandoned. Non-capital inventory items, as defined, are cost-recoverable when the items are landed in Indonesia. Capital inventory items are reflected as assets and are cost-recoverable at the time of issue of such inventories or when Pertamina's approval for write off is obtained.

Crude oil in Indonesia remains the property of the Republic of Indonesia and Pertamina until lifted and, therefore, no oil reserves are reported in the financial statements.

12. GOODWILL

	Group	
	2000	1999
	US$'000	*US$'000*
Cost		
At 1 January	**6,462**	6,462
Addition	**9,649**	–
At 31 December	**16,111**	6,462
Accumulated amortisation:		
At 1 January	**(4,928)**	(4,472)
Provided during the year	**(725)**	(456)
At 31 December	**(5,653)**	(4,928)
Carrying value at 31 December	**10,458**	1,534

13. FIXED ASSETS

Group

	Machinery and equipment US$'000	Leasehold improvements US$'000	Furniture, fittings and computers US$'000	Motor vehicles US$'000	Total US$'000
Cost:					
At 1 January	–	229	88	249	566
Additions	33	195	309	–	537
At 31 December	33	424	397	249	1,103
Accumulated depreciation:					
At 1 January	–	181	61	210	452
Charge for the year	1	59	31	39	130
At 31 December	1	240	92	249	582
Net book value:					
At 31 December 2000	**32**	**184**	**305**	**–**	**521**
At 31 December 1999	–	48	27	39	114

13. FIXED ASSETS (continued)

Company

	Leasehold improvements	Furniture, fittings and computers	Motor vehicles	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*
Cost:				
At 1 January	229	88	249	566
Additions	165	38	–	203
At 31 December	394	126	249	769
Accumulated depreciation:				
At 1 January	181	61	210	452
Charge for the year	59	24	39	122
At 31 December	240	85	249	574
Net book value:				
At 31 December 2000	**154**	**41**	**–**	**195**
At 31 December 1999	48	27	39	114

14. INTERESTS IN SUBSIDIARIES

	Company	
	2000	1999
	US$'000	*US$'000*
Unlisted shares, at cost	**4,993**	4,348
Amounts due from subsidiaries	**68,220**	57,693
Amounts due to a subsidiary	**(3,688)**	(4,362)
	69,525	57,679
Provisions for diminutions in values of interests in subsidiaries:		
At 1 January	**48,166**	48,166
Provided during the year – *note 15*	**8,820**	–
At 31 December	**56,986**	48,166
Carrying value at 31 December	**12,539**	9,513

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Details of the subsidiaries are as follows:

Company	**Place of incorporation**	**Place of operations**	**Issued/registered share capital**	**Percentage of issued share capital held by the Company**		**Principal activities**
				Directly	**Indirectly**	
				%	**%**	
Global Select Limited	British Virgin Islands	Indonesia	3 ordinary shares of US$1 each	100	–	Investment holding
Seaunion Energy (Limau) Limited	British Virgin Islands	Indonesia	100 ordinary shares with no par value	–	100	Operator of an enhanced oil recovery contract for hydrocarbons
Golden Lake Investments Limited	British Virgin Islands	The PRC	2 ordinary shares of US$1 each	100	–	Investment holding

NOTES TO FINANCIAL STATEMENTS

14. INTERESTS IN SUBSIDIARIES (continued)

Company	Place of incorporation	Place of operations	Issued/registered share capital	Percentage of issued share capital held by the Company Directly %	Indirectly %	Principal activities
Golden Link Investments Holdings Limited	British Virgin Islands	The PRC	1 ordinary share of US$1 each	100	–	Investment holding
Golden Hong Investments Limited	British Virgin Islands	Indonesia	2 ordinary shares of US$1 each	100	–	Investment holding
Mainline Resources (O.S.), Ltd.	United States of America	Indonesia	200 ordinary shares of US$10 each	100	–	Dormant
Cheerson Holding Limited	British Virgin Islands	Hong Kong	1 ordinary share of US$1 each	100	–	Dormant
Golden Sphere Investments Limited	British Virgin Islands	–	1 ordinary share of US$1 each	100	–	Dormant
Golden Rank Limited	British Virgin Islands	–	2 ordinary shares of US$1 each	100	–	Dormant
Nevigator Holdings Limited	British Virgin Islands	Hong Kong	1 ordinary share of US$1 each	100	–	Investment holding
Tianyee Communications Corp. *	Taiwan	Taiwan	1,500,000 ordinary shares of NT$10 each	60	–	Development, production and sale of electronic components, communications equipment and data processing equipment

14. INTERESTS IN SUBSIDIARIES (continued)

Company	Place of incorporation	Place of operations	Issued/registered share capital	Percentage of issued share capital held by the Company Directly %	Indirectly %	Principal activities
First Union Resources Co. Limited	British Virgin Islands	Indonesia	1 ordinary share of US$1 each	–	100	Investment holding
Wahana First Union (Jatirarangon) Limited	British Virgin Islands	Indonesia	100 ordinary shares of US$1 each	–	70	Development and production of natural gas

* *not audited by Johnny Chan & Co. Limited*

15. INTERESTS IN ASSOCIATES

	Group 2000 US$'000	1999 US$'000
Share of net assets	**2,244**	2,244

Details of the Group's associates are as follows:

Name	Registered capital	Place of incorporation/ operation	Percentage of equity attributable to the Group	Principal activities
Hubei Golden Hong Petrochemical Company Limited ("Hubei Golden Hong")*	HK$38,000,000	The PRC	30%	Manufacture and wholesale of petrochemical products
Amsara Limited ("Amsara")	US$100	Canada	35%	E-commerce

* *not audited by Johnny Chan & Co. Limited*

15. INTERESTS IN ASSOCIATES (continued)

The Group's investment in Hubei Golden Hong, through its subsidiary Golden Link Investments Holdings Limited, was registered as a Sino-foreign equity joint venture company in the PRC with a term of 20 years from 11 August 1998. The registered capital of Hubei Golden Hong is HK$38 million and its principal activity consists of the manufacture and wholesale of petrochemical products in the PRC. The Group appointed three of the seven members of the board of directors of Hubei Golden Hong. In the opinion of the directors, the Group is in a position to exercise significant influence over the management and daily operations of Hubei Golden Hong and, accordingly, the results thereof have been equity accounted for.

Under the joint venture agreement, the PRC joint venture party has guaranteed an annual profit for Hubei Golden Hong of not less than HK$20 million (approximately US$2.6 million) during the term of Hubei Golden Hong. Since 1999, Hubei Golden Hong experienced a shortage of crude oil supply as a result of industry policies imposed by the PRC Government. The PRC joint venture party has claimed that this situation is outside their control and, in these circumstances, under the terms of the joint venture agreement the guaranteed profit is not payable. As such, no guaranteed profit has been accounted for in that year and in the current year.

The crude supply shortages noted above caused the refinery to operate substantially below its capacity. The directors are of the opinion that there are crude supply and refined product market force changes underway in the PRC that will ultimately enable the refinery to access adequate crude supplies, and thereby reduce its average per barrel fixed operating cost. Although the timing of these changes is difficult to predict, the directors are of the opinion that the current carrying value of the interest in the associate is appropriate.

A full provision of US$8,820,000 for diminution in value of interest in the Group's investment in Amsara, through its subsidiary Nevigator, has been made. Amsara owns and operates a retail web site, registered as www.clickcellular.com to provide on-line purchase of mobile phones, mobile phones accessories and paging plans for the North American market. Due to the worldwide downturn in the internet business, the prospect of online retailing is very uncertain, full provision was made for prudence purpose.

16. SHORT TERM INVESTMENTS

	Group		Company	
	2000	1999	**2000**	1999
	US$'000	*US$'000*	***US$'000***	*US$'000*
Listed shares, at market value:				
Hong Kong	**2**	27	**2**	27
Elsewhere	**403**	621	**350**	621
Market value of listed shares as at 31 December	**405**	648	**352**	648

17. TRADE RECEIVABLES

	Group	
	2000	1999
	US$'000	*US$'000*
Receivable from Pertamina	**5,393**	6,530
Receivable from others	**2,383**	–
	7,776	6,530

The receivable from Pertamina represents a trade receivable balance arising in the normal course of business and represents the amount of crude oil sale receivable and costs not yet recovered out of Pertamina's share of incremental crude oil production. The balance is unsecured, non-interest bearing and with 50 days credit term.

The ageing analysis of the trade receivables is as follows:

	Group	
	2000	1999
	US$'000	*US$'000*
0 – 30 days	**7,612**	6,268
31 – 60 days	**145**	242
61 – 90 days	**19**	20
	7,776	6,530

18. INVENTORIES

	Group	
	2000	1999
	US$'000	*US$'000*
Production supplies and materials	**1,611**	769

19. LOAN RECEIVABLE

	Group	
	2000	1999
	US$'000	*US$'000*
Loan receivable from Maxvale Investments Limited	**6,967**	6,967
Provision for loss	**(6,966)**	(6,966)
	1	1

The loan to Maxvale Investments Limited was fully provided against in 1996. During the year, the directors continued to attempt to recover the loan but without success and have no further significant developments on which to report. However, the Company will continue to review the position from time to time and re-open legal proceedings if considered appropriate.

20. INTEREST IN A JOINTLY CONTROLLED ENTITY

	Group	
	2000	1999
	US$'000	*US$'000*
Unlisted investment, at cost	**3,064**	3,064
Provision for permanent diminution in value	**(3,063)**	(3,063)
	1	1

In 1998 a subsidiary of the Company, Golden Lake Investments Limited ("Golden Lake"), entered into an agreement with Chongqing He-Chang Trading Company ("He-Chang") to form a Sino-foreign equity joint venture in the PRC, Chongqing Jin Wei Li Petrochemical Company Limited ("Jin Wei Li") with a term of 25 years from the date of approval from the PRC's relevant authorities. The registered capital of Jin Wei Li is US$12 million. The principal activity of Jin Wei Li is the wholesale and retail distribution of petrochemical products and related business. As at 31 December 1998, Golden Lake had contributed US$3 million which represented 50% of its contribution under the joint venture agreement.

On 28 April 1999, the directors of the Company announced their intention to propose the dissolution of Jin Wei Li as it had not proceeded to make the acquisition of oil storage facilities and petrol stations which should have been carried out in 1998 by He-Chang in accordance with the joint venture agreement. The directors of the Company effectively fully provided against the investment in Jin Wei Li as at 31 December 1998 on the grounds that it may be difficult to realise the investment cost. During the year, the directors continued to attempt recovery of the amount invested, but without success, and have no further significant developments on which to report.

21. TRADE PAYABLES AND NOTES PAYABLES

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

	Group	
	2000	1999
	US$'000	*US$'000*
0 – 30 days	**1,701**	1,262
31 – 60 days	**415**	315
61 – 90 days	**64**	–
	2,180	1,577

22. DUE TO A DIRECTOR

The amount due to a director is interest-free and without fixed term of repayment.

23. DEFERRED REVENUE

Deferred revenue represents the difference between depreciation, depletion/amortisation and operating costs together with general and administrative costs incurred and the amounts recovered under the EOR Contract since inception.

	Group	
	2000	1999
	US$'000	*US$'000*
Total costs incurred:		
At 1 January	**76,700**	65,497
Additional costs incurred	**7,734**	11,203
At 31 December	**84,434**	76,700
Total costs recovered:		
At 1 January	**80,057**	70,140
Costs recovered during the year	**7,564**	9,917
At 31 December	**87,621**	80,057
Deferred revenue at 31 December	**3,187**	3,357

As explained in note 11 under the terms of the EOR Contract, SELL is entitled to recover costs by way of an allocation of incremental oil production, excluding the cost of bonuses paid to Pertamina, in addition to profit oil and uplift oil.

Deferred revenue arises from the recovery of costs under the EOR Contract in excess of costs recognised for accounting purposes. Such revenue will be recognised as revenue in future periods at the time the related costs are recognised for accounting purposes.

NOTES TO FINANCIAL STATEMENTS

24. DEFERRED TAX

(a) Deferred tax represents the estimated potential tax liability in respect of the operations of SELL arising mainly in relation to the deferred revenue and depreciation, depletion and amortisation:

	Group	
	2000	1999
	US$'000	*US$'000*
At 1 January	**553**	425
Charge for the year – *note 8*	**5**	128
At 31 December	**558**	553

(b) Deferred tax assets mainly represent unrealised tax losses carried forward of an overseas subsidiary.

25. SHARE CAPITAL

	Group and Company	
	2000	1999
	US$'000	*US$'000*
Authorised:		
1,400,000,000 (1999: 7,000,000,000) ordinary shares of US$0.1 (1999: US$0.01) each	**140,000**	70,000
Issued and fully paid:		
672,191,740 (1999: 4,911,123,816) ordinary shares of US$0.1 (1999: US$0.01) each	**67,219**	49,111

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

	Number of ordinary shares	Amount
		US$'000
At 1 January 2000	**4,911,123,816**	49,111
Allotment of shares	**1,810,793,590**	18,108
Shares consolidated	**(6,049,725,666)**	–
At 31 December 2000	**672,191,740**	67,219

Pursuant to an ordinary resolution passed on 7 June 2000, the authorised share capital of the Company was increased from US$70,000,000 to US$140,000,000 by the creation of 7,000,000,000 additional ordinary shares of US$0.01 each, ranking pari passu in all respects with the existing shares of the Company.

25. SHARE CAPITAL (continued)

On 21 January 2000, 482,243,590 ordinary shares of US$0.01 each were issued to complete the acquisition of First Union.

On 27 May 2000 and 30 May 2000, 131,550,000, 82,000,000 and 37,000,000 ordinary shares of US$0.01 each were respectively alloted at par to Ms. Chelsea Ho, Mr. John Lai Chiu Lai and certain employees pursuant to exercise of share options.

On 5 June 2000, 196,000,000 ordinary shares of US$0.01 each were alloted to seven independent third parties at par. The price of the placement represented a 11.43% premium to the closing price of the ordinary shares of HK$0.07 on the Stock Exchange on 16 May 2000, price fixing date of the placement. Besides, 882,000,000 ordinary shares of US$0.01 each were alloted at par to pay the consideration related to the acquisition of 35% ownership in Amsara through its wholly-owned subsidiary, Nevigator.

Pursuant to an ordinary resolution passed on 20 October 2000, the 14,000,000,000 ordinary shares of US$0.01 each in the share capital of the Company was consolidated into 1,400,000,000 ordinary shares of US$0.10 each by consolidating every ten issued and unissued ordinary shares of US$0.01 of the Company into one ordinary share of US$0.10 each.

Subsequent to the balance sheet date on 12 March 2001, the Company announced the proposal, subject to inter alias, the approval by shareholders of the Company at an extraordinary general meeting to be held on 18 April 2001 and confirmation by the High Court of Hong Kong Special Administrative Region, to reduce share capital by cancelling paid up capital to the extent of US$0.09 per ordinary share in respect of the 672,191,740 ordinary shares in issue; to subdivide each of the 727,808,260 unissued shares of US$0.10 each into 10 shares of US$0.01 each; to apply the credit of approximately US$60,497,000 resulting from the reduction in eliminating the accumulated losses of approximately US$53,747,000 of the Company as at 31 December 2000 and to transfer the surplus to a special capital reserve account of the Company. The authorised share capital of the Company will be restored to US$140,000,000 by the creation of requisite number of new ordinary shares of US$0.01 each.

26. SHARE OPTION SCHEME

Pursuant to the share option scheme of the Company approved on 23 December 1998, which replaced the former share option scheme adopted since November 1989, the board of directors of the Company is authorised to grant options to any executive director or full time employee of the Company or any of its subsidiaries, to subscribe for shares in the Company at a price not less than the greater of (a) 80% of the average closing price of the Company's shares on the five trading days immediately preceding the offer of the options; and (b) the nominal value of the Company's share. The number of shares issued or which may be issuable under the scheme cannot exceed 10% of the issued share capital of the Company from time to time.

On 24 December 1999, the board of directors granted 60,000,000, 40,000,000 and 19,000,000 options respectively to the two executive directors, Ms. Chelsea Ho, Mr. John Lai Chiu Lai and certain employees, at nil cash consideration, to subscribe for shares in the Company at a price of HK$0.078 per share.

During the year, the board of directors further granted 71,550,000, 42,000,000 and 18,000,000 options, respectively to the two executive directors, Ms. Chelsea Ho and Mr. John Lai Chiu Lai, and certain employees, at nil cash consideration, to subscribe for shares in the Company at a price of HK$0.078 per share.

NOTES TO FINANCIAL STATEMENTS

26. SHARE OPTION SCHEME (continued)

All the options granted to the directors and employees were exercised during the year, resulting in the issue of 131,550,000, 82,000,000 and 37,000,000 ordinary shares to Ms. Chelsea Ho, Mr. John Lai Chiu Lai and certain employees respectively.

27. RESERVES

Group

	Share premium	Capital reserve	Accumulated losses	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*
At 1 January 2000	289	(2,652)	(30,163)	(32,526)
Loss for the year	–	–	(13,371)	(13,371)
At 31 December 2000	289	(2,652)	(43,534)	(45,897)
Reserves retained by:				
Company and subsidiaries	289	(2,652)	(43,135)	(45,498)
Associates	–	–	(399)	(399)
	289	(2,652)	(43,534)	(45,897)

Company

	Share premium	Accumulated losses	Total
	US$'000	*US$'000*	*US$'000*
At 1 January 2000	289	(39,396)	(39,107)
Loss for the year	–	(14,351)	(14,351)
At 31 December 2000	289	(53,747)	(53,458)

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

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

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss from operating activities to net cash inflow from operating activities

	Group	
	2000	1999
	US$'000	*US$'000*
Loss from operating activities	**(11,460)**	(740)
Unrealised holding gains for short term investments	**(88)**	(233)
Interest income	**(328)**	(620)
Provision for diminution in value of interest in an associate	**8,820**	–
Loss on disposal of short term investments	**46**	–
Share issue expenses	**–**	981
Share consolidation expenses	**13**	–
Depreciation of fixed assets	**130**	167
Amortisation of goodwill	**725**	456
Depreciation, depletion and amortisation of oil properties	**1,239**	3,818
Deferred costs incurred, net	**(170)**	(1,286)
Increase in trade receivables	**(1,246)**	(48)
(Increase)/decrease in inventories	**(842)**	286
(Increase)/decrease in prepayments, deposits and other receivables	**(505)**	4
Increase in trade payables and notes payable	**603**	765
Increase in other payables and accrued expenses	**1,899**	647
Increase in short term loans	**1,306**	–
Decrease in amount due to joint venture partner	**–**	(518)
Increase in amount due to a director	**625**	19
Net cash inflow from operating activities	**767**	3,698

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28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year

	Share capital and premium US$'000	Finance lease obligations US$'000	Minority interests US$'000	Total US$'000
Balance at 31 December 1998	42,113	30	–	42,143
Proceeds from issue of rights shares	5,975	–	–	5,975
Share allotment for acquisition of interest in an associate	1,312	–	–	1,312
Payments under a finance lease	–	(30)	–	(30)
Balance at 31 December 1999	49,400	–	–	49,400
Capital contribution from minority shareholders	–	–	1,760	1,760
Share allotment for acquisition of interests in a subsidiary – *note 28(c)*	4,822	–	–	4,822
Share allotment for acquisition of interest in an associate – *note 28(c)*	8,820	–	–	8,820
Share of loss by minority shareholders	–	–	(129)	(129)
Issue of shares for cash on allotment and exercise of options	4,466	–	–	4,466
Balance at 31 December 2000	**67,508**	**–**	**1,631**	**69,139**

(c) Major non-cash transaction

During the year, a total of 482,243,590 and 882,000,000 ordinary shares of US$0.01 each were issued respectively at par value to independent third parties as consideration for the respective acquisition of interest in a subsidiary and in an associate.

29. COMMITMENTS

	Group	
	2000	1999
	US$'000	*US$'000*
Capital commitments in respect of the balance of the consideration due in respect of:		
Capital investment in a jointly controlled entity	**–**	3,000
Capital investment in		
– Wahana First Union	**3,000**	5,122
– Tianyee	**3,692**	–
	6,692	8,122

	Group		Company	
	2000	1999	**2000**	1999
	US$'000	*US$'000*	***US$'000***	*US$'000*
Annual commitments payable in the following year under non-cancellable operating leases on land and buildings expiring:				
Within one year	**50**	104	**50**	104
In the second to fifth years, inclusive	**540**	198	**198**	125
	590	302	**248**	229

30. PLEDGE OF ASSETS

No asset has been pledged by the Group as at 31 December 2000 and at 31 December 1999.

31. RELATED PARTY TRANSACTION

During the year, the Group entered into the following transaction with a director.

	Nature of transaction	2000	1999
		US$'000	*US$'000*
Ms. Chelsea Ho	Interest paid by the Group	**60**	–

32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 11 April 2001.