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

OVERVIEW

The Company's principal business is to develop, explore and produce crude oil in South Sumatra, Indonesia under an Enhanced Oil Recovery Contract ("EOR Contract") with Pertamina, the state-owned oil company in Indonesia. Pertamina and the Company each holds a 50% undivided participating interest in the EOR Contract.

The Company's revenue under the EOR Contract is derived from three sources: (1) Sale of cost recovery oil. Pursuant to the EOR Contract, the Company is entitled 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 prior years; (2) Sale of profit oil. Profit oil is the amount of oil after deducting cost oil shared at 71.154% by Pertamina and 28.846% by the Company; and (3) Sale of uplift oil. Uplift oil represents compensation from Pertamina to the Company in the form of crude oil for funds advanced by the Company on behalf of Pertamina for its 50% share of the joint venture's costs. All crude oil the Company is entitled to receive under the EOR Contract is sold to Pertamina.

For the year ended 31 December 2001, approximately 81% of the Company's revenues were produced by its oil production operations, and the remaining 19% of the Company's revenues was from its telecommunications production operations (mainly DSL-based broadband access and networking devices). As of 31 December 2001, the telecommunications production operations of the Company were temporarily shut down and most of its employees were laid off until the world economy turns around and the market condition improves.

RESULTS OF OPERATIONS

An analysis of the Group's turnover and contribution to operating loss for the year by principal activities and markets is as follows:

	Turnover	Operating loss
	US$'000	*US$'000*
By principal activities:		
Oil and gas	10,945	(8,955)
Communication equipment, electric components and data processing equipment	2,410	(2,468)
E-business	–	–
	13,355	(11,423)
By principal markets:		
Indonesia	10,945	(8,955)
North America	2,410	(2,468)
	13,355	(11,423)

Revenue

For the year ended 31 December 2001, the total revenue of the Company decreased 11.3% to US$13.36 million, compared with US$15.03 million of the previous year. Lower revenues primarily contributed to US$1.71 million of the decline in oil revenue. The average oil production of the Company decreased slightly 2.7%, from 6,168 barrel per day in 2000 to 6,000 barrel per day in 2001. The slightly decrease in oil production is a natural result due to gradually rising water level in oil field. However, the revenue from sales of crude oil declined by 13.5%, which is a result of the significant drop in oil price worldwide. The average crude oil price in world market was US$18.15 per barrel in 2001 compared to US$23.82 per barrel in 2000.

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In 2001 the revenue from sales of the Company's telecommunications equipment, electronic components and date processing equipment to the United States increased 1.3% to US$2.41 million. The revenue amount was far below the Company's expectation. Other revenues in 2001 were US$268,000 compared to US$346,000 in 2000. Other revenue consists primarily of interest income and gain on trading of offshore listed shares.

For the year ended 31 December 2001, 80.9% of the Company's revenues were derived from sales of crude oil to Permatina, Indonesia, under the EOR Contract, which will expire in 2004. The expiration of EOR Contract could have material adverse effect on the financial position and results of operations of the Company. Since 1999, the Company has been contacted with Pertamina and the Indonesian governmental agencies with the possibility of renewal of the EOR Contract. Due to the political uncertainty and the impending passing of the new Oil & Gas Bill of Indonesia, no progress has been made in the past two years. The Company is currently actively taking steps to renew EOR Contract for another ten years. However, there is no assurance that the EOR Contract will be renewed. The loss of the contract could have material adverse impacts on the Company's business, operating results, and financial condition.

Operating Expenses

Operating expenses of the Company for the year ended December 31, 2001 were US$15.94 million, a decrease of US$1.58 million (8.9%) from the total expenses of US$17.52 million in 2000. The significant portion (85.4%, US$13.62 million) of the Company's operating expenses in 2001 was provisions and depreciation (provisions for loss on disposal of certain assets of a subsidiary and for diminution in value of interests in a total of US$10 million, depreciation and amortization of US$2.69 million, written off of slow-moving inventories and bad debts US$0.93 million). Other than those provisions, the Company's general and administrative expenses actually decreased by 61.2%, from US$5.98 million in 2000 to US$2.32 million in 2001. The decrease was primarily the results of cutting expenses in consulting fees, directors' remuneration, and legal fees.

Taxes

The Company recorded US$1.56 million income tax provision during 2001 as compared to US$1.98 million in 2000. The Company's tax provision were largely overseas withholding tax, income tax and deferred tax made by two subsidiaries of the Company. No provision for Hong Kong profits tax have been made as, in the opinion of the directors, the Company did not have any assessable profits in Hong Kong for the year.

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

Net Loss

The Company's 2001 net loss of US$14.93 million is compared to the US$13.37 million of net loss in 2000. As discussed in the operating expenses paragraphs above, the Company's net loss was mainly attributed to the US$13.62 million of provision for diminution in value of interests of its subsidiaries and associates, depreciation and amortization, written-off of slow-moving inventories and bad debts.

Liquidity and Capital Resources

For the year ended 31 December 2001, the Company has funded its operations mostly through operating activities of the Company, and at lesser extent, through issuance of HK$10 million of 3% redeemable convertible debentures. At 31 December 2001 the Company had cash balance of US$1.91 million compared to US$6.32 million at the end of the year 2000.

The Company's operating activities used US$0.40 million of cash for the year ended 31 December 2001 compared to providing net cash of $0.77 million for the year ended 31 December 2001. Uses of cash during the year ended 31 December 2001 were principally for provision for diminution in value of interest in Jatirarangon Gas Field, changes in accounts receivable, inventory and accounts payable, and partially offset by depreciation and amortization, and accrued liabilities.

During the year ended 31 December 2001, the Company's investing activities resulted in net cash outflow of US$2.0 million, which was largely used for the acquisition of oil properties and investing in Tianyee Communications Corp.

The Company's financing activities used net cash of US$0.46 million for the year ended 31 December 2001, of which US$1.74 million was used for repayment to minority shareholders of a subsidiary of the Company, and off set by issuance of HK$10 million 3% redeemable convertible debentures. The reason of issuing HK$10 million of convertible debentures was to make investment to a subsidiary of the Company and pay back a portion of the Company's borrowing from a director. In December 2001, HK$2 million of the convertible debenture was converted into 6,451,612 shares of the Company's ordinary shares at HK$0.30 per share. In January 2002 additional HK$2.1 million was converted into 6,953,642 shares of the Company's ordinary shares at HK$0.30 per share.

The Company has no contingent liabilities.

The Company believes that its cash flows from operations are adequate to meet the requirements of operating its business. However, future cash flows are subject to a number of variables, including our level of production of oil and oil prices, and we cannot assure that operations and other capital resources will provide cash in sufficient amounts to maintain planned levels of capital expenditures.

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

Reduction of Capital

The Company's shares have been traded below the par value of US$0.10 since August 2000 on the Hong Kong Stock Exchange. Under the Companies Ordinance, the Company may not issue shares at a price lower than its par value unless the issuance is authorized by a resolution of the Company's shareholders and at the same time is approved by the Court. In order to facilitate the raising of capital, the Company proposed to reduce the par value of the Company's ordinary shares from US$0.10 per share to US$0.01 per share. In connection with the reduction of the par value, every 10 existing shares, issued and unissued, of the Company's shares was consolidated into one new consolidated share, and each unissued consolidated shares was then subdivided to 100 new shares. The Company's proposed capital reduction was approved by the shareholders of the Company and subsequently confirmed by the High Court of Hong Kong.

Trade Receivables

As of 31 December 2001, trade receivables of the Company was US$7.83 million, of which 74.7% (US$5.83 million) was from Pertamina, the state-owned oil company in Indonesia, and 25.3% (US$1.99 million) from Arescom Inc. of California, USA, a customer of Tianyee Communications Corp. 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. As shown in Note 17 of Notes to Financial Statements, 50.8% of the receivables were in the category of 0-30 days, 20.0% was in 30-60 days, and 29.2% was over 90 days. The Company is taking measures to demand the payments from the corporate customer in the United States.

Exposure to Fluctuation in Exchange Rates

Due to the nature of the Company's principal business, all sales and purchases of the Company is contracted in the US dollar. In the opinion of directors, the fluctuation in exchange rates is not expected to have a material effect on the Company's financial position, results of operations, or cash flows.

INDEPENDENT AUDITORS

Johnny Chan & Co. Limited has been the Company's independent auditors since 2000, and the Company has no disagreements with the findings of its accountants.

ON BEHALF OF THE BOARD

Liu Zhen
Managing Director

Hong Kong, 3 April 2002