Notes to the Financial Statements

For the year ended 31 December 2002

1. CORPORATE INFORMATION

Sen Hong Resources Holdings Limited (the "Company") is incorporated in Hong Kong with limited liabilities. Its shares are listed on the Stock Exchange of Hong Kong Limited. The Company's registered office is Suite 2602, Cheung Kong Centre, 2 Queen's Road Central, Hong Kong.

The principal activities of the Company are investment holding, and through its subsidiaries, the Company develops, explores and produces crude oil in South Sumatra, Indonesia, and provides electronics manufacturing services in the United Kingdom.

In 1994 the Company purchased Global Select Limited, a British Virgin Island corporation, which holds 100% of the equity interest in Husky Oil (Limau) Limited from Husky Oil International Corporation, a Canadian corporation. Effective from 1 April 1997, the name of "Husky Oil (Limau) Limited" was changed to Seaunion Energy (Liamau) Limited ("Seaunion"). Seaunion is engaged in the business of exploration and production of crude oil in South Sumatra, Indonesia, under an Enhanced Oil Recovery Contract ("EOR Contract") with PERTAMINA, a state-owned oil company of Indonesia. Seaunion holds 50% undivided participating interest in the EOR Contract. All crude oil produced by Seaunion is sold to PERTAMINA. For the year ended 31 December 2002, approximately 58% of the Company's turnover was attributable to the Company's crude oil operations.

In April 2002, Great Admirer Limited, a wholly-owned subsidiary of the Company, acquired 100% of the share capital of Aiwa Wales Manufacturing Ltd., an electronics manufacturing services provider in South Wales, United Kingdom, from Aiwa Co. of Japan. Following the acquisition, the name of "Aiwa Wales Manufacturing Limited" was changed to "Axiom Manufacturing Services Limited" ("Axiom").

Axiom provides comprehensive electronics manufacturing services, from initial product design to volume production, direct order fulfillment and aftermarket support, to original equipment manufacturers (OEMs) in several segments of the electronics products and technology markets. Axiom's products include networking equipment such as modems and data capture; telecommunications equipment; consumer products such as high-end audio; electronic sub-systems for the medical, test and security industries; and other electronics equipment and products.

Axiom's manufacturing services are primarily provided on a turnkey basis, whereby Axiom purchases customer-specified components from its suppliers, assemble the components on printed circuit boards, perform post–production testing and provides its customers with production process and testing documentation. Axiom also provides manufacturing services on a consignment basis, whereby Axiom utilizes components supplied by the customer to provide assembly and post-production testing services. For the year ended 31 December 2002, approximately 42% of the Company's turnover was derived from to the Company's electronics manufacturing services.

Notes to the Financial Statements

For the year ended 31 December 2002

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 ("SSAPs"), 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 and land and building, as further explained below.

In the current year, The Group adopted the following SSAPs issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 34	:	Employee Benefits

The adoption of the above new or revised accounting standards has no material effect on the financial statements other than presentation changes.

Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2002. The results of the subsidiaries acquired or disposed of during the year are consolidated from or to the effective date of acquisition or disposal, respectively. 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 impairments in values other than those considered to be temporary in nature, 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.

Notes to the Financial Statements

For the year ended 31 December 2002

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Associates *(Continued)*

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 any additional provisions for impairments in values, other than those considered to be temporary in nature, deemed necessary by the directors.

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 impairment 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.

Related parties may be individuals or corporate entities.

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.

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.

Notes to the Financial Statements

For the year ended 31 December 2002

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

***Goodwill** (Continued)*

Negative goodwill arising on acquisition of controlled subsidiary represents the excess of the group's share of the fair value of the net assets acquired over the cost of the acquisition. Negative goodwill is presented in the same balance sheet classifications as goodwill. To the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which do not represent identifiable liabilities, that portion of negative goodwill is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those assets is recognized in the profit and loss account immediately.

Enhanced Oil Recovery Contract ("EOR Contract")

One of the Company's subsidiaries, Seaunion Energy (Liman) Limited ("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.

Inventories

Inventories are stated at the lower of average cost and net realisable value after allowance for obsolete or slow-moving items. Average cost is determined on the first-in first-out basis. Net realisable value is based on estimated selling prices less any estimated 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. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amount, are recognised in the profit and loss account as they arise.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

Land and buildings

Land and buildings held for own use are stated in the balance sheet at their revalued amount, being their open market value at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed by qualified valuers with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date.

Fixed assets and depreciation

Fixed assets other than land and building are stated at cost less accumulated depreciation and impairment loss, if applicable. 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.

Notes to the Financial Statements

For the year ended 31 December 2002

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fixed assets and depreciation *(Continued)*

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:

Freehold land	Nil
Building	Over 50 years
Leasehold improvements	Over the lease terms
Machinery and equipment	14% – 20%
Furniture and fittings	14% – 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.

Assets under leases

(i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities.

The finance charges are charged to profit and loss account over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessors are accounted for as operating leases. Payments made under operating leases net of any incentives received from the lessors are charged to the profit and loss account on the straight-line basis over the lease periods.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of assets

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- oil properties;
- fixed assets (other than properties carried at revalued amounts);
- interests in subsidiaries, interest in associates, jointly controlled entity; and
- positive goodwill.

If any such indication exists, the recoverable amount of the asset is estimated and impairment losses, if any, are recognised in the profit and loss account except where the asset is carried at valuation, and the impairment loss does not exceed the revaluation surplus arising on earlier period for that same asset, in which case it is treated as a revaluation decrease.

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;

(c) investment income, when earned;

(d) rental income, on a straight–line basis; and

(e) government grant, when conditions complied and received.

Notes to the Financial Statements

For the year ended 31 December 2002

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Deferred tax

Deferred tax is accounted for at the current tax rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

Convertible debentures

Convertible debentures are separately disclosed and regarded as liabilities unless conversion actually occurs. The finance costs in respect of the convertible debentures is calculated and recognised in the profit and loss account so as to produce a constant periodic rate of charge on the remaining balances of the convertible debentures for each accounting period.

The costs incurred in connection with the issue of convertible debentures are charged to profit and loss account when the costs are incurred. If any of the debentures are redeemed prior to the redemption date, any difference between the consideration paid and the nominal value of the issue of the convertible debentures is recognised in the profit and loss account.

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.

The balance sheet of the Company's subsidiaries is translated into United States dollars at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences arising, if any, are dealt with as a movement in reserve. Such translation differences are recognised as income or expenses in the period in which the operation is disposed of.

In prior periods, the profit and loss account of subsidiaries was translated at closing rate. This is a change in accounting policy, however, the translation of the profit and loss account of subsidiaries in prior periods has not been restated as the effect of this change is not material to the current and prior periods.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Segmental reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments are presented as the primary reporting format and geographical as the secondary reporting format.

Segment revenues, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenues, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on a similar terms as those available to the external parties. Unallocated costs represent corporate expenses.

In respect of geographical segment reporting, revenues are based on the country in which the customers are located. Total assets and capital expenditure are where the assets are located.

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.

Notes to the Financial Statements

For the year ended 31 December 2002

3. TURNOVER, REVENUES AND SEGMENT INFORMATION

Turnover represents oil revenue from the sale of cost recovery oil, profit oil and uplift oil, and assembly of electronic components for the contract electronics manufacturer.

	2002 US$'000	2001 US$'000
An analysis of the group's turnover and revenues is as follows:		
Turnover		
Oil and gas	**14,775**	10,945
Assembly of electronic components	**10,464**	2,410
	25,239	13,355
Other revenues		
Interest income	**40**	46
Rental income	**132**	–
Bad debts written back	**96**	–
Government grant	**283**	–
Gain on trading of offshore listed shares	**16**	215
Release of negative goodwill	**706**	–
Other income	**90**	7
	1,363	268
Total revenues	**26,602**	13,623

Notes to the Financial Statements

For the year ended 31 December 2002

3. TURNOVER, REVENUES AND SEGMENT INFORMATION *(Continued)*

Primary reporting format – business segment

	Oil and gas		Contract electronic manufacturing		Unallocated		Total	
	31.12.2002	31.12.2001	**31.12.2002**	31.12.2001	**31.12.2002**	31.12.2001	**31.12.2002**	31.12.2001
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
Turnover	**14,775**	10,945	**10,464**	2,411	**–**	–	**25,239**	13,356
Other income	**25**	40	**305**	219	**750**	8	**1,080**	267
Government grant	**–**	–	**283**	–	**–**	–	**283**	–
Total	**14,800**	10,985	**11,052**	2,630	**750**	8	**26,602**	13,623
Segment results	**2,779**	2,867	**(2,655)**	(2,468)			**124**	399
Unallocated income and expenses							**(4,999)**	(11,822)
Loss from operating activities							**(4,875)**	(11,423)
Finance costs	**–**	(63)	**(20)**	–	**(38)**	–	**(58)**	(63)
Loss arising on increase in equity interest in a subsidiary							**–**	(72)
Share of loss of an associate							**–**	(1,935)
Taxation	**(760)**	(1,492)	**–**	(68)	**–**	–	**(760)**	(1,559)
Minority interests							**–**	125
Net loss attributable to shareholders							**(5,693)**	(14,927)

Notes to the Financial Statements

For the year ended 31 December 2002

3. TURNOVER, REVENUES AND SEGMENT INFORMATION *(Continued)*

Primary reporting format – business segments *(Continued)*

	Oil and gas		Contract electronic manufacturing		Unallocated		Total	
	31.12.2002	31.12.2001	**31.12.2002**	31.12.2001	**31.12.2002**	31.12.2001	**31.12.2002**	31.12.2001
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
Depreciation and amortisation	**4,257**	2,574	**(141)**	41	**76**	81	**4,192**	2,696
Significant non-cash expenses	**–**	–	**3,288**	1,466	**2,607**	9,827	**5,895**	11,293
Segment assets	**16,184**	15,199	**17,130**	1,717			**33,314**	16,916
Investment in associates		309						309
Interest in a jointly controlled entity		1						1
Unallocated assets							**2,070**	317
Total assets							**35,384**	17,543
Segment liabilities	**(7,510)**	(7,237)	**(16,455)**	(1,017)			**(23,965)**	(8,254)
Unallocated liabilities							**(1,954)**	(2,622)
Total liabilities							**(25,919)**	(10,876)
Capital expenditure								
Additions	**4,029**	2,328	**689**	–	**16**	–	**4,734**	2,327
Arising on acquisition of a subsidiary	**–**	–	**7,440**	–	**–**	–	**7,440**	–

Notes to the Financial Statements

For the year ended 31 December 2002

3. TURNOVER, REVENUES AND SEGMENT INFORMATION *(Continued)*

Secondary reporting format – geographical segments

	Turnover 31.12.2002 US$'000	**Segment results 31.12.2002 US$'000**	**Total assets 31.12.2002 US$'000**	**Capital expenditure 31.12.2002 US$'000**
Indonesia	**14,775**	**2,779**	**16,184**	**4,029**
United Kingdom	**10,464**	**(2,655)**	**17,130**	**689**
Hong Kong	**–**	**–**	**2,070**	**16**
	25,239	**124**	**35,384**	**4,734**
Unallocated income and expenses		**(4,999)**		
		(4,875)		

	Turnover 31.12.2001 US$'000	Segment results 31.12.2001 US$'000	Total assets 31.12.2001 US$'000	Capital expenditure 31.12.2001 US$'000
Indonesia	10,945	2,867	15,199	2,327
North America	2,410	(2,468)	–	–
Taiwan	–	–	1,717	–
Hong Kong	–	–	317	–
	13,355	399	17,233	2,327
Unallocated income and expenses		(11,822)		
		(11,423)		
Investment in associates			309	
Interest in a jointly controlled entity			1	
			17,543	

Notes to the Financial Statements

For the year ended 31 December 2002

4. LOSS FROM OPERATING ACTIVITIES

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

	2002 US$'000	2001 US$'000
Amortisation of positive goodwill	**373**	309
Bad debts written off	**980**	487
Depreciation, depletion and amortisation of oil properties	**3,883**	2,264
Depreciation:		
– owned fixed assets	**620**	122
– leased fixed assets	**21**	–
Operating lease rentals on		
– land and buildings	**343**	382
– plant and machinery	**62**	–
Staff costs (including directors' remuneration – *Note 6*)	**4,846**	2,549
Auditors' remuneration	**63**	80
Loss on written off/disposal of subsidiaries	**3,517**	9,065
Advances to a subsidiary written off	**346**	710
Loss on disposal of an associate	**222**	–
Provision for impairment in value of interest in an associate – *Note 15*	**–**	33
(Gain)/loss on disposal of fixed assets	**(3)**	199
Gain on disposal of short term investments – *Note 16*	**(16)**	(3)
Unrealised holding gains for short term investments	**(19)**	(31)
Loss for market price decline and obsolete and slow-moving inventories	**228**	446
Foreign exchange losses, net	**1,294**	156

5. FINANCE COSTS

	2002 US$'000	2001 US$'000
Interest on debentures	**19**	16
Interest on amount due to a director	**20**	47
Bank interest paid	**13**	–
Interest on finance lease	**6**	–
	58	63

Notes to the Financial Statements

For the year ended 31 December 2002

6. DIRECTORS' REMUNERATION

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

	Group	
	2002	2001
	US$'000	US$'000
Fees:		
Executive Directors	**–**	68
Non-Executive Directors	**20**	29
Independent Non-Executive Directors	**20**	38
	40	135
Other emoluments:		
Salaries and other benefits in kind to executive directors	**180**	156
	220	291

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

	Group	
	2002	2001
	US$'000	US$'000
US$Nil to US$129,000	**6**	6

Notes to the Financial Statements

For the year ended 31 December 2002

7. TEN HIGHEST PAID EMPLOYEES

The ten highest paid employees during the year included two directors (2001: two), details of whose remuneration are set out in Note 6 above. The details of the remuneration of the eight remaining non-directors (2001: eight), highest paid employees are set out below.

	2002 US$'000	2001 US$'000
Salaries, allowances and benefits in kind	**1,514**	369

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

	Group Number of non-directors	
	2002	2001
US$Nil to US$129,000	**1**	8
US$129,001 to US$193,500	**7**	–
	8	8

8. TAX

	Group	
	2002 US$'000	2001 US$'000
Overseas tax charge	**802**	1,498
Deferred tax (reversed) charge – *Note 26(a)*	**(42)**	(7)
Deferred tax credit – *Note 26(b)*	**–**	68
Tax charge for the year	**760**	1,559

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.

Notes to the Financial Statements

For the year ended 31 December 2002

9. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders dealt with in the financial statements of the Company is US$409,000 (2001: US$4,766,000).

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$5,693,000 (2001: US$14,927,000), and the weighted average of 160,013,526 (2001: restated weighted average of 67,413,606) ordinary shares in issue during the year.

The fully diluted loss per share for the year has not been shown as it is not meaningful.

11. OIL PROPERTIES

	Group	
	2002	2001
	US$'000	US$'000
Cost:		
At 1 January	**36,252**	33,924
Additions	**4,029**	2,328
At 31 December	**40,281**	36,252
Accumulated depreciation, depletion and amortisation:		
At 1 January	**30,626**	28,361
Provided during the year	**3,883**	2,265
At 31 December	**34,509**	30,626
Carrying value at 31 December	**5,772**	5,626

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).

Notes to the Financial Statements

For the year ended 31 December 2002

11. OIL PROPERTIES *(Continued)*

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.

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 writing 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.

Notes to the Financial Statements

For the year ended 31 December 2002

12. GOODWILL

	Positive US$'000	Negative US$'000	Total US$'000
Cost			
At 1.1.2002	6,462	–	6,462
Additions arising on acquisition of subsidiary	–	(9,414)	(9,414)
At 31.12.2002	6,462	(9,414)	(2,952)
Accumulated amortisation:			
At 1.1.2002	5,489	–	5,489
Provided during the year	373	(706)	(333)
At 31.12.2002	5,862	(706)	5,156
Carrying value			
At 31.12.2002	600	(8,708)	(8,108)
At 31.12.2001	973	–	973

Notes to the Financial Statements

For the year ended 31 December 2002

13. FIXED ASSETS

Group

	Freehold land and buildings US$'000	Machinery and equipment US$'000	Leasehold improvements US$'000	Furniture, fittings and computers US$'000	Motor vehicles US$'000	Total US$'000
Cost:						
At 1.1.2002	–	–	391	202	90	683
Exchange differences	696	1,764	–	618	–	3,078
Acquisition of Subsidiary	5,744	14,583	–	5,097	–	25,424
Additions	–	679	–	26	–	705
Disposal of subsidiary	–	–	–	(70)	–	(70)
Disposal	–	(25)	–	–	–	(25)
Revaluation	1,654	–	–	–	–	1,654
At 31.12.2002	8,094	17,001	391	5,873	90	31,449
Representing:						
Cost	–	17,001	391	5,873	90	23,355
Valuation	8,094	–	–	–	–	8,094
	8,094	17,001	391	5,873	90	31,449
Accumulated depreciation:						
At 1.1.2002	–	–	299	119	90	508
Exchange difference	–	1,651	–	553	–	2,204
Acquisition of subsidiary	–	13,452	–	4,532	–	17,984
Charge for the year	46	413	56	126	–	641
Written back on revaluation	(46)	–	–	–	–	(46)
Disposal of subsidiary	–	–	–	(13)	–	(13)
Eliminated on disposal	–	(19)	–	–	–	(19)
At 31.12.2002	–	15,497	355	5,317	90	21,259
Net book value:						
At 31.12.2002	8,094	1,504	36	556	–	10,190
At 31.12.2001	–	–	92	83	–	175

13. FIXED ASSETS *(Continued)*

Company

	Leasehold improvements US$'000	**Furniture, fittings and computers US$'000**	**Motor vehicles US$'000**	**Total US$'000**
Cost:				
At 1.1.2002	391	132	90	613
Additions	–	16	–	16
At 31.12.2002	391	148	90	629
Accumulated depreciation:				
At 1.1.2002	299	105	90	494
Charge for the year	56	20	–	76
At 31.12.2002	355	125	90	570
Net book value:				
At 31.12.2002	36	23	–	59
At 31.12.2001	92	27	–	119

Certain freehold land and buildings are situated outside Hong Kong and are pledged to secure general banking facilities.

The net book value of plant and machinery held under finance leases of the group was US$343,000. (2001: Nil)

Notes to the Financial Statements

For the year ended 31 December 2002

14. INTERESTS IN SUBSIDIARIES

	Company	
	2002	2001
	US$'000	US$'000
Unlisted shares, at cost	**1**	4,349
Amounts due from subsidiaries	**11,938**	79,514
Amounts due to a subsidiary	**–**	(1)
	11,939	83,862
Provisions for impairment in values of interests in subsidiaries:		
At 1 January	**72,546**	56,986
Provided during the year	**–**	15,560
Written back on disposal	**(72,546)**	–
At 31 December	**–**	72,546
Carrying value at 31 December	**11,939**	11,316

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

Notes to the Financial Statements

For the year ended 31 December 2002

14. INTERESTS IN SUBSIDIARIES *(Continued)*

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 Directly %	Indirectly %	Principal activities
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
Great Admirer Limited	Hong Kong	Hong Kong	2 ordinary shares of HK$1 each	100	–	Investment holding
Axiom Manufacturing Services Limited*	United Kingdom	United Kingdom	13,564,002 ordinary shares of £1 each	–	100	Assemble of electronic components

* not audited by Johnny Chan & Co. Limited

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group.

During the year, the investment costs/net assets of the following subsidiaries were written off as they had ceased operations: Golden Lake Investments Limited, Golden Link Investments Holdings Limited, Golden Hong Investments Limited, Mainline Resources (O.S.), Ltd., Cheerson Holding Limited, Golden Sphere Investments Limited, Golden Rank Limited, Nevigator Holdings Limited and Tianyee Communications Corp.

Tianyee, a 95%-owned Taiwan subsidiary of the Company, had been shut down in December 2002. Since all the employees of Tainyee were laid off in December 2001, neither the audited accounts nor the management accounts were available for examination. The opening net assets of Tianyee totaling US$1,105,000 was written off during the year.

Notes to the Financial Statements

For the year ended 31 December 2002

15. INTERESTS IN ASSOCIATES

	Group	
	2002 US$'000	2001 US$'000
Share of net assets	–	309

The associated companies, Hubei Golden Hong Petrochemical Company Limited and Amsara Limited were disposed during the year.

16. SHORT TERM INVESTMENTS

	Group		Company	
	2002 US$'000	2001 US$'000	2002 US$'000	2001 US$'000
Listed shares, at market value:				
Hong Kong	2	4	2	4
Elsewhere	–	74	–	74
Market value of listed shares as at 31 December	2	78	2	78

17. TRADE RECEIVABLES

	Group	
	2002 US$'000	2001 US$'000
Receivable from Pertamina	6,957	5,830
Receivable from others	3,177	1,995
	10,134	7,825

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.

Notes to the Financial Statements

For the year ended 31 December 2002

17. TRADE RECEIVABLES *(Continued)*

The ageing analysis of the trade receivables is as follows:

	Group	
	2002	2001
	US$'000	US$'000
0 – 30 days	**5,542**	3,981
31 – 60 days	**4,100**	1,562
61 – 90 days	**492**	65
Over 90 days	**–**	2,217
	10,134	7,825

18. INVENTORIES

	Group	
	2002	2001
	US$'000	US$'000
Production supplies and materials	**4,274**	394

19. LOAN RECEIVABLE

	Group	
	2002	2001
	US$'000	US$'000
Loan receivable from Maxvale Investments Limited	**6,967**	6,967
Provision for loss	**(6,967)**	(6,966)
	–	1

The loan to Maxvale Investments Limited was fully provided against in 1996. As at the balance sheet date, the directors consider the loan is irrecoverable.

Notes to the Financial Statements

For the year ended 31 December 2002

20. INTEREST IN A JOINTLY CONTROLLED ENTITY

	Group	
	2002	2001
	US$'000	US$'000
Unlisted investment, at cost	**–**	3,064
Provision for impairment in value	**–**	(3,063)
	–	1

The interest in the jointly controlled entity was disposed during the year.

21. TRADE PAYABLES AND NOTES PAYABLES

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

	Group	
	2002	2001
	US$'000	US$'000
0 – 30 days	**4,662**	3,398
31 – 60 days	**629**	–
61 – 90 days	**474**	–
Over 90 days	**2**	437
	5,767	3,835

22. DUE TO A DIRECTOR

The amount due to a director is unsecured and without fixed term of repayment. Interest of 8% is paid on demand. The principal and interest due to a director were repaid during the year.

Notes to the Financial Statements

For the year ended 31 December 2002

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	
	2002	2001
	US$'000	US$'000
Total costs incurred:		
At 1 January	**91,984**	84,434
Additional costs incurred	**11,076**	7,550
At 31 December	**103,060**	91,984
Total costs recovered:		
At 1 January	**94,651**	87,621
Costs recovered during the year	**11,596**	7,030
At 31 December	**106,247**	94,651
Deferred revenue at 31 December	**3,187**	2,667

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 the Financial Statements

For the year ended 31 December 2002

24. OBLIGATIONS UNDER FINANCE LEASE

At 31 December 2002, the group had obligations under finance lease repayable as follows:

	Minimum lease Payments US$'000	Present value of minimum lease payments US$'000
Within one year	86	73
After one year but within two years	86	73
After two year but within five years	289	182
	461	328
Less : future finance charges	133	
Present value of finance lease	328	
Less: Amount shown under current liabilities		73
		255

25. BANK LOANS

	Group	
	2002 US$'000	2001 US$'000
SECURED BANK LOANS		
Wholly repayable within five years	**275**	–
Less: current portion included in current liabilities	**(72)**	–
	203	–

Notes to the Financial Statements

For the year ended 31 December 2002

26. 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	
	2002	2001
	US$'000	US$'000
At 1 January	**551**	558
Reversed for the year – Note 8	**(42)**	(7)
At 31 December	**509**	551

(b) Deferred tax assets have not been recognised due to the uncertainty of their realization.

27. SHARE CAPITAL

	Group and Company	
	2002	2001
	US$'000	US$'000
Authorised:		
1,400,000,000 (2001: 1,400,000,000)		
ordinary shares of US$0.01 each	**140,000**	140,000
Issued and fully paid:		
255,234,273 (2001: 73,670,786)		
ordinary shares of US$0.01 each	**2,552**	737

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

	Number of ordinary shares	**Amount**
		US$'000
At 1 January 2002	73,670,786	737
Allotment of shares	181,563,487	1,815
At 31 December 2002	255,234,273	2,552

During the year, 181,563,487 ordinary shares were issued, of which 167,063,487 shares were issued by exercising the convertible debenture for an aggregate consideration of approximately US$2,779,000 and 14,500,000 shares issued in private placement for an aggregate consideration of approximately US$432,000.

Notes to the Financial Statements

For the year ended 31 December 2002

28. 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.

No share option was granted during the year.

29. RESERVES

Company

	Share premium	Special capital reserve	Accumulated losses	Total
	US$'000	US$'000	US$'000	US$'000
At 1.1.2001	289	–	(53,747)	(53,458)
Issue of shares	193	–	–	193
Capital reduction	–	12,037	54,510	66,547
Loss for the year	–	–	(4,766)	(4,766)
At 31.12.2001	482	12,037	(4,003)	8,516
Issue of shares	1,396	–	–	1,396
Loss for the year	–	–	(409)	(409)
At 31.12.2002	1,878	12,037	(4,412)	9,503

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.

Notes to the Financial Statements

For the year ended 31 December 2002

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Net cash used in operating activities

	Group	
	2002 US$'000	2001 US$'000
Loss before tax	**(4,933)**	(13,493)
Unrealised holding gains for short term investments	**(19)**	(31)
Interest income	**(10)**	(46)
Interest expenses	**58**	63
Provision for diminution in value of interest in an associate	**–**	33
Provision for stock loss	**228**	–
Loss on written off/disposal of subsidiaries	**3,517**	9,065
Loss arising on increase in equity interest in a subsidiary	**–**	72
Loss on disposal of associates	**222**	–
Share of loss of an associate	**–**	1,935
Gain on disposal of short term investments	**(16)**	(3)
(Gain)/loss on disposal of fixed assets	**(3)**	199
Depreciation of fixed assets	**641**	122
Amortisation of goodwill	**(333)**	309
Amortisation of other assets	**–**	85
Depreciation, depletion and amortisation of oil properties	**3,883**	2,265
Deferred costs incurred, net	**520**	(520)
Operating profit before working capital	**3,755**	55
Increase in trade receivables	**(2,227)**	(126)
(Increase)/decrease in inventories	**(2,962)**	1,217
(Increase)/decrease in prepayments, deposits and other receivables	**(515)**	367
Increase in trade payables and notes payable	**708**	2,340
Increase/(decrease) in other payables and accrued expenses	**1,342**	(4,116)
Decrease in short term loans	**–**	(944)
(Decrease)/increase in amount due to a director	**(846)**	202
(Decrease)/increase in amount due to a former director	**(636)**	636
Cash used in operation	**(1,381)**	(369)
Interest paid	**(33)**	(63)
Overseas tax paid	**(779)**	(1,575)
Net cash used in operating activities	**(2,193)**	(2,007)

Notes to the Financial Statements

For the year ended 31 December 2002

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Analysis of the outflow of cash and cash equivalents on written off/disposal of subsidiaries

	2002	2001
	US$'000	US$'000
Fixed assets	**57**	–
Interest in a jointly controlled entity	**1**	–
Inventories	**15**	–
Accounts receivable	**1,699**	77
Prepayments, deposits and other receivables	**17**	416
Bank balances and cash	**20**	34
Creditors and accruals	**(668)**	(685)
Taxation	**(15)**	–
Short term loan	**(362)**	–
Share capital reserve	**2,652**	–
Exchange reserve	**(14)**	–
Minority interests	**114**	47
	3,517	(111)
Written off/loss on disposal of subsidiaries	**(3,517)**	(9,065)
Goodwill released on disposal of subsidiary	**–**	9,176
	–	–
Written off/disposal of subsidiaries		
Cash consideration received	**–**	–
Bank balances and cash disposed of	**(20)**	(34)
Outflow of cash and cash equivalents	**(20)**	(34)

Notes to the Financial Statements

For the year ended 31 December 2002

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(c) Analysis of the inflow of cash and cash equivalents on acquisition of a subsidiary

	2002 US$'000	2001 US$'000
Net assets acquired		
Fixed assets	7,440	–
Accounts receivable	1,781	–
Inventories	1,162	–
Prepayments, deposits and other receivables	68	–
Cash and bank balances	440	–
Trade payables	(1,224)	–
Other payables and accrued expenses	(253)	–
	9,414	–
Negative goodwill arising on consolidation	(9,414)	–
	–	–
Acquisition of subsidiary		
Cash consideration	–	–
Bank balances and cash acquired	440	–
Inflow of cash and cash equivalents	440	–

Notes to the Financial Statements

For the year ended 31 December 2002

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(d) Analysis of changes in financing during the year

	Share capital and premium US$'000	**Minority interests** US$'000	**Finance lease** US$'000
Balance at 1.1.2001	67,508	1,631	–
Repayment to minority shareholders	–	(1,739)	–
Share allotment for conversion of convertible debenture	258	–	–
Elimination on disposal of a subsidiary	–	47	–
Capital reduction	(66,547)	–	–
Share of loss by minority shareholders	–	(53)	–
Balance at 31.12.2001	1,219	(114)	–
Share allotment for conversion of convertible debenture	2,779	–	–
Proceeds from issue of shares	432	–	
Inception of finance lease	–	–	365
Cash flows from financing			(37)
Elimination on disposal of a subsidiary	–	114	–
Balance at 31.12.2002	4,430	–	328

(e) Major non-cash transaction

(i) The convertible debenture holders converted HK$21,700,000 (2001: HK$2,000,000) convertible debenture into the Company's shares.

(ii) The Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the lease of GBP226,659.

Notes to the Financial Statements

For the year ended 31 December 2002

31. COMMITMENTS

	Group	
	2002	2001
	US$'000	US$'000
Capital commitments in respect of the balance of the consideration due in respect of:		
Purchase of subsidiaries	**267**	–
Capital investment in		
– Wahana First Union	**–**	3,000
– Tianyee	**–**	3,692
	267	6,692

	Group		Company	
	2002	2001	**2002**	2001
	US$'000	US$'000	**US$'000**	US$'000
Total future minimum lease payments under non-cancellable operating leases				
(i) on land and buildings expiring:				
Within one year	**421**	189	**409**	177
In the second to fifth years, Inclusive	**581**	56	**575**	44
	1,002	245	**984**	221
(ii) on other fixed assets expiring:				
Within one year	**465**	234	**–**	–
In the second to fifth years, Inclusive	**245**	35	**–**	–
	710	269	**–**	–

Notes to the Financial Statements

For the year ended 31 December 2002

32. PLEDGE OF ASSETS

As at 31 December 2002, the Group's freehold land and building were pledged to secure general banking facilities.

33. RELATED PARTIES TRANSACTION

During the year, the Group entered into the following related parties transactions.

	2002 US$'000	2001 US$'000
Interest paid to a director, Mr. Liu Zhen	20	47
Consultancy fee paid to a shareholder	224	–
	244	47

34. DEBENTURES

	Group		Company	
	2002 US$'000	2001 US$'000	2002 US$'000	2001 US$'000
Convertible debentures				
1 – 2 years	–	1,024	–	1,024
2 – 5 years	1,705	–	1,705	–
	1,705	1,024	1,705	1,024

On 29 January 2002, the Company has entered into subscription agreements with three independent third parties, Bondic Holdings Limited, Megabucks International Limited and U.S. Access & Link Corp., for an aggregate amount of HK$9,000,000 of 3% unlisted convertible debentures due 2004. The sum of HK$6,800,000 out of the net proceeds will be used to repay an 8% loan, the remaining balance of HK$2,200,000 will be applied as general working capital.

The Company shall have the right at any time to redeem the whole or part of the outstanding debentures at 110% of the principal amount together with the interest accrued thereon. The debenture holders shall have the right at any time after three months after 29 January 2002 by giving not less than 60 days' notice to require the Company to redeem the whole or part of the debentures held at face value.

The debenture holders shall have the right at any time before the due date to convert the whole or part of the debentures. The conversion price was HK$0.25 per share.

Notes to the Financial Statements

For the year ended 31 December 2002

34. DEBENTURES *(Continued)*

On 27 June 2002, the Company has entered into subscription agreements with another three independent third parties, Ms. Tzeng Ching Chin, Mr. Wong Wing Yeuk, and Ms. Yao Lei, for HK$6,200,000 nil interest unlisted convertible debentures due 2005. The net proceeds will be applied as general working capital.

The Company shall have the right at any time to redeem the whole or part of the outstanding debentures at 110% of the principal amount together with the interest accrued thereon. The debenture holders shall have the right at any time after three months of the Completion Date by giving not less than 60 days' notice to require the Company to redeem the whole or part of the debentures held at face value.

The debenture holders shall have the right at any time before the due date to convert the whole or part of the debentures. The conversion price for Ms. Tzeng Ching Chin shall be HK$0.208 per share and the conversion price for Mr. Wong Wing Yuek and Ms. Yao Lei was 80% of the average price per Share quoted on the Stock Exchange over five consecutive trading days immediately prior to the date of the conversion notice, or at a price not less than the par value.

On 9 August 2002, the Company has entered into subscription agreements with another five independent third parties, Mr. Fei Jinhua, Mr. Li Sansheng, Ms. Wang Qianqian, Mr. Sheng Fei and Mr. Zhou Min for an aggregate amount of HK$19,800,000 of nil interest unlisted convertible debentures due 2005. The net proceeds will be applied as general working capital.

The Company shall have the right at any time to redeem the whole or part of the outstanding debentures at 101% of the principal amount together with interest accrued thereon. The debenture holders shall have the right at any time after three months of the Completion Date by giving not less than 60 days' notice to require the Company to redeem the whole or part of the debentures held at face value.

The debenture holders shall have the right at any time before the due date to convert the whole or part of the Debentures. The conversion price shall be HK$0.20 per share.

During the year, seven debenture holders, Perfect Approach Limited, Angel's Investing Limited, Bondic Holdings Limited, Megabucks International Limited, U.S. Access & Link Corp., Mr. Wong Wing Yeuk and Ms. Yao Lei exercised their conversion right to convert all of their debentures totaling HK$21,700,000 for 167,063,487 shares of US$0.01 each.

35. SUBSEQUENT EVENT

Subsequent to the balance sheet date, the Company acquired 85% of the capital stock of seven US companies at a total consideration of US$2,100,000.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 17 April 2003.