Notes to the Financial Statements

For the year ended 31 December 2003

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 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 (Limau) 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 2003, approximately 39% 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, UK, 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 2003, approximately 58.94% of the Group's turnover was derived from the Group's electronics manufacturing services.

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 1 January 2003:

SSAP 12	:	Income taxes
SSAP 35	:	Accounting for government grants and disclosure of government assistance

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 2003. 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.

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.

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

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. Goodwill arising on consolidation of Global Select Limited is amortised on the unit of production method based on the oil production of its subsidiaries or over a period not exceeding 20 years. Other goodwill is amortised over one year.

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, 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 21 to the financial statements.

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

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.

Investment in securities

Investments in equity securities held for trading purposes 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 recognized in the profit and loss account as they arise.

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.

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

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods greater than 20 years are not depreciated and are valued at intervals of not more than three years by independent valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual financial statements. Increases in valuation are credited to the investment properties' revaluation reserve; decreases are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit.

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.

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
Leasehold land	Over the lease terms
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.

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

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.

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.

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) revenue from sale of goods is recognised 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 is recognised on a time proportion basis taking into account the principal outstanding and the effective interest rates applicable;

(c) rental income is recognised on a straight-line basis; and

(d) Government grants are recognised in the balance sheet initially as deferred income when there is reasonable assurance that they will be received and that the group will comply with the conditions attaching to them. Grants that compensate the group for expenses incurred are recognised as revenue in the profit and loss account on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the group for the cost of an asset are recognised in the profit and loss account as revenue on a systematic basis over the useful life of the assets.

Deferred tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax.

Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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.

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

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.

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.

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.

	2003	2002
	US$'000	US$'000
An analysis of the Group's turnover and revenues is as follows:		
Turnover		
Oil and gas	**14,766**	14,775
Assembly of electronic components	**21,204**	10,464
	35,970	25,239
Other revenues		
Interest income	**11**	40
Rental income	**477**	132
Bad debts written back	**–**	96
Release of government grant	**631**	283
Gain on trading of offshore listed shares	**–**	16
Gain on disposal of fixed assets	**18**	–
Release of negative goodwill	**908**	706
Other income	**129**	90
	2,174	1,363
Total revenues	**38,144**	26,602

The Government grant received during the year ended 31 December 2002 relates to a regional assistance grant awarded by the Welsh Assembly Government in England to the subsidiary of the Company, Axiom Manufacturing Services Limited. The grant relates to capital expenditure and the safeguarding of jobs. The employment related element is spread over the period during which the jobs are required to be maintained by the grant. The element of the grant relating to capital expenditure is released to the profit and loss account over the useful economic life of the assets.

Under the terms of the grant, Axiom is required to maintain a specific level of jobs. Should this level not be maintained for the minimum period specified a proportion of the grant may become repayable.

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

Primary reporting format – business segment

	Oil and gas		Contract Electronic manufacturing		Investment properties		Unallocated		Total	
	31.12.2003	31.12.2002	**31.12.2003**	31.12.2002	**31.12.2003**	31.12.2002	**31.12.2003**	31.12.2002	**31.12.2003**	31.12.2002
Turnover	**14,766**	14,775	**21,204**	10,464	**–**	–	**–**	–	**35,970**	25,239
Other income	**11**	25	**495**	305	**2**	–	**128**	44	**636**	375
Negative goodwill amortised	**–**	–	**908**	705	**–**	–	**–**	–	**908**	705
Government grant	**–**	–	**631**	283	**–**	–	**–**	–	**631**	283
Total	**14,777**	14,800	**23,238**	10,757	**2**	–	**128**	44	**38,145**	26,602
Segment results	**1,848**	2,779	**(4,418)**	(2,655)	**(9)**	–	**–**	–	**(2,579)**	124
Unallocated income and expenses									**(3,168)**	(4,999)
Loss from operating activities									**(5,747)**	(4,875)
Finance costs	**–**	–	**(107)**	(20)	**–**	–	**–**	(38)	**(107)**	(58)
Taxation	**(228)**	(760)	**–**	–	**–**	–	**–**	–	**(228)**	(760)
Minority interests									**143**	–
Net loss attributable to shareholders									**(5,938)**	(5,693)

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

Primary reporting format – business segments

	Oil and gas		Contract electronic manufacturing		Investment properties		Unallocated		Total	
	31.12.2003	31.12.2002	**31.12.2003**	31.12.2002	**31.12.2003**	31.12.2002	**31.12.2003**	31.12.2002	**31.12.2003**	31.12.2002
Depreciation and amortisation	**5,900**	4,257	**44**	(141)	**36**	–	**1,799**	76	**7,779**	4,192
Significant non-cash expenses	**–**	–	**2,992**	3,288	**–**	–	**1**	2,607	**2,993**	5,895
Segment assets	**12,989**	16,184	**22,220**	17,130	**1,203**	–			**36,412**	33,314
Unallocated assets									**5,054**	2,070
Total assets									**41,466**	35,384
Segment liabilities	**(5,484)**	(7,510)	**(20,767)**	(16,455)	**(154)**	–			**(26,405)**	(23,965)
Unallocated liabilities									**(394)**	(1,954)
Total liabilities									**(26,799)**	(25,919)
Capital expenditure										
Additions	**1,145**	4,029	**238**	689	**1,081**	–	**69**	16	**2,533**	4,734
Arising on acquisition of a subsidiary	**–**	–	**–**	7,440	**–**	–	**–**	–	**–**	7,440

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

Secondary reporting format – geographical segments

	Turnover 31.12.2003 US$'000	**Total assets 31.12.2003 US$'000**	**Capital expenditure 31.12.2003 US$'000**
Indonesia	14,766	12,989	1,145
United Kingdom	21,204	22,220	238
China	–	2,191	1,081
America	–	2,615	22
Hong Kong	–	1,451	47
	35,970	41,466	2,533

	Turnover 31.12.2003 US$'000	Total assets 31.12.2003 US$'000	Capital expenditure 31.12.2003 US$'000
Indonesia	14,775	16,184	4,029
United Kingdom	10,464	17,130	689
Hong Kong	–	2,070	16
	25,239	35,384	4,734

4. LOSS FROM OPERATING ACTIVITIES

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

	2003	2002
	US$'000	US$'000
Amortisation of positive goodwill	**2,141**	373
Bad debts written off	**–**	980
Depreciation, depletion and amortisation of oil properties	**5,500**	3,883
Depreciation:		
– owned fixed assets	**956**	620
– leased fixed assets	**63**	21
Operating lease rentals on		
– land and buildings	**525**	343
– plant and machinery	**584**	62
Staff costs (including directors' remuneration – note 6)	**9,364**	4,846
Auditors' remuneration	**119**	63
Loss on written off/disposal of subsidiaries	**–**	3,517
Advances to a subsidiary written off	**–**	346
Loss on disposal of an associate	**–**	222
Gain on disposal of fixed assets	**(10)**	(3)
Gain on disposal of short term investments	**–**	(16)
Unrealised holding gains for short term investments	**–**	(19)
Loss for market price decline and obsolete and slow-moving inventories	**343**	228
Foreign exchange losses, net	**2,971**	1,294

5. FINANCE COSTS

	2003	2002
	US$'000	US$'000
Interest on debentures	**–**	19
Interest on amount due to a director	**–**	20
Bank interest paid	**95**	13
Interest on finance lease	**11**	6
	106	58

6. DIRECTORS' REMUNERATION

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

	Group	
	2003	2002
	US$'000	US$'000
Fees:		
Executive directors	**–**	–
Non-executive directors	**13**	20
Independent non-executive directors	**36**	20
	49	40
Other emoluments:		
Salaries and other benefits in kind to executive directors	**171**	180
	220	220

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

	Group Number of directors	
	2003	2002
US$Nil to US$129,000	**5**	6

7. TEN HIGHEST PAID EMPLOYEES

The ten highest paid employees during the year included two directors (2002: two), details of whose remuneration are set out in note 6 above. The details of the remuneration of the eight remaining non-directors (2002: eight), highest paid employees are set out below.

	2003	2002
	US$'000	US$'000
Salaries, allowances and benefits in kind	**1,490**	1,514

7. TEN HIGHEST PAID EMPLOYEES *(Continued)*

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

	Group Number of non-directors	
	2003	2002
US$Nil to US$129,000	**2**	1
US$129,001 to US$193,500	**6**	7
	8	8

8. TAX

(a) Taxation in the consolidated profit and loss account represent:

	Group	
	2003	2002
	US$'000	US$'000
Overseas tax charge	**957**	801
Overseas tax refund	**(665)**	–
Deferred tax reversed – note 24(a)	**(64)**	(41)
Tax charge for the year	**228**	760

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

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.

(b) Reconciliation between tax expenses and accounting loss at applicable tax rates:

	Group	
	2003	2002
	US$'000	US$'000
Loss before tax	**(5,853)**	(5,693)
Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	**(490)**	464
Tax effect of non-deductible expenses	**1,482**	759
Tax effect of non-taxable income	**(918)**	(3,477)
Tax effect of unused tax losses not recognised	**819**	3,014
Tax refund	**(665)**	–
Actual tax expenses	**228**	760

9. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders dealt with in the financial statements of the Company is US$210,000 (2002: US$409,000).

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$5,938,000 (2002: US$5,693,000), and the weighted average of 348,092,070 (2002: 160,013,526) 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	
	2003	2002
	US$'000	US$'000
Cost:		
At 1 January	**40,281**	36,252
Additions	**1,145**	4,029
At 31 December	**41,426**	40,281
Accumulated depreciation, depletion and amortisation:		
At 1 January	**34,509**	30,626
Provided during the year	**5,500**	3,883
At 31 December	**40,009**	34,509
Carrying value at 31 December	**1,417**	5,772

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

	Positive	**Negative**	**Total**
	US$'000	US$'000	US$'000
Cost			
At 1.1.2003	6,462	(9,414)	(2,952)
Additions arising on acquisition of subsidiaries	2,097	–	2,097
Loss on decrease of equity interest in subsidiaries	(39)	381	342
At 31.12.2003	8,520	(9,033)	(513)
Accumulated amortisation:			
At 1.1.2003	5,862	(706)	5,156
Provided during the year	2,141	(908)	1,233
Written back on dilution of interest in subsidiaries	(15)	33	18
At 31.12.2003	7,988	(1,581)	6,407
Carrying value			
At 31.12.2003	532	(7,452)	(6,920)
At 31.12.2002	600	(8,708)	(8,108)

13. FIXED ASSETS

Group

	Freehold land and buildings US$'000	Investment properties US$'000	Machinery and equipment US$'000	Leasehold improvements US$'000	Furniture, fittings and computers US$'000	Motor vehicles US$'000	Total US$'000
Cost or valuation:							
At 1.1.2003	8,094	–	17,001	391	5,873	90	31,449
Exchange differences	885	–	1,762	–	624	–	3,271
Additions	3	1,054	235	24	46	26	1,388
Disposal	–	–	(1,105)	–	(5)	–	(1,110)
At 31.12.2003	8,982	1,054	17,893	415	6,538	116	34,998
Representing:							
Cost	3	1,054	17,893	415	6,538	116	26,019
Valuation	8,979	–	–	–	–	–	8,979
	8,982	1,054	17,893	415	6,538	116	34,998
Accumulated depreciation:							
At 1.1.2003	–	–	15,497	355	5,317	90	21,259
Exchange difference	17	–	1,661	–	573	–	2,251
Charge for the year	330	–	515	42	130	2	1,019
Eliminated on disposal	–	–	(1,105)	–	(4)	–	(1,109)
At 31.12.2003	347	–	16,568	397	6,016	92	23,420
Net book value:							
At 31.12.2003	8.635	1,054	1,325	18	522	24	11,578
At 31.12.2002	8.094	–	1,504	36	556	–	10,190

13. FIXED ASSETS *(Continued)*

Company

	Leasehold improvements US$'000	Furniture, fittings and computers US$'000	Motor vehicles US$'000	Total US$'000
Cost:				
At 1.1.2003	391	148	90	629
Additions	–	32	15	47
At 31.12.2003	391	180	105	676
Accumulated depreciation:				
At 1.1.2003	355	125	90	570
Charge for the year	36	19	2	57
At 31.12.2003	391	144	92	627
Net book value:				
At 31.12.2003	–	36	13	49
At 31.12.2002	36	23	–	59

Freehold land and buildings and investment properties of the group are situated outside Hong Kong. The freehold land and building are pledged to secure general banking facilities.

The net book value of plant and machinery held under finance leases of the group was US$178,000 (2002: US$343,000).

14. INTERESTS IN SUBSIDIARIES

	Company	
	2003	2002
	US$'000	US$'000
Unlisted shares, at cost	**365**	1
Amounts due from subsidiaries	**15,946**	11,938
	16,311	11,939
Provisions for impairment in values of interests in subsidiaries:		
At 1 January	**–**	72,546
Written back on disposal	**–**	(72,546)
At 31 December	**–**	–
Carrying value at 31 December	**16,311**	11,939

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 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

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 %	Percentage of issued share capital held by the Company Indirectly %	Principal activities
Axiom Manufacturing Services Limited*	United Kingdom	United Kingdom	13,564,002 ordinary shares of £1 each	–	94.81	Assemble of electronic components
Comp Hotel International Limited#	British Virgin Island	PRC	1 ordinary shares of US$1 each	100	–	Properties investment
Comp International Limited#	British Virgin Island	Hong Kong	64,300 ordinary shares of US$1 each	100	–	Dormant
Comp Property International Limited#	British Virgin Island	Hong Kong	1 ordinary shares of US$1 each	100	–	Dormant
Comp Media & Advertising Limited#	Hong Kong	Hong Kong	200 ordinary shares of US$1 each	99.5	0.5	Dormant
Comp Assets International Limited#	British Virgin Island	Hong Kong	1 ordinary shares of US$1 each	100	–	Dormant
Prime Reward Group Limited#	British Virgin Island	Hong Kong	1 ordinary shares of US$1 each	–	100	Dormant
Starlight E-commerce Limited#	Hong Kong	Hong Kong	10,000 ordinary shares of HK$1 each	–	88.62	Distribution of magazine

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
Oxford Technologies Inc.*#	USA	USA	18,564,002 ordinary shares of US$0.0001 each	–	94.81	Investment holding
Ridgefield Industries Corp.*#	USA	USA	5,000,000 ordinary shares of US$0.0001 each	–	85	Dormant
Norton Industries Corp.*#	USA	USA	5,000,000 ordinary shares of US$0.0001 each	–	85	Dormant
Easton Technologies Corp.*#	USA	USA	5,000,000 ordinary shares of US$0.0001 each	–	85	Dormant
Weston Technologies Corp.*#	USA	USA	5,761,775	–	73.76	Investment holding
Cowley Technologies Inc.*#	USA	USA	16,100,000	–	88.51	Investment holding
Greenway Technologies Inc.*#	USA	USA	2,000,000 ordinary shares of US$0.0001 each	85	–	Dormant

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 %	Percentage of issued share capital held by the Company Indirectly %	Principal activities
Best partner Worldwide Limited *#	British Virgin Island	Hong Kong	10,000 ordinary shares of US$1 each	–	100	Investment holding
SBT (Holdings) Company Limited *#	Hong Kong	PRC	100 ordinary shares of HK$1 each	–	100	Investment holding
Shenyang SBT Technology Development Company Limited *#	PRC	PRC	US$500,000	–	100	Manufacture of electronic cigarette and related products

acquired during the year

* 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 each of the following Company's subsidiaries: Great Admirer Limited, Comp Property International Limited, Comp Assets International Limited, Comp Hotel International Limited and Comp International Limited entered into Stock Purchase Agreements with Waywood Investment Limited, and two individual investors to acquire 85% of capital stock in each of the following seven U.S. newly formed companies, namely, Oxford Technologies Inc., Ridgefield Industries Corp., Norton Industries Corp., Easton Technologies Corp., Cowley Technologies Inc., Greenway Technologies Inc. and Weston Technologies Corp. at a total consideration of US$2,100,000.

After the abvoe acquisition, Great Admirer Limited entered into a Share Exchange Agreement with Oxford Technologies Inc. ("Oxford"). Under the terms and conditions of the agreement, Oxford issued 13,564,002 shares of its common stock to Great Admirer in exchange for all issued and outstanding ordinary shares of Axiom Manufacturing Services Limited on a one-to-one basis.

14. INTERESTS IN SUBSIDIARIES *(Continued)*

On 15 October 2003, Weston Technologies Corp. ("Weston") entered into a stock exchange agreement with Best Partners World Limited ("BPW") whereas BPW shareholders desire to transfer the BPW shares to Weston and Weston desires to issue 440,775 shares of common stock of Weston and warrants to purchase 43,636,725 shares of its common stock for a period of five years ending on 14 October 2008, at an exercise price of US$0.001 per share to BPW shareholders in exchange therefor. Pursuant to the stock exchange agreement, BPW became a wholly-owned subsidiary of Weston.

On 10 September 2003, Cowley Technologies Corp. ("Cowley") entered into a share exchange agreement with Starlight E-commerce Limited ("Starlight") pursuant to which the shareholders of Starlight desire to transfer Starlight Shares to Cowley, and Cowley desires to issue 1,100,000 shares of its capital stock to shareholders of Starlight in exchange therefor.

15. UNLISTED INVESTMENT

	Group	
	2003	2002
	US$'000	US$'000
Unlisted shares in HSS, at cost	**987**	–

On 29 August 2003, Comp Media & Advertising Limited. ("Comp Media"), a subsidiary of the Company, entered into an acquisition agreement with Beijing Fortune World Advertising Ltd. ("Beijing Fortune") to acquire 49% of its equity interest for HK$3 million.

Concurrently Comp Media was also granted an option to purchase another 50% of the equity interest in Beijing Fortune held by Hainan Sheng Sheng Advertising Ltd. (HSS) for an aggregate cash consideration of HK$300,000 when the "Closer Economic Partnership Arrangement" between PRC and Hong Kong (CEPA) will, on 1 January 2004, allow Hong Kong investors to operate wholly-owned advertising companies in PRC. As a condition precedent and consideration therefore, Comp Media entered into a Share Purchase and Option Agreement with HSS to acquire 15% of its interest for an aggregate cash consideration of HK$7,700,000.

16. DUE FROM A RELATED COMPANY

Details of loan to a related company disclosed pursuant to section 161B of the Companies Ordinance are as follows:–

Name of company	Balance at 12.31.2002 US$	Balance at 12.31.2003 US$	Maximum balance outstanding during the year US$
Shenyang Zinlong Pharmaceutical Company Limited	–	2,140	2,140

Mr. Wong Yin Sen, a director of Best Partners Worldwide Limited, SBT (Holdings) Company Limited and Senyang SBT Technology Development Company Limited has controlling interest in the above company.

Mr. Li Kim Hung, a director of SBT (Holdings) Company Limited, has controlling interest in the above company.

The loan is unsecured, non-interest bearing and without fixed payment terms.

17. SHORT TERM INVESTMENTS

	Group		Company	
	2003	2002	**2003**	2002
	US$'000	US$'000	**US$'000**	US$'000
Hong Kong listed shares, at market value	**2**	2	**2**	2
Other investment	**1,890**	–	**–**	–
	1,892	2	**2**	2

Other investment represent insurance policy covered for employee of SELL for settlement of maturity benefit and death benefit. The policy is effective 27 January 2003 and ended 30 June 2004.

18. TRADE RECEIVABLES

	Group	
	2003	2002
	US$'000	US$'000
Receivable from PERTAMINA	**8,209**	6,957
Receivable from others	**5,858**	3,177
	14,067	10,134

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	
	2003	2002
	US$'000	US$'000
0 - 30 days	**10,099**	5,542
31 - 60 days	**3,680**	4,100
61 - 90 days	**198**	492
Over 90 days	**90**	–
	14,067	10,134

19. INVENTORIES

	Group	
	2003	2002
	US$'000	US$'000
Production supplies and materials	**5,553**	4,274

20. TRADE PAYABLES AND NOTES PAYABLES

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

	Group	
	2003	2002
	US$'000	US$'000
0 - 30 days	**4,748**	4,662
31 - 60 days	**1,736**	629
61 - 90 days	**1,182**	474
Over 90 days	**449**	2
	8,115	5,767

21. 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	
	2003	2002
	US$'000	US$'000
Total costs incurred:		
At 1 January	**103,060**	91,984
Additional costs incurred	**14,354**	11,076
At 31 December	**117,414**	103,060
Total costs recovered:		
At 1 January	**106,247**	94,651
Costs recovered during the year	**12,344**	11,596
At 31 December	**118,591**	106,247
Deferred revenue at 31 December	**1,177**	3,187

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.

22. OBLIGATIONS UNDER FINANCE LEASE

At 31 December 2003, the Group had obligations under finance lease repayable as follows:

	Minimum lease Payments		Present value of minimum lease payments	
	2003	2002	**2003**	2002
	US$'000	US$'000	**US$'000**	US$'000
Within one year	**96**	86	**81**	73
After one year but within two years	**95**	86	**81**	73
After two year but within five years	**143**	289	**121**	182
	334	461	**283**	328
Less: future finance charges	**51**	133		
Present value of finance lease	**283**	328		
Less: Amount shown under current liabilities			**80**	73
			203	255

23. BANK LOANS

	Group	
	2003	2002
	US$'000	US$'000
SECURED BANK LOANS		
Wholly repayable within five years	**210**	275
Less: current portion included in current liabilities	**(65)**	(72)
	145	203

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	
	2003	2002
	US$'000	US$'000
At 1 January	**509**	551
Reversed for the year – note 8	**(64)**	(42)
At 31 December	**445**	509

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

25. SHARE CAPITAL

	Group	
	2003	2002
	US$'000	US$'000
Authorised:		
1,400,000,000 (2002: 1,400,000,000) ordinary shares of US$0.01 each	**140,000**	140,000
Issued and fully paid:		
404,445,811 (2002: 255,234,273) ordinary shares of US$0.01 each	**4,044**	2,552

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

	Number of ordinary shares	**Amount US$'000**
At 1 January 2003	255,234,273	2,552
Allotment of shares	149,211,538	1,492
At 31 December 2003	404,445,811	4,044

During the year, 149,211,538 ordinary shares were issued by exercising the convertible debenture for an aggregate consideration of approximately US$4,301,000.

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.

No share option was granted during the year.

27. RESERVES

Company

	Share premium US$'000	Special capital reserve US$'000	Exchange reserve	Accumulated losses US$'000	Total US$'000
At 1.1.2002	482	12,037	–	(4,003)	8,516
Issue of shares	1,396	–	–	–	1,396
Loss for the year	–	–	–	(409)	(4,766)
At 31.12.2002	1,878	12,037	–	(4,412)	9,503
Issue of shares	2,809	–	–		2,809
Translation difference	–	–	81	–	81
Loss for the year	–	–	–	(210)	(210)
At 31.12.2003	4,687	12,037	81	(4,622)	12,183

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) Net cash used in operating activities

	Group	
	2003	2002
	US$'000	US$'000
Loss before tax	**(5,853)**	(4,933)
Unrealised holding gains for short term investments	**–**	(19)
Interest income	**(11)**	(10)
Interest expenses	**106**	58
Government grant released	**(632)**	(283)
Provision for stock loss	**343**	228
Loss on written off/disposal of subsidiaries	**–**	3,517
Loss arising on decrease in equity interest in subsidiaries	**16**	–
Loss on disposal of associates	**–**	222
Gain on disposal of short term investments	**–**	(16)
Gain on disposal of fixed assets	**(18)**	(3)
Depreciation of fixed assets	**1,019**	641
Amortisation of goodwill	**1,233**	(333)
Depreciation, depletion and amortisation of oil properties	**5,500**	3,883
Deferred costs incurred, net	**(2,010)**	520
Operating (loss) profit before working capital	**(307)**	3,472
Increase in trade receivables	**(3,933)**	(2,227)
Increase in inventories	**(1,622)**	(2,962)
Increase in prepayments, deposits and other receivables	**(302)**	(515)
Increase in trade payables and notes payable	**2,348**	708
Increase in other payables and accrued expenses	**4,048**	743
Increase (decrease) in amount due to a director	**38**	(846)
Increase in amount due to shareholders	**113**	–
Increase in amount due from a related company	**(2,140)**	–
Decrease in amount due to a former director	**–**	(636)
Cash used in operation	**(1,757)**	(2,263)
Interest paid	**(131)**	(33)
Overseas tax paid	**(916)**	(779)
Overseas tax refund	**665**	–
Net cash used in operating activities	**(2,139)**	(3,075)

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

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

	2003 **US$'000**	2002 US$'000
Fixed assets	–	57
Interest in a jointly controlled entity	–	1
Inventories	–	15
Accounts receivable	–	1,699
Prepayments, deposits and other receivables	–	17
Bank balances and cash	–	20
Creditors and accruals	–	(668)
Taxation	–	(15)
Short term loan	–	(362)
Share capital reserve	–	2,652
Exchange reserve	–	(14)
Minority interests	–	114
	–	3,517
Written off/loss on disposal of subsidiaries	–	(3,517)
	–	–
Written off/disposal of subsidiaries		
Cash consideration received	–	–
Bank balances and cash disposed of	–	(20)
Outflow of cash and cash equivalents	–	(20)

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

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

	2003	2002
	US$'000	US$'000
Net assets acquired		
Fixed assets	**–**	7,440
Accounts receivable	**–**	1,781
Inventories	**–**	1,162
Prepayments, deposits and other receivables	**–**	68
Amount due from minority	**3**	–
Cash and bank balances	**–**	440
Trade payables	**–**	(1,224)
Other payables and accrued expenses	**–**	(253)
	3	9,414
Goodwill/Negative goodwill arising on consolidation	**2,097**	(9,414)
	2,100	–
Satisfied by		
Cash	**2,100**	–
Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries:		
Acquisition of subsidiary		
Cash consideration	**(2,100)**	–
Bank balances and cash acquired	**–**	440
(Outflow) inflow of cash and cash equivalents	**(2,100)**	440

Deposit of US$1,833 was paid in 2002 leaving the balance of US$267 settled in current year.

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

(d) Major non-cash transaction

(i) The convertible debenture holders converted HK$34,200,000 (2002: HK$21,700,000) convertible debenture into the company's shares.

(ii) During the year, Great Admirer Limited entered into a Share Exchange Agreement with Oxford. Under the terms and conditions of the agreement, Oxford issued 13,564,002 shares of its common stock to Great Admirer in exchange for all issued and outstanding ordinary shares of Axiom Manufacturing Services Limited ("Axiom") on a one-to-one basis. Great Admirer Limited currently owns 94.81% of Oxford's capital stock.

(iii) On 15 October 2003, Weston Technologies Corp. ("Weston") entered into a stock exchange agreement with Best Partners World Limited ("BPW") whereas BPW shareholders desire to transfer the BPW shares to Weston and Weston desires to issue 44,775 shares of common stock of Weston and warrants to purchase 43,636,725 shares of its common stock for a period of five years ending on 14 October 2008, at an exercise price of US$0.001 per share to BPW shareholders in exchange therefor. Pursuant to the stock exchange agreement, BPW became a wholly-owned subsidiary of Weston.

(iv) On 10 September 2003, Cowley Technologies Corp. ("Cowley") entered into a share exchange agreement between Starlight E-Commerce Limited ("Starlight") pursuant to which shareholders of Starlight desire to transfer the Starlight Shares to Cowley, and Cowley desires to issue 1,100,000 shares of capital stock of Cowley to shareholders of Starlight in exchange therefor.

29. COMMITMENTS

	Group	
	2003	2002
	US$'000	US$'000
Capital commitments in respect of the balance of the consideration due in respect of:		
Purchase of subsidiaries	**423**	267
Purchase of investment properties	**224**	–
	647	267

29. COMMITMENTS *(Continued)*

	Group		Company	
	2003	2002	**2003**	2002
	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	**513**	421	**493**	409
In the second to fifth years, Inclusive	**320**	581	**320**	575
	833	1,002	**813**	984
(ii) on other fixed assets expiring:				
Within one year	**215**	465	**–**	–
In the second to fifth years, Inclusive	**66**	245	**–**	–
	281	710	**–**	–

30. PLEDGE OF ASSETS

At 31 December 2003, the Group's freehold land and building were pledged to secure general banking facilities.

31. RELATED PARTIES TRANSACTION

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

	2003	2002
	US$'000	US$'000
Interest paid to a director, Mr. James Liu Zhen	**–**	20
Consultancy fee paid to shareholders	**905**	224
	905	244

32. DEBENTURES

	Group		Company	
	2003	2002	**2003**	2002
	US$'000	US$'000	**US$'000**	US$'000
Convertible debentures				
1 – 2 years	**–**	–	**–**	–
2 – 5 years	**71**	1,705	**71**	1,705
	71	1,705	**71**	1,705

On 5 May 2003, the Company has entered into subscription agreements with two independent third parties, Zhong Li Hua and Seashine Holdings Ltd., for an aggregate amount of HK$13,452,000 of nil interest unlisted convertible debentures due 2006. The net proceeds will be applied as general working capital of the Company.

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. The debenture holders shall have the right at any time after three months after 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 was HK$0.3 per share.

In current year, the Company received payment from Li Sansheng of HK$3,800,000 and Sheng Fei of HK$4,200,000 for nil interest unlisted convertible debentures due 2005 which were subscribed at 9 August, 2002.

During the year, fourteen debenture holders, Hu Zuxin, Jiang Miao Juan, Wang Qian Qian, Wei Cheng Wen, Centreford Investment Ltd., Yuan Wei, Right Choice Securities Ltd., Jim Wai Keung, Leung David , Peacehaven Group Ltd., Yuen Ching, Xu Xin, Seashine Holdings Limited and Hammerton Investment Inc. exercised their conversion right to convert all of their debentures totaling HK$34,200,000 for 149,211,538 shares of US$0.01 each.

33. SUBSEQUENT EVENT

In January 2004, the Company agreed to extend an unsecured loan of HK$40 million to its 73%-owned US subsidiary, Weston Technologies Corp. ("Weston"). The loan bears interest rate of 5% per annum, payable semi-annually. The loan is payable on demand by Sen Hong. Weston owns all the pending patents of new products; a flameless and non-tar cignrette substitute, which can be used as a quit smoking aid. The loan will be used as Weston's working capital to manufacture and market the new product. In January 2004, Weston had received HK$10 million from Sen Hong on this loan facility.

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 20 April 2004.