

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 7 December 2000 under the Companies Law (Revised) of the Cayman Islands. Pursuant to a reorganization scheme (the "Group Reorganisation") to rationalize the structure of the Group in preparation for the public listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in May 2001, the Company became the holding company of the companies now comprising the Group on 8 April 2001. The Group Reorganisation involved companies under common control. The Interim Financial Statements have been prepared using the merger basis of accounting in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 27 "Accounting for Group Reconstructions" issued by the Hong Kong Society of Accountants ("HKSA"). Under this basis, the Interim Financial Statements together with the comparative figures of the corresponding period last year and the related notes thereto have also been presented in the Interim Financial Statements on the basis that the Company is treated as the holding company of its subsidiaries for the financial period presented rather than from the subsequent date of acquisition of the subsidiaries pursuant to the Group Reorganisation on 8 April 2001, or since the respective dates of their incorporation, where this is a shorter period.

The Interim Financial Statements of the Group have been prepared in accordance with SSAP No. 25 "Interim Financial Reporting" issued by HKSA and Appendix 16 of the Listing Rules of the Stock Exchange of Hong Kong Limited (the "Listing Rules").

The basis of presentation and accounting policies adopted in these Interim Financial Statements are consistent with those used in the Group in presenting the annual financial statements for the year ended 30 June 2001 except that the Group has changed certain of its accounting policies following its adoption of the following SSAP issued by HKSA which are effective for accounting periods commencing on or after 1 January 2001;

SSAP 9 (Revised): Events after the balance sheet date

In accordance with the SSAP 9 (Revised), the Group no longer recognizes dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparative figures presented have been restated to conform to the changed policy.

The proposed final dividend amounting to HK\$6,000,000 previously recorded as a current liability as at 30 June 2001 has been restated and shown under capital and reserves in the balance sheet.

Comparative figures for the year ended 30 June 2001 are extracted from the Group annual financial statements for that year.

2. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and after elimination of all significant intra-Group transactions during the Period.

An analysis of the Group's consolidated turnover and contribution to profit from operating activities by principal activity and geographical area for the Period is as follows:

	Turnover		Contribution to profit from operating activities	
	Six months ended		Six months ended	
	31 December		31 December	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By principal activity:				
Manufacture and sale of:				
Lubricants	109,433	55,084	34,659	18,316
Anti-corrosive coating	36,396	21,490	11,832	8,587
Additive	1,851	1,009	600	272
	<u>147,680</u>	<u>77,583</u>	<u>47,091</u>	<u>27,175</u>
By geographical area:				
The People's Republic of China (the "PRC")	134,611	66,214	42,424	23,480
Elsewhere in Asia	4,504	3,473	1,549	1,141
Europe and North America	8,565	7,896	3,118	2,554
	<u>147,680</u>	<u>77,583</u>	<u>47,091</u>	<u>27,175</u>

3. Profit from operating activities

The Group's profit from operating activities has been arrived at after charging/(crediting):

	Six months ended	
	31 December	
	2001	2000
	HK\$'000	HK\$'000
Depreciation	1,131	949
Interest income	(46)	(37)
	<u>1,085</u>	<u>912</u>

4. Tax

	Six months ended	
	31 December	
	2001	2000
	HK\$'000	HK\$'000
Current Period provisions:		
Hong Kong	-	-
Elsewhere in the PRC	7,541	3,118
	<u>7,541</u>	<u>3,118</u>
Tax charge for the Period	<u>7,541</u>	<u>3,118</u>

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the Period (2000: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in the respect thereof.

No provision for deferred tax has been made as the Group did not have any significant unprovided deferred tax in respect of the Period (2000: Nil).

5. Earnings per Share

The calculations of basic earnings per share are based on the Group's net profit attributable to shareholders for the Period of approximately HK\$37,391,000 (2000: HK\$22,692,000), and the weighted average issued share capital of 808,728,261 ordinary shares (2000: 680,000,000 ordinary shares).

Diluted earnings per share is based on the weighted average of 808,728,261 ordinary shares in issued during the Period plus the weighted average of 20,623,808 ordinary shares deemed to be issued at no consideration if all outstanding share options had been exercised.

6. Fixed Assets

During the Period, the additions to fixed assets including leasehold land and buildings in Hong Kong, establishment of new production facilities and construction in progress in the PRC were approximately HK\$10.0 million.

7. Trade Receivables

The Group normally allows credit period to established customers ranging from 30 to 120 days. All trade receivables as at 31 December 2001 were aged less than 120 days from the date of recognition of the sale. Details of the aged analysis of trade receivables are as follows:

	31 December	30 June
	2001	2001
	HK\$'000	HK\$'000
0 – 30 days	38,112	29,125
31 – 60 days	6,750	5,974
61 – 90 days	2,411	2,241
Over 90 days	948	–
	<hr/>	<hr/>
	48,221	37,340
	<hr/> <hr/>	<hr/> <hr/>

8. Interest-bearing bank and other borrowings

At 31 December 2001, the Group's bank and other borrowings were secured by the Group's leasehold land and buildings in Hong Kong.

9. Trade Payables

All trade payables as at 31 December 2001 were aged less than 90 days from the date of receipt of the goods purchased. Details of the aged analysis of trade payables are as follows:

	31 December	30 June
	2001	2001
	HK\$'000	HK\$'000
0 – 30 days	6,149	8,424
31 – 60 days	848	1,053
61 – 90 days	71	97
	<hr/>	<hr/>
	7,068	9,574
	<hr/> <hr/>	<hr/> <hr/>

10. Share Capital

	31 December 2001 HK\$'000	30 June 2001 HK\$'000
<i>Authorised:</i>		
2,000,000,000 (30 June 2001: 2,000,000,000) ordinary shares of HK\$0.01 each	<u>20,000</u>	<u>20,000</u>
<i>Issued and fully paid:</i>		
873,000,000 (30 June 2001: 800,000,000) ordinary shares of HK\$0.01 each	<u>8,730</u>	<u>8,000</u>

A summary of movements in the issued share capital of the Company during the Period is as follows:

	Number of ordinary shares '000	Issue and fully paid HK\$'000
At 1 July 2001	800,000	8,000
Issue of new shares at HK\$0.36 per share	60,000	600
Shares issued on the exercise of share options	<u>13,000</u>	<u>130</u>
At 31 December 2001	<u>873,000</u>	<u>8,730</u>

11. Reserves

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Fixed asset revaluation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 July 2001	12,382	106	2,893	82,682	98,063
Issue of new shares at HK\$0.36 per share	21,000	-	-	-	21,000
Arising on exercise of share options	2,917	-	-	-	2,917
Share issue expenses	(1,159)	-	-	-	(1,159)
Net profit for the Period	-	-	-	37,391	37,391
	<u>35,140</u>	<u>106</u>	<u>2,893</u>	<u>120,073</u>	<u>158,212</u>
At 31 December 2001	<u>35,140</u>	<u>106</u>	<u>2,893</u>	<u>120,073</u>	<u>158,212</u>

12. Related Party Transactions

There is no significant related party transaction during the Period.

13. Commitments

At the balance sheet date, the Group had the following outstanding commitments:

	31 December 2001 <i>HK\$'000</i>	30 June 2001 <i>HK\$'000</i>
(a) Contracted capital commitments in respect of leasehold buildings and plant under construction	<u>1,262</u>	<u>1,262</u>
(b) Future aggregate lease payments under non-cancellable operating leases in respect of leasehold land and buildings are as follows:		
Within one year	48	113
In the second to fifth years, inclusive	<u>—</u>	<u>96</u>
	<u>48</u>	<u>149</u>

14. Contingent Liabilities

The Group did not have any significant contingent liabilities at the balance sheet date.