INTERIM DIVIDEND

The Directors have resolved that no interim dividend will be declared in respect of the Period (2000: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

Operating environment

During the Period, the continuous growth of the PRC economy provided a favourable business environment for the Group. Sales of lubricating oil and grease ("Lubricants") and anti-corrosive coating ("Anti-corrosive") increased substantially compared with the same period last year. This further substantiated the Group's position as one of the leading petrochemical companies in the PRC.

Despite the gradual price increase in the Group's principal raw material due to the volatility of crude oil costs, the Group succeeded in mitigating the adverse effect by implementing effective operational strategies and adopting a strategy of bulk purchase of raw materials at competitive prices that minimize the effect of price fluctuations on production costs.

Financial performance

The Group's unaudited consolidated turnover and net profit from ordinary activities attributable to shareholders for the Period were approximately HK$147.7 million and HK$37.4 million, representing significant growth rates of approximately 90.4% and 64.8% respectively as compared to the same period last year.

The principal market of the Group remains in the PRC which accounted for approximately 91.2% of the Group's turnover. Sales to overseas markets including Europe, North America and Asia together amounted to approximately HK$13.1 million, representing an increase of approximately 15.0% compared to the same period last year.

The dramatic increase in sales was mainly due to the Group obtained a RMB30 million anti-corrosive coating contract for the Water Supply System Project in Eastern Shenzhen and a RMB200 million contract for production of environment friendly ceramic-metal lubricants in August 2001.

With a view to expanding the Group's product range and improving its production technology, the Group spent approximately HK$1.1 million on research and development ("R&D") during the Period. Increases in other operating expenses were in line with the increase in turnover.

There was no significant change in the bases and rates of profits tax. The effective tax rate on the Group's operating profit remained at approximately 16.1%. Net profit from ordinary activities attributable to shareholders increased by approximately HK$14.7 million to approximately HK$37.4 million comparing to the same period last year.

Liquidity and financial resources

Net current assets of the Group amounted to approximately HK$111.6 million as at 31 December 2001 (30 June 2001: HK$59.4 million) comprising inventories of approximately HK$29.3 million (30 June 2001: HK$20.0 million), trade and other receivables of approximately HK$55.8 million (30 June 2001: HK$39.6 million), cash and cash equivalents of approximately HK$59.5 million (30 June 2001: HK$29.6 million) and current liabilities of approximately HK$33.0 million (30 June 2001: HK$29.8 million). The cash and cash equivalents included approximately HK$21.4 million of fund raised from the Company's share offer in May 2001 and placing in December 2001 which have not yet been applied.

At 31 December 2001, the trade receivables increased by approximately HK$10.9 million to approximately HK$48.2 million (30 June 2001: HK$37.3 million). Management attributed the increase to the growth in sales and the extension of credit terms to certain customers of the Group. The Group adopts a stringent credit control policy by closely monitoring the amount due from its customers. Credit terms will be adjusted in accordance with the Group's policy which comply with ISO9002 Standard. The Group usually grants credit period ranging from 30 to 120 days to normal customers based on the creditworthiness of the relevant customer by considering its reputation and previous payment history.

At 31 December 2001, the higher stock value were mainly due to the seasonality of the petrochemical business and the adopting of bulk purchase strategy on raw materials at competitive prices for minimizing the effect of price fluctuations on the production costs.

At 31 December 2001, the Group had total assets of approximately $213.2 million (30 June 2001: HK$149.0 million), which were financed by current liabilities of approximately HK$33.0 million (30 June 2001: HK$29.8 million), non-current liabilities of approximately HK$4.6 million (30 June 2001: HK$0.5 million), minority interests of approximately HK$8.7 million (30 June 2001: HK$6.6 million) and shareholders equity of approximately HK$166.9 million (30 June 2001: HK$112.1 million).

At 31 December 2001, the Group's current ratio (current assets/current liabilities), quick ratio ((current assets – inventory)/current liabilities), gearing ratio (total debts/ total assets) and debts to equity ratio (total debts/shareholders' equity) of the Group were approximately 4.4 (30 June 2001: 3.0), 3.5 (30 June 2001: 2.3), 18% (30 June 2001: 20%) and 23% (30 June 2001: 27%), respectively. These changes reflected an improvement in the Group's structure of assets and liabilities.

As a significant portion of the Group's transactions and borrowings are denominated in Hong Kong dollars and Reminbi, in view of the stability of exchange rate of Hong Kong dollars and Reminbi, the Directors consider that the Group has no significant exposure to foreign exchange fluctuation.

Prospects

The Directors believe that the demand for the Group's products will remain strong in the PRC and its principal market for the remaining half of the financial year and beyond. The Group is planning to expand its existing production capacity by purchasing and installation of advanced production equipment and facilities to increase the annual production capacity of lubricants from 50,000 tons to 200,000 tons and anti-corrosive coating from 3,000 tons to 10,000 tons in the coming year.

The Directors are optimistic that the Group will benefit from the anticipated growth of the PRC economy after the accession to the World Trade Organization of the PRC. It is expected that it will not only drive the export sales of the Group but also lower the price of raw materials thus reduce the production costs.

Furthermore, the continuous improvement in general living standards in the PRC will provide favourable market conditions for consumer-related products, such as motor vehicles. In November 2001, the Group entered into a strategic alliance with Shanghai Dazhong Premium Lubricant Product Company, a lubricant supplier of Shanghai Dazhong Automobile. These alliance not only dramatically increase the Group's coverage and network in sales and marketing of the Group's products to over approximately 100 sales outlets in major PRC cities but also provide an opportunities to carry out new product R & D by co-operating with other alliance members. In future, the Group will continue seeking opportunities to establish and enhance the business relationships with other automobile manufacturers in the PRC and overseas.

In July 2001, the Group secured a contract for supplying H88-III series anti-corrosive coating to the Water Supply System Project in Eastern Shenzhen. The H88-III is the first product approved by the Ministry of Public Health of the PRC as "National Product Relating to the Hygiene and Safety of Drinking Water". In future, the Group will co-operate with other municipal governments in the PRC to improve the standard of drinking water by upgrading the water transmission system.

In November 2001, the Group secured a contract for supplying H88 series anti-corrosive coating to the West-East Gas Pipeline Projects: Lanzhou-Chengdu-Chongqing section. Having stepped into the project, the Directors believe that the Group is well-positioned to obtain contracts of other sections in the West-East Gas Pipeline Projects.

For the West-East Gas Pipeline Projects and South-to-North Water Transmission Engineering Project, the Group will further invest approximately HK$10 million in R&D to improve the manufacturing technology and R&D capabilities of the Group. This will reinforce the Company's competitive advantages to keep the Company ahead of its competitors. To maintain the Company's competitive advantages, the Company is also aiming at marketing new products, especially the environmental friendly products in future.

Use of net proceeds from the new issue and placing

The net proceeds from the public offer and placing of the Company's ordinary shares amounted to approximately HK$40.5 million. At 31 December 2001, the Group has utilized a total of approximately HK$19.1 million of the proceeds. Approximately HK$17.0 million, HK$1.0 million and HK$1.1 million have been applied towards the establishment and purchasing of additional machinery and new production facilities at Daqing City in the PRC, R&D and the expansion of the Group's distribution and sale network, respectively. The remaining proceeds are placed on short-term deposits with licensed banks in Hong Kong.

Employees and remuneration policies

At 31 December 2001, the Group employed a total of approximately 130 employees. They were remunerated according to the nature of job and market conditions in which they were employed. Other staff benefits included a mandatory provident fund scheme for all the eligible employees, share option scheme and year end bonus.