



Daqing Petroleum & Chemical Group Limited
(Incorporated in the Cayman Islands with limited liability)



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CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Wang Dan Hui (*Chairman*)

Mr. Wang Hailou

Mr. Wu Chieho Joseph

Independent Non-Executive Directors

Mr. Feng Jianming

Mr. Ma Wing Yun Bryan

Mr. Meng Fanxi

Company Secretary

Mr. Kwok Yuen Ying, Riki

Registered Office

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P.O. Box 2681 GT

George Town

Grand Cayman

British West Indies

Head Office and Principal Place of Business in Hong Kong

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Far East Finance Centre

16 Harcourt Road

Admiralty

Hong Kong

Auditors

Ernst & Young

Certified Public Accountants

15th Floor, Hutchison House

10 Harcourt Road

Central

Hong Kong

Authorised Representatives

Mr. Wang Dan Hui

Mr. Wu Chieho Joseph

Legal Advisers to the Company

Chiu & Partners

41st Floor, Jardine House

1 Connaught Place

Central

Hong Kong

Principal Bankers

The Bank of China

No. 1 Gaoxin Road

Kaifa District

Daqing City

Heilongjiang Province

PRC

Standard Chartered Bank
Shop A25-A27, Ground Floor,
Kwai Chung Plaza
Hong Kong

Principal Share Registrar and Transfer Office

Bank of Bermuda (Cayman) Limited

P.O. Box 513 G.T.

3rd Floor, British American Tower

Dr. Ray's Drive

George Town

Grand Cayman

Cayman Islands

British West Indies

Hong Kong Branch Share Registrar and Transfer Office

Tengis Limited

G/F., Bank of East Asia

Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

Stock Code: 362

FINANCIAL HIGHLIGHTS

	Six months ended 31 December		Change
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	
TURNOVER	187,438	147,680	26.9%
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	42,805	37,391	14.5%
BASIC EARNINGS PER SHARE	HK4.9 cents	HK 4.6 cents	6.5%
INTERIM DIVIDEND PER SHARE	-	-	-

The Board of Directors ("Board" or "Directors") of Daqing Petroleum and Chemical Group Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim financial statements ("Interim Financial Statements") of the Company and its subsidiaries (collectively the "Group") for the six months ended 31 December 2002 ("Period"). The results had been reviewed by the Company's audit committee ("Audit Committee").

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Unaudited six months ended 31 December	
		2002 HK\$'000	2001 HK\$'000
TURNOVER	2	187,438	147,680
Cost of sales		(121,579)	(88,814)
Gross profit		65,859	58,866
Other revenue		214	69
Selling and distribution expenses		(4,817)	(4,309)
Administrative expenses		(9,176)	(6,446)
Other operating expenses		-	(1,089)
PROFIT FROM OPERATING ACTIVITIES	4	52,080	47,091
Finance costs		(99)	(117)
PROFIT BEFORE TAX		51,981	46,974
Tax	5	(4,382)	(7,541)
PROFIT BEFORE MINORITY INTEREST		47,599	39,433
Minority interests		(4,794)	(2,042)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		42,805	37,391
EARNINGS PER SHARE	6		
– Basic		HK4.9 cents	HK4.6 cents
– Diluted		HK4.8 cents	HK4.5 cents

CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 31 December 2002 <i>HK\$'000</i>	Audited 30 June 2002 <i>HK\$'000</i>
	Notes		
NON-CURRENT ASSETS			
Fixed assets	7	109,153	69,823
Intangible assets	8	4,953	–
Investment in a club membership		650	650
		<u>114,756</u>	<u>70,473</u>
CURRENT ASSETS			
Inventories		49,587	46,593
Trade receivables	9	72,312	89,755
Prepayments, deposits and other receivables		15,026	3,471
Cash and bank balances		62,807	62,046
		<u>199,732</u>	<u>201,865</u>
CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	10	115	101
Current portion of finance lease payables		279	279
Trade payables	11	13,244	16,286
Other payables and accruals		1,954	1,769
Tax payables		35,238	33,857
		<u>50,830</u>	<u>52,292</u>
NET CURRENT ASSETS		<u>148,902</u>	<u>149,573</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>263,658</u>	<u>220,046</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	10	4,175	4,239
Finance lease payables		385	379
		<u>4,560</u>	<u>4,618</u>
MINORITY INTERESTS		<u>14,945</u>	<u>10,151</u>
		<u>244,153</u>	<u>205,277</u>
CAPITAL AND RESERVES			
Issued capital	12	8,730	8,730
Reserves		235,423	192,618
Proposed dividend		–	3,929
		<u>244,153</u>	<u>205,277</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

	For the six months ended 31 December 2002				
	Share premium HK\$'000	Capital reserve HK\$'000	Fixed asset revaluation HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 July 2002	35,140	106	2,451	154,921	192,618
Net profit for the Period	–	–	–	42,805	42,805
At 31 December 2002	35,140	106	2,451	197,726	235,423
	For the six months ended 31 December 2001				
	Share premium HK\$'000	Capital reserve HK\$'000	Fixed asset revaluation HK\$'000	Retained profits HK\$'000	Total HK\$'000
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
At 31 December 2001	35,140	106	2,893	120,073	158,212

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited six months ended 31 December	
	2002 HK\$'000	2001 HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	48,698	12,115
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(45,381)	(10,040)
NET CASH INFLOW FROM FINANCING ACTIVITIES	—	27,778
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,317	29,853
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	59,490	29,637
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	62,807	59,490
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	62,807	59,490

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES

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Interim Report 2002

Basis of preparation

The Interim Financial Statements of the Group are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25 “Interim financial reporting” and Appendix 16 of Listing Rules “Disclosure of Financial Information” of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The accounting policies and basis of presentation are the same as those used in the annual financial statements for the year ended 30 June 2002 (“Annual Financial Statements”). Figures for the year ended 30 June 2002 are extracted from the Group’s Annual Financial Statements for that year.

Impact of issued and revised Hong Kong Statements of Standard Accounting Practice

The following relevant SSAPs issued by the Hong Kong Society of Accountants are effective for accounting periods commencing on or after 1 January 2002:

- | | | | |
|---|-------------------|---|--|
| – | SSAP 1 (Revised) | : | “Presentation of financial statements” |
| – | SSAP 11 (Revised) | : | “Foreign currency translation” |
| – | SSAP 15 (Revised) | : | “Cash flow statements” |
| – | SSAP 25 (Revised) | : | “Interim financial reporting” |
| – | SSAP 34 | : | “Employee benefits” |

The main revision to SSAP 1 is to change the requirements from presenting a statement of recognized gains and losses to a statement of changes in equity. The Interim Financial Statements of changes in equity for the Period and the comparative balances have been presented in accordance with this revised SSAP.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. This revised SSAP has had no major impact on these Interim Financial Statements.

The main revision to SSAP 15 is to classify cash flows during the Period into operating, investing and financing activities. The condensed consolidated cash flow statement for the Period and the comparative balances have been presented in accordance with this revised SSAP.

SSAP 25 (Revised) prescribes the presentation and disclosures following changes in SSAP 1 (Revised) and SSAP 15 (Revised). The Interim Financial Statements for the Period and comparative balances have been presented in accordance with this revised SSAP.

SSAP 34 prescribes the accounting treatment and disclosures requirements for employee benefits. This SSAP has had no major impact on these Interim Financial Statements.

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.

3. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

(a) Business segments

The following table presents revenue and results for the Group's business segments.

Group

	Manufacture and sale of							
	Lubricants		Anti-corrosive coating		Additive		Consolidation	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	117,230	109,433	68,262	36,396	1,946	1,851	187,438	147,680
Segment results	33,539	40,428	22,028	13,445	484	684	56,051	54,557
Unallocated revenue							214	69
Unallocated expenses							(4,185)	(7,535)
Profit from operating activities							52,080	47,091
Finance costs							(99)	(117)
Profit before tax							51,981	46,974
Tax							(4,382)	(7,541)
Profit before minority interests							47,599	39,433
Minority interests							(4,794)	(2,042)
Net profit from ordinary activities attributable to shareholders							42,805	37,391

(b) Geographical segments

An analysis of the Group's consolidated turnover and contribution to profit from operating activities by geographical area for the Period is not presented as more than 90% of consolidated turnover is derived from the People's Republic of China (the "PRC").

4. PROFIT FROM OPERATING ACTIVITIES

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

	Six months ended	
	31 December	
	2002	2001
	HK\$'000	HK\$'000
Cost of inventories sold	121,579	46,593
Depreciation	1,088	1,131
Interest income	(15)	(46)
	<u> </u>	<u> </u>

5. TAX

	Six months ended	
	31 December	
	2002	2001
	HK\$'000	HK\$'000
Current period provision:		
Hong Kong	-	-
Elsewhere in the PRC	4,382	7,541
	<u> </u>	<u> </u>
Tax charge of the Period	<u>4,382</u>	<u>7,541</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 (2001: 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 (2001: Nil).

6. EARNINGS PER SHARE

The calculations of basic earnings per share is based on the Group's net profit from ordinary activities attributable to shareholders for the Period of approximately HK\$42,805,000 (2001: HK\$37,391,000), and the weighted average issued share capital of 873,000,000 ordinary shares (2001: 808,728,261 ordinary shares).

The calculation of diluted earnings per share is based on the weighted average of 873,000,000 ordinary shares in issued during the Period plus the weighted average of 17,626,093 ordinary shares deemed to be issued at no consideration if all outstanding share options had been exercised.

7. FIXED ASSETS

During the Period, the additions to fixed assets including leasehold improvement, construction in progress, furniture, office equipment and motor vehicle were approximately HK\$39 million.

8. INTANGIBLE ASSETS

During the Period, the additions to intangible assets including research and development cost were approximately HK\$5 million.

9. TRADE RECEIVABLES

The Group normally allows credit period to established customers ranging from 30 to 120 days, except for certain well-established customers and projects, for whom the credit terms are extended to 150 days. 100% provision is made for outstanding debts aged over 365 days. An aging analysis of the trade receivables as at the balance sheet date, base on the date of recognition of the sale, is as follows:

	31 December 2002 HK\$'000	30 June 2002 HK\$'000
0 – 30 days	62,964	68,837
31 – 60 days	4,403	9,443
61 – 90 days	3,025	7,592
91 – 120 days	1,384	3,883
121 – 150 days	384	–
Over 150 days	152	–
	<u>72,312</u>	<u>89,755</u>

10. INTEREST-BEARING BANK AND OTHER BORROWINGS

At 31 December 2002, the Group's bank and other borrowings were secured by the Group's leasehold land and buildings in Hong Kong and corporate guarantees given by the Company.

11. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 120 days from its suppliers. An aging analysis of the trade payables as at the balance sheet date, based on the receipt of goods purchased, is as follows:

	31 December 2002 HK\$'000	30 June 2002 HK\$'000
0 – 30 days	11,792	13,593
31 – 60 days	832	1,758
61 – 90 days	620	935
	<u>13,244</u>	<u>16,286</u>

12. SHARE CAPITAL

	31 December 2002 HK\$'000	30 June 2002 HK\$'000
Authorised:		
2,000,000,000 ordinary shares of HK\$0.01 each	<u>20,000</u>	<u>20,000</u>
Issued and fully paid:		
873,000,000 ordinary shares of HK\$0.01 each	<u>8,730</u>	<u>8,730</u>

13. RELATED PARTY TRANSACTIONS

There is no significant related party transaction during the Period.

14. CONTINGENT LIABILITIES

At the balance sheet, the Group did not have any significant contingent liabilities.

15. COMMITMENTS

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

	31 December 2002 HK\$'000	30 June 2002 HK\$'000
(a) Contracted capital commitments in respect of leasehold buildings and plant under construction	<u>24,764</u>	<u>3,505</u>
(b) Future aggregate lease payments under non-cancellable operating leases in respect of leasehold land and buildings are as follows:		
Within one year	131	513
In the second to fifth years, inclusive	<u>—</u>	<u>—</u>
	<u>131</u>	<u>513</u>

INTERIM DIVIDEND

The Directors have resolved that no interim dividend will be declared in respect of the Period (2001: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

Products of the Group

The Group is principally engaged in the manufacture of petroleum refined products in the PRC. Major products comprise lubricating oil and grease ("Lubricants") for industrial usage including petroleum extraction machines and automobiles and anti-corrosive coating ("Anti-corrosive") for drinking water, use on board, petroleum, crude oil and natural gas transmission pipes. Lubricants include 2 categories: lubricants for heavy machines and lubricants for automobiles. Anti-corrosive include 3 categories: anti-corrosive coating for drinking pipes, anti-corrosive coating for large scale infrastructures and anti-corrosive coating for use on board. Lubricants and Anti-corrosive are marketed and sold under the brand name "黑鳥牌" and "H88" respectively in the PRC, Asia, Europe and North America.

Operating environment

China domestic economy continued to grow during the Period. The Country's accession to the WTO has improved business confidence and led to significant foreign direct investments. These in turn have fueled domestic economic growth especially in China auto industry in 2002. The number of sedans produced and sold in 2002 was historical high and become the driving force for the development of the domestic auto industry.

As crude oil prices started to rise from a low level at the beginning of 2002, price of petrochemical products, which is the principal raw material of the Group, also increased to certain content. During the Period, 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

During the Period, the Group reported an encouraging growth in its results. The Group's unaudited consolidated turnover and net profit from ordinary activities attributable to shareholders for the six months ended 31 December 2002 were approximately HK\$187.4 million and HK\$42.8 million, representing an encouraging growth rates of approximately 26.9% and 14.5% respectively as compared to the same period last year.

The principal market of the Group remains in the PRC which accounted for approximately 94.3% of the Group's turnover. The sale of Lubricants increased approximately from HK\$109.4 million to approximately HK\$117.2 million, representing an increase of approximately 7.1%. The encouraging increase was mainly attributable to the Group obtained a HK\$22 million contract with Changchun First Automobile Petroleum Product Company, a subsidiary of China First Automobile Group and a RMB20 million contract with Shanghai Premium Lubricant Product Company for the production of lubricants in 2002.

The sale of Anti-corrosive increased approximately from HK\$36.4 million to approximately HK\$68.3 million, representing an increase of approximately 87.6%. Such dramatic increase in sales was mainly due to the Group obtained a RMB10 million contract for "West-East Gas Pipeline Projects" for the Lanzhou-Chengdu-Chongqing section and a RMB35 million contract for the "Dongjing Water Project" in 2002.

Internationally, because of continuous uncertainties and rapidly changing political situation in the Middle East, the overseas sales declined approximately 18.6% to HK\$13.3 million. The Group expects that the current market situation shall remain more or less the same for the rest of the financial year, and that any improvement shall depend on economic rebounds in Europe/US, and political development in the Middle East. The Group will, nevertheless, continue its internationalization strategy by positioning Hong Kong as a supply base, accelerating the international sales network and establishing regional service centres that are designed to provide a more diverse support to the international markets.

To strengthen the Group's research and development capabilities, the Group collaborates with the Institutes of Chemical Engineering, Heilongjiang University and Qiqihar University to gathering data and information about the latest development of the petrochemical products and performing analysis, improvement of the Group's products and documenting successful formulae and processes and developing of the environmentally friendly products.

During the Period, two properties were acquired as sale and administration office in Daqing City to support the expansion of the Group's business. Moreover, to further support the rapid expansion in Anti-corrosive market, two Anti-corrosive production lines are established in Ningbo during the Period.

The Group operates within the high and new technology industrial development zones in Daqing, and is still enjoying a reduced income tax rate of 7.5% up to 2003 and a reduced income tax rate of 15% thereafter. Accordingly, the effective tax rate of the Group decreased to approximately 8.4%.

Liquidity and financial resources

At 31 December 2002, the Group had total assets of approximately HK\$314.5 million (30 June 2002: HK\$272.3 million) which were financed by current liabilities of approximately HK\$50.8 million (30 June 2002: HK\$52.3 million), non-current liabilities of approximately HK\$4.6 million (30 June 2002: HK\$4.6 million), minority interests of approximately HK\$14.9 million (30 June 2002: HK\$10.1 million) and shareholders equity of approximately HK\$244.2 million (30 June 2002: HK\$205.3 million).

At 31 December 2002, the current assets of the Group amounted to approximately HK\$199.7 million (30 June 2002: HK\$201.9 million) comprising inventories of approximately HK\$49.6 million (30 June 2002: HK\$46.6 million), trade receivables of approximately HK\$72.3 million (30 June 2002: HK\$89.8 million), prepayments, deposits and other receivables of approximately HK\$15.0 million (30 June 2002: HK\$3.5 million), cash and bank balances of approximately HK\$62.8 million (30 June 2002: HK\$62.0 million).

At 31 December 2002, 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 3.9 (30 June 2002: 3.9), 3.0 (30 June 2002: 3.0), 17.6% (30 June 2002: 20.9%) and 22.7% (30 June 2002: 27.7%), respectively. These changes reflected an improvement in the Group's structure of assets and liabilities.

At 31 December 2002, the Group did not have any significant contingent liabilities.

Although significant portion of the Group's assets, sales and purchases are primarily denominated in Reminbi, the Directors consider that the Group has no significant exposure to foreign exchange fluctuations in view of the stability of the RMB. The Directors also consider that there will be sufficient cash resources denominated in Hong Kong dollars for the repayment of its borrowings and for future dividends payable to shareholders. During the Period under review, the Group did not use any financial instrument for hedging purposes and the Group did not have any hedging instrument outstanding as at 31 December 2002.

Prospects

The Company has formally become the "Overseas Window" of Daqing Municipal People's Government ("Daqing Municipal Government") and has changed its name into "Daqing Petroleum and Chemical Group Limited". The Group plans to set up an "Enterprises Consultation Committee" and "Listing Consultation Committee" to assist Daqing enterprises in corporate restructuring with a view to enhance efficiency and seeking overseas, Hong Kong and mainland listings. Several Daqing enterprises are under corporate restructuring and expect to be listed in 2003.

Owing to political and economic instabilities in the Middle East and South American region, and continuous weakness in global economic market, the Group adopts a prudent approach with respect to the second half of the financial year and expects stable business performance on an overall basis. With the recent change of top leadership and re-affirmation of market economy policy, the Group expects high economic growth in the domestic market.

In Lubricants, the Group is confident in the prospects of the domestic market for automobile lubricants. The domestic automobile lubricants market is currently dominated by automobile manufactures. Generally, each major automobile manufacturer produces lubricants under its own brand names, accounting for 40%–45% of their consumption, while the rest are outsourced from appointed automobile lubricant suppliers. The Group plans to cooperate with the appointed automobile lubricant suppliers through joint ventures or mergers, with a view to capture this sizeable market. The Group aims at becoming the second largest lubricant supplier among the PRC's ten leading automobile manufacturers, accounting for 35%–40% of each consumption. In November 2002, the Group entered into an agreement to acquire 80% stake in Shanghai Dazhong Premium Lubricant Product Company ("Dazhong Lubricant"), a major automobile lubricant supplier of Shanghai Dazhong Automobile ("Shanghai Dazhong"). The acquisition will be completed by the end of 2003 on the condition that Dazhong Lubricant achieves the Group's requirements. Dazhong Lubricant is mainly engaged in the production and sales of engine lubricant, break lubricant, anti-freeze fluid, grease and gearbox lubricant for motor vehicles. It is an appointed automobile lubricant supplier for Shanghai Dazhong that accounts for 10% of its consumption. Dazhong Lubricant's products are superior in quality compared to similar products in the domestic market, as they are made in accordance with top international standard with machinery sourced from European manufacturers and technicians trained by senior engineering professionals from abroad. Its "New Century 2000" and "Passat" brands are among the top eight best lubricant sellers in the PRC. By acquiring Dazhong Lubricant, the Group now has a combined distribution network comprising over 50 outlets. Further the Group will help to increase the production capacity of Dazhong Lubricant by improving the production process and operational efficiency, with the aim of accounting for 25% of Shanghai Dazhong's lubricant demand in 2003 and increasing that share to 40% in 2004. The Group also expects to expand the European, US and Southern Asian market through Dazhong Lubricant. The Group is currently in discussion with other leading automobile manufacturers and their appointed automobile lubricant suppliers for cooperation.

Anti-corrosive will be the key focus for the Group in the coming year. Anti-corrosive projects generally require regular maintenance at an interval of one to two years in order to maintain effectiveness. Consequently, the Group enjoys assured revenue growth by undertaking anti-corrosive projects. In future, Anti-corrosive is expected to grow rapidly and aims for a 50% share in the Group's turnover.

Anti-corrosive coating for drinking water pipes

The Group's product is the first of its type to have obtained the approval from the Ministry of Public Health of the PRC and has been used in various water supply systems of the major cities in the PRC and large scale projects including the "Dongjiang Water Project", "Shenzhen East Water Supply Project". The Group is in discussion with other provinces and major cities on upgrading of water transmission systems and the South-to-North Water Transmission Engineering Project.

Anti-corrosive coating for large scale infrastructure

The Group's products passed the test of China National Petroleum Corporation ("CNPC") in 2001 with its quality being recognized. The Group became the designated anti-corrosive coating supplier of the "West-East Gas Pipeline Projects" for Lanzhou-Chengdu-Chongqing section. In the second half of the financial year, except for the other sections of the West-East Gas Pipeline Projects, the Group is well prepared to bid for other large scale infrastructures, such as "Hanzhou Bay Bridge Project" which is expected to be finalized by 2003.

Anti-corrosive coating for use on board

The Group's anti-corrosive coating for use on board was granted China Classification Society certification in 2002. In November 2002, the Group entered into business co-operation and established a joint venture ("JV") with Bohai Heavy Industry Huludao Shipyard ("Bohai") for the construction of production lines for Anti-corrosive (mainly anti-corrosive coating for drinking pipes and anti-corrosive coating for use on board). The new production lines will be built in Huludao City with a total investment of RMB20 million, in which the Group take 60% stake in the form of fund and technology. Operation of the new production lines is expected to commence by the end of 2003 with annual capacity of 15,000 tons that account for approximately 1% of the domestic market usage. The production will be mainly supplied to the shipyards in the PRC including Bohai, Dalian Shipyard, Tianjin Shipyard and Qinhuangdao Shipyard. These four shipyards are consuming no less than 12,000 tons of anti-corrosive coating annually. Each shipyard is expanding their production capacities, while expansion at Bohai Heavy Industry Shipyard is also underway to increase its annual vessel making capacity to 400,000 tons, representing a growth of 60%.

In response to the challenging business environment, the Group intends to seek expansion only in a financially prudent manner, with emphasis on cost control and enhanced productivity with a view to maintain stable earnings growth through operational efficiency. Plans are underway to acquire core business-related projects, such as chemical material production facilities, which are expected to contribute in terms of cost control. We are also committed to improving product quality through ongoing R&D investments and eyeing on projects with high investment return.

Use of net proceeds from the New Issue and Placement

At the date of this report, the Group has utilized a total of approximately HK\$36.4 million of the proceeds. During the Period, approximately HK\$20.0 million, HK\$2.4 million, HK\$1 million and HK\$13 million have been applied towards the establishment of new production facilities and purchasing additional machinery in the PRC, expansion of the Group's distribution and sales network and as general working capital, respectively. Included in the cash and bank balances were the remaining net proceeds from the IPO and Placing which are placed on short term deposits with licensed banks in Hong Kong.

The Directors do not intend to change the application of the net proceeds. The remaining proceeds are placed on short term deposits with licensed banks in Hong Kong.

Details of the application of cash for the Period are set out in the "Condensed Consolidated Cash Flow Statement" on page 7 of this report.

Employees and remuneration policies

At 31 December 2002, the Group had 148 full time employees in the PRC and Hong Kong. The Group recognizes the importance of its human resources to its success. Remuneration is maintained at competitive levels with discretionary bonuses payable on a merit basis and in line with industry practice. Other staff benefits provided by the Group include mandatory provident fund, insurance schemes and performances related commissions.

During the Period, no share options has been granted to any staff. At 31 December 2002, a total of 42,000,000 share options are outstanding with exercise periods up to 19 August 2004 at exercise prices HK\$0.2344 per share.

DISCLOSURE OF ADDITIONAL INFORMATION

Change of Company Name

Pursuant to a special resolution passed at an extraordinary general meeting held on 18 November 2002 and the approval of the Registrar of Companies of the Cayman Islands, the Company changed its name from "Sunlord Chemical Group Limited (東君化工集團有限公司*)" to "Daqing Petroleum and Chemical Group Limited 大慶石油化工集團有限公司" on 28 November 2002.

* *for identification purpose only*

Alterations to the Articles of Association

Pursuant to a special resolution passed at an extraordinary general meeting held on 18 November 2002, the Company's Articles of Association (the "Articles") has been altered to permit the distribution of corporate communications (including the distribution of a summary of its financial reports) to the shareholders using electronic means and in either the English or the Chinese language in order to align the Articles with the latest changes of the Listing Rules.

Directors' Interests in Share Capital

At 31 December 2002, the interests of the directors in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

Name of director	Notes	Nature of interest	Number of ordinary shares held
Mr. Wang Dan Hui	1	Corporation	144,200,000
Mr. Wu Chieho Joseph	2	Corporation	13,000,000
Mr. Wang Hailou	3	Corporation	10,000,000

Notes:

1. These shares are owned by Noble Resources Investments Limited ("Noble Resources"), a company incorporated in the British Virgin Islands (the "BVI"). The entire share capital of Noble Resources is beneficially owned by Mr. Wang Dan Hui.
2. These shares are owned by Success Faith International Limited ("Success Faith"), a company incorporated in the BVI. The entire share capital of Success Faith is beneficially owned by Mr. Wu Chieho Joseph.
3. These shares are owned by Clever China Management Limited ("Clever China"), a company incorporated in the BVI. The entire share capital of Clever China is beneficially owned by Mr. Wang Hailou.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interest in the equity securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

Directors' Right to Acquire Shares or Debentures

Apart from as disclosed under the headings "Directors' Interest in Shares" above and "Share Option Scheme" below, at no time during the Period were the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse, or children under 18 years of age, to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Substantial Shareholders

At 31 December 2002, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests in shares required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

Name	Number of shares held	Percentage of holding
Noble Resources	144,200,000	16.5%

Note: These interests have also been disclosed as "Corporate Interests" of Mr. Wang Dan Hui in the section headed "Directors' Interests in Share Capital" above, where details of Noble Resources is given.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out above, had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

Share Option Scheme

Pursuant to an ordinary resolution passed at an extraordinary general meeting on 18 November 2002, the Company adopted a new share option scheme (the "New Scheme") whereby, the directors may, at their discretion, invite any eligible employees (including executive directors), any non-executive directors, suppliers, customers, consultants, advisers, managers, officers of the Group and any other parties having contributed or may contributed to the research, development or other technological support of the Group to take up options to subscribe for shares.

Meanwhile, the share option scheme adopted by the Company on 8 April 2001 (the "Old Scheme") was terminated on 18 November 2002. Options granted under the Old Scheme continue to be valid and exercisable.

No share option was granted under the Old Scheme during the Period prior to its termination nor under the New Scheme after its adoption during the Period.

The following share options were outstanding under the Old Scheme during the Period:

Category or name of participant	Number of share options at 1 July 2002 and 31 December 2002	Date of grant of share options *	Exercise period of share options	Exercise price of share options ** HK\$	Price of Company's shares ***	
					At grant date of options HK\$	At exercise date of options HK\$
Other employees			20 August 2001 to 19 August 2004			
In aggregate	<u>42,000,000</u>	8 August 2001		0.2344	0.295	0.49

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issue or other similar changes in the Company's shares capital.

*** The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the five trading days immediately prior to the date of the grant of the share options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of share options within the disclosure category.

Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Period.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Articles or the law of the Cayman Islands, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

CODE OF BEST PRACTICE

To comply with the Code of Best Practice as set out in Appendix 14 of the Listing Rules (the "Code of Best Practice"), the Company set up an Audit Committee on 8 April 2001, with written terms of reference, for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal control systems. The Audit Committee comprises three independent non-executive directors of the Company, namely, Mr. Feng Jianming, Mr. Ma Wing Yun Bryan and Mr. Meng Fanxi. The Group's Interim Financial Statements for the Period have been reviewed by the Audit Committee, who are of the opinion that such statements comply with applicable accounting standards and requirements and that adequate disclosures have been made.

In the opinion of the directors, the Company has complied with the Code of Best Practice throughout the Period.

APPRECIATION

On behalf of the Board, I would like to extend our gratitude and sincere appreciation to all management and staff members for their hardworking and dedication, the continuing support of our business partners, the financial creditors and the Company's shareholders.

By Order of the Board
Wang Dan Hui
Chairman and Executive Director

Hong Kong, 25 March 2003