



## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Executive Directors

Mr. Wang Dan Hui (resigned on 13 January 2004)

Mr. Wang Hailou

Mr. Wu Chieho Joseph (resigned on 13 January 2004)

Ms. Chan Yuk Foebe (appointed on 13 January 2004)

Mr. Chu Ki (appointed on 13 January 2004)

Mr. Peng Zhanrong (appointed on 26 February 2004)

#### Independent Non-Executive Directors

Mr. Feng Jianming (resigned on 26 February 2004)

Mr. Ma Wing Yun Bryan

Mr. Meng Fanxi

### COMPANY SECRETARY

Mr. Kwok Yuen Ying, Riki

### REGISTERED OFFICE

Century Yard

Cricket Square

Hutchins Drive

P.O. Box 2681 GT

George Town

Grand Cayman

British West Indies

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 2303, 23rd Floor

Far East Finance Centre

16 Harcourt Road

Admiralty

Hong Kong

### AUTHORISED REPRESENTATIVES

Ms. Chan Yuk Foebe

Mr. Chu Ki

### AUDITORS

Ernst & Young

Certified Public Accountants

15th Floor, Hutchison House

10 Harcourt Road

Central

Hong Kong

### 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

Ground Floor, Bank of East Asia

Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

Stock code: 362

## FINANCIAL HIGHLIGHTS

	Six months ended		Change
	2003	2002	
	HK\$'000	HK\$'000	
TURNOVER	<b>202,926</b>	187,438	8.3%
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<b>38,745</b>	42,805	(9.5%)
BASIC EARNINGS PER SHARE	<b>HK4.4 cents</b>	HK4.9 cents	(10.2%)
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 2003 ("Period"). The results had been reviewed by the Company's audit committee ("Audit Committee").

## CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		<b>Unaudited</b>	
		<b>six months ended</b>	
		<b>31 December</b>	
	<i>Notes</i>	<b>2003</b>	2002
		<b>HK\$'000</b>	<i>HK\$'000</i>
TURNOVER	2	<b>202,926</b>	187,438
Cost of sales		<b>(142,777)</b>	(121,579)
Gross profit		<b>60,149</b>	65,859
Other revenue		<b>199</b>	214
Selling and distribution costs		<b>(3,783)</b>	(4,817)
Administrative expenses		<b>(9,020)</b>	(9,176)
Other operating expenses		<b>(376)</b>	–
PROFIT FROM OPERATING ACTIVITIES	4	<b>47,169</b>	52,080
Finance costs		<b>(121)</b>	(99)
PROFIT BEFORE TAX		<b>47,048</b>	51,981
Tax	5	<b>(3,718)</b>	(4,382)
PROFIT BEFORE MINORITY INTERESTS		<b>43,330</b>	47,599
Minority interests		<b>(4,585)</b>	(4,794)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<b><u>38,745</u></b>	<u>42,805</u>
EARNINGS PER SHARE	6		
– Basic		<b><u>HK4.4 cents</u></b>	<u>HK4.9 cents</u>
– Diluted		<b><u>HK4.3 cents</u></b>	<u>HK4.8 cents</u>

## CONDENSED CONSOLIDATED BALANCE SHEET

		<b>Unaudited</b>	Audited
		<b>31 December</b>	30 June
		<b>2003</b>	2003
	Notes	<b>HK\$'000</b>	HK\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	7	<b>113,733</b>	106,577
Other assets	8	<b>13,580</b>	13,753
Intangible assets	9	<b>4,953</b>	4,953
Deposit paid for the establishment of a proposed joint venture	10	<b>5,140</b>	5,140
Investment in a club membership		<b>650</b>	650
		<b>138,056</b>	131,073
<b>CURRENT ASSETS</b>			
Inventories		<b>75,274</b>	59,399
Trade receivables	11	<b>114,346</b>	103,791
Prepayments, deposits and other receivables		<b>15,584</b>	15,350
Cash and cash equivalents		<b>62,999</b>	57,374
		<b>268,203</b>	235,914
<b>CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings, secured	12	<b>142</b>	135
Finance lease payables		<b>279</b>	279
Trade payables	13	<b>5,702</b>	13,245
Other payables and accruals		<b>1,895</b>	4,475
Tax payable		<b>38,620</b>	34,902
		<b>46,638</b>	53,036
<b>NET CURRENT ASSETS</b>		<b>221,565</b>	182,878
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>359,621</b>	313,951
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings, secured	12	<b>4,033</b>	4,103
Finance lease payables		<b>131</b>	260
		<b>4,164</b>	4,363
<b>MINORITY INTERESTS</b>		<b>24,943</b>	20,358
		<b>330,514</b>	289,230

		<b>Unaudited</b> <b>31 December</b> <b>2003</b> <b>HK\$'000</b>	Audited 30 June 2003 HK\$'000
<b>CAPITAL AND RESERVES</b>			
Issued capital	14	<b>9,324</b>	8,730
Reserves		<b>321,190</b>	279,523
Proposed final dividend		—	977
		<b><u>330,514</u></b>	<b><u>289,230</u></b>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY –  
UNAUDITED

	For the six month ended 31 December 2003					
	Share premium account HK\$'000	Capital reserve HK\$'000	Fixed asset revaluation reserve HK\$'000	Investment property revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK'000
At 1 July 2003	35,140	106	5,884	20	238,373	279,523
Arising on exercise of share options	3,366	-	-	-	-	3,366
Issue of bonus shares	(444)	-	-	-	-	(444)
Net profit for the Period	-	-	-	-	38,745	38,745
At 31 December 2003	<u>38,062</u>	<u>106</u>	<u>5,884</u>	<u>20</u>	<u>277,118</u>	<u>321,190</u>

	For the six month ended 31 December 2002				
	Share premium HK\$'000	Capital reserve HK\$'000	Fixed asset revaluation reserve 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	<u>35,140</u>	<u>106</u>	<u>2,451</u>	<u>197,726</u>	<u>235,423</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<b>Unaudited</b>	
	<b>six months ended</b>	
	<b>31 December</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	<i>HK\$'000</i>
NET CASH INFLOW FROM OPERATING ACTIVITIES	<b>11,647</b>	48,698
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	<b>(9,346)</b>	(45,381)
NET CASH INFLOW FROM FINANCING ACTIVITIES	<b>3,324</b>	–
NET INCREASE IN CASH AND CASH EQUIVALENTS	<b>5,625</b>	3,317
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	<b>57,374</b>	59,490
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<b>62,999</b>	62,807
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<b>62,999</b>	62,807

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES

The Interim Financial Statements of the Group have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The accounting policies and the basis of presentation are consistent with those used in the annual financial statements for the year ended 30 June 2003, except as described below.

During the Period, the Group has adopted SSAP 12 (Revised) "Income Taxes". The principal effect of the implementation of SSAP 12 (Revised) is relating to deferred tax. In previous years, partial provision was made for deferred tax using the liability method under which a liability was recognized in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognized in respect of all temporary differences between the carrying amounts of assets and liabilities in the condensed consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of this standard has had no material effect on the results for the prior accounting periods. Accordingly, no prior period adjustment has been required.

### 2. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and after eliminations 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.

#### (i) Business segments

The following table presents revenue and result information for the Group's business segments:

	Manufacture and sale of						Consolidated	
	Lubricants		Anti-corrosive coatings		Additive		2003	2002
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment revenue:								
Sales to external customers	<u>119,087</u>	<u>117,230</u>	<u>82,159</u>	<u>68,262</u>	<u>1,680</u>	<u>1,946</u>	<u>202,926</u>	<u>187,438</u>
Segment results	<u>28,304</u>	<u>33,539</u>	<u>20,225</u>	<u>22,028</u>	<u>510</u>	<u>484</u>	<u>49,039</u>	<u>56,051</u>
Unallocated revenue							199	214
Unallocated expenses							(2,069)	(4,185)
Profit from operating activities							<u>47,169</u>	<u>52,080</u>
Finance costs							(121)	(99)
Profit before tax							<u>47,048</u>	<u>51,981</u>
Tax							<u>(3,718)</u>	<u>(4,382)</u>
Profit before minority interests							<u>43,330</u>	<u>47,599</u>
Minority interests							<u>(4,585)</u>	<u>(4,794)</u>
Net profit from ordinary activities attributable to shareholders							<u>38,745</u>	<u>42,805</u>

#### (ii) Geographical segments

Over 90% of the Group's revenue, results, assets and liabilities are derived from customers in the People's Republic of China (the "PRC" or "China") and accordingly, no further detailed analysis of the Group's geographical segments is presented.

#### 4. PROFIT FROM OPERATING ACTIVITIES

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

	Six months ended	
	31 December	
	2003	2002
	HK\$'000	HK\$'000
Cost of inventories sold	142,777	121,579
Depreciation	2,190	1,088
Amortisation of other assets	173	-
Interest income	(94)	(15)
Net rental income	(105)	-
	<u>          </u>	<u>          </u>

#### 5. TAX

	Six months ended	
	31 December	
	2003	2002
	HK\$'000	HK\$'000
Current Period provisions:		
Hong Kong	-	-
Elsewhere in the PRC	3,718	4,382
	<u>          </u>	<u>          </u>
Tax charge of the Period	3,718	4,382
	<u>          </u>	<u>          </u>

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the Period (2002: 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 respect thereof.

Deferred tax has not been provided as the Group did not have any significant unprovided deferred tax liabilities in respect of the Period (2002: Nil).

The revaluation of the Group's leasehold land and buildings and investment property does not constitute a timely difference and, consequently, there is no deferred tax arising thereon.

#### 6. EARNING PER SHARE

The calculations of basic earnings per share are based on the Group's net profit from ordinary activities attributable to shareholders for the Period of approximately HK\$38,745,000 (2002: HK\$42,805,000), and the weighted average of 890,200,000 (2002: 873,000,000) ordinary shares in issue during the Period.

The calculation of diluted earnings per share for the Period is based on the Group's net profit from ordinary activities attributable to shareholders for the Period of approximately HK\$38,745,000 (2002: HK\$42,805,000). The weighted average number of ordinary shares used in the calculation is 890,200,000 (2002: 873,000,000) ordinary shares in issue during the Period, as used in the basic earnings per share calculation; and the weighted average of 15,252,000 (2002: 17,626,093) ordinary shares assumed to have been issued at no consideration on the deemed exercise of the share options outstanding during the Period.

## 7. FIXED ASSETS

During the Period, the additions to fixed assets including the construction in progress in the PRC were approximately HK\$9.3 million.

## 8. OTHER ASSETS

	<i>HK\$'000</i>
Cost:	
At 1 July 2003 and at 31 December 2003	<u>13,832</u>
Accumulated amortisation:	
At 1 July 2003	79
Amortisation provided during the Period	<u>173</u>
At 31 December 2003	<u>252</u>
Net book value:	
At 31 December 2003	<u>13,580</u>
At 30 June 2003	<u>13,753</u>

The Group is in the process of obtaining land use rights certificates together with the related building ownership certificates for certain of its leasehold land and buildings situated in Daqing, Heilongjiang Province, the PRC.

In the opinion of the Directors, the Group has obtained the right to use the land and the related improvements legally. Once the Group obtains all of the relevant certificates, the Group will have the right to assign, lease or mortgage the land and its improvements.

## 9. INTANGIBLE ASSETS

In the opinion of the Directors, no amortisation was provided for the Period as the products are still at the development stage and are not yet available for use to the Group.

## 10. DEPOSIT PAID FOR THE ESTABLISHMENT OF A PROPOSED JOINT VENTURE

On 10 October 2003, the approval for the establishment of the Sino-foreign equity joint venture was obtained from the relevant PRC government authority.

At 31 December 2003, the Group had paid HK\$5,140,000 as a partial contribution for its establishment of a Sino-foreign equity joint venture in the PRC, totaling HK\$12,149,000, of the proposed total investment of the joint venture. The remaining contribution required from the Group to fulfill the proposed total investment in the joint venture of HK\$7,009,000 is disclosed as a capital commitment in note 19 to the condensed consolidated financial statements.

## 11. TRADE RECEIVABLES

The Group normally allows credit terms to established customers ranging from 30 to 150 days. Full provision is made for outstanding debts aged over 365 days.

An aging analysis of the trade receivables as at the balance sheet date, based on the invoice date, is as follows:

	<b>31 December 2003 HK\$'000</b>	30 June 2003 HK\$'000
Within 30 days	<b>33,911</b>	30,780
31 – 60 days	<b>45,515</b>	41,314
61 – 90 days	<b>15,388</b>	13,968
91 – 120 days	<b>10,585</b>	9,608
Over 120 days	<b>8,947</b>	8,121
	<b><u>114,346</u></b>	<u>103,791</u>

Included in the Group's trade receivables as at 31 December 2003 is an amount due from the joint venture partner of the proposed Sino-foreign equity joint venture of HK\$3,022,000, which is repayable on credit terms similar to those offered to other customers of the Group.

## 12. INTEREST-BEARING BANK AND OTHER BORROWINGS, SECURED

At 31 December 2003, 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.

## 13. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 120 days from its suppliers.

An aged analysis of the trade payables as at the balance sheet date, based on the invoice date, is as follows:

	<b>31 December 2003 HK\$'000</b>	30 June 2003 HK\$'000
Within 30 days	<b>82</b>	191
31 – 60 days	<b>1,598</b>	3,711
61 – 90 days	<b>3,455</b>	8,026
Over 90 days	<b>567</b>	1,317
	<b><u>5,702</u></b>	<u>13,245</u>

## 14. SHARE CAPITAL

### Shares

	<b>31 December 2003 HK\$'000</b>	30 June 2003 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:		
932,400,000 (30 June 2003: 873,000,000) ordinary shares of HK\$0.01 each	<u>9,324</u>	<u>8,730</u>

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

	<b>Number of ordinary shares issued '000</b>	<b>Par value HK\$'000</b>
At 1 July 2003	873,000	8,730
Share options exercised	15,000	150
Bonus issue of shares *	<u>44,400</u>	<u>444</u>
At 31 December 2003	<u>932,400</u>	<u>9,324</u>

- \* Pursuant to an ordinary resolution passed at the annual general meeting held on 20 November 2003, a bonus issue of shares has been allotted and issued on the basis that one new share, credited as fully paid, for 20 existing issued shares held by the shareholders whose names appeared on the register of members of the Company on 20 November 2003. In this respect, 44,400,000 new ordinary shares of HK\$0.01 each have been allotted and issued as bonus shares. The said bonus shares are rank pari passu in all respects with the ordinary shares of the Company in issue on the date of allotment but were not entitled to the final dividend for the year ended 30 June 2003.

## 15. SHARE OPTION SCHEMES

The Company's share option scheme which was adopted on 8 April 2001 (the "Old Scheme") was terminated and replaced by a new share option scheme approved by the shareholders of the Company at the extraordinary general meeting held on 18 November 2002 (the "New Scheme"). Upon the termination of the Old Scheme, no share option were granted under the New Scheme during the Period, but in all other respects, the provisions of the Old Scheme remain in force and all share options granted prior to such termination continue to be valid and exercisable in accordance therewith.

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

Category or name of participant	Number of share options					Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$	Price of Company's shares***	
	At 1	Granted	Exercised	Lapsed	At 31				At grant	At exercise
	July 2003	during the Period	during the Period	during the Period	December 2003				date of options	date of options
<b>Other employees</b>										
In aggregate	42,000,000	-	15,000,000	-	27,000,000	8 August 2001 to 19 August 2004	20 August 2001 0.2344	0.295	N/A	

\* 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 a rights or bonus issue, or other similar changes in the Company's share capital.

\*\*\* The price of the Company's shares disclosed as at the date of the grant of the share options is the average Stock Exchange closing price on the five trading days immediately preceding to the date of the grant of the share options.

## 16. RELATED PARTY TRANSACTIONS

There is no significant related party transaction during the Period (2002: Nil).

## 17. CONTINGENT LIABILITIES

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

## 18. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leases its investment property under an operating lease arrangement, with the lease negotiated for a term of one year. The terms of the lease require the tenant to pay a security deposit and provide for periodic rent adjustments according to the then prevailing market conditions.

At the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenant falling due as follows:

	<b>31 December</b>	30 June
	<b>2003</b>	2003
	<b>HK\$'000</b>	<b>HK\$'000</b>
Within one year	<u>90</u>	<u>180</u>

### (b) As lessee

The Group leases certain leasehold land and buildings under operating lease arrangements. The original lease terms for these leasehold land and buildings range from one to ten years.

At balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases for leasehold land and buildings falling due as follows:

	<b>31 December</b>	30 June
	<b>2003</b>	2003
	<b>HK\$'000</b>	<b>HK\$'000</b>
Within one year	<u>1,121</u>	<u>1,121</u>
In the second to fifth years, inclusive	<u>9,422</u>	<u>9,346</u>
	<u><b>10,543</b></u>	<u><b>10,467</b></u>

## 19. COMMITMENTS

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

	<b>31 December</b>	30 June
	<b>2003</b>	2003
	<b>HK\$'000</b>	<b>HK\$'000</b>
Authorised, but not contracted for:		
Proposed acquisition of an 80% equity interest in an entity in the PRC	<u>-</u>	<u>17,944</u>
Contracted, but not provided for:		
(a) Leasehold buildings and plant under construction	<u>5,421</u>	<u>15,421</u>
(b) Contribution to a PRC joint venture (note 10)	<u>7,009</u>	<u>7,009</u>
(c) Development costs	<u>1,963</u>	<u>1,963</u>
	<u><b>14,393</b></u>	<u><b>24,393</b></u>

## INTERIM DIVIDEND

The Directors have resolved that no interim dividend will be declared in respect of the Period (2002: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

#### *Financial Performance*

For the six months ended 31 December 2003, the Group recorded HK\$202.9 million in turnover (2002: HK\$187.4 million), representing an increase of 8.3% over the corresponding Period of the previous year. Meanwhile, the profit attributable to shareholders during this Period amounted to HK\$38.7 million (2002: HK\$42.8 million), decreasing by 9.5% as compared with the corresponding Period of the previous year.

The Serious Acute Respiratory Syndrome ("SARS") swept over the world in 2003, and the effect of this disaster in China was particularly serious as it caused the suspension of many business activities and almost led to the complete standstill of transportation of people and cargo among provinces and cities. Unavoidably, the Group's business was badly affected by this disaster. The profit attributable to shareholders decreased by 9.5% as compared with the corresponding Period of the previous year since the extremely unfavourable business environment drove up costs during the period of the outbreak of SARS.

Another main reason was that crude oil price has remained high since the beginning of the year due to an upheaval in international oil market following the outbreak of the US-Iraq War, maintaining the prices of most chemical raw materials high and even leading to the structural supply shortage of part of certain materials. While most players adopted a wait-and-see attitude towards the adjustment of sales prices, the increase in costs can only partially pass to customers which created pressure on the profit margin of the Group's overall business. Though the performance of the Group was below expectation due to many unfavourable factors during the Period, the result we achieved by much effort was encouraging.

#### *Lubricants*

The damage done by SARS directly affected the sales of the Group for the first half of the year. Meanwhile, the prices of most of raw materials have stayed at a high level they reached since late 2003. Among these materials, some of highest consumption even ran into structural shortage. The high cost of raw material, coupled with the market's resistance to the price increases had caused the inability to fully pass on the significant cost increases to customers. This, together with some serious regional competition from rivals, resulted in the operating profits of HK\$28.3 million, decreasing by 15.6% as compared with the corresponding Period of the preceding year.

The market demand accumulated in the period of outbreak of SARS is expected to be released in the second half of the year, which will cause "the delayed effect" and "supplementary orders" subsequently. Therefore, the Group believes that the sale for the second half of the year will be beyond expectation. The Group will also actively strengthen control over costs through a number of practical measures in order to realize better operating performance.



#### *Anti-corrosive coating*

During the Period, Ningbo new factory was partially put into operation, creating a favourable effect on our business development in East China. Its actual performance was encouraging. Taking the advantage of development momentum of last year, a record high of HK\$82.2 million in turnover was achieved in this Period, representing an increase of 20.4% as compared with the corresponding Period of the preceding year. The encouraging increase was mainly attributable to the Group obtained a RMB30 million contract for the "Hangzhou Bay Bridge phase I project" in 2003. However, operating profits only recorded HK\$20.2 million, edging up 8.2% over the past year due to a dramatic rise in the prices of raw materials at the end of last year and the persistence of high prices thereafter as well as competition within the sector. The Group will strike a balance between increase in market share and improvement of operating effectiveness. When Ningbo factory is put into full production in future, it is expected to further enhance the Group's output and quality of products, and to form a landmark for the development of anti-corrosive coating business.

#### LIQUIDITY AND FINANCIAL RATIOS

At 31 December 2003, the Group had total assets of approximately HK\$406.3 million (30 June 2003: HK\$367.0 million) which were financed by current liabilities of approximately HK\$46.7 million (30 June 2003: HK\$53.0 million), non-current liabilities of approximately HK\$4.2 million (30 June 2003: HK\$4.4 million), minority interests of approximately HK\$24.9 million (30 June 2003: HK\$20.4 million) and shareholders equity of approximately HK\$330.5 million (30 June 2003: HK\$289.2 million).

At 31 December 2003, the current assets of the Group amounted to approximately HK\$268.2 million (30 June 2003: HK\$235.9 million) comprising inventories of approximately HK\$75.3 million (30 June 2003: HK\$59.4 million), trade receivables of approximately HK\$114.3 million (30 June 2003: HK\$103.8 million), prepayment, deposits and other receivables of approximately HK\$15.6 million (30 June 2003: HK\$15.4 million), cash and cash equivalents of approximately HK\$63.0 million (30 June 2003: HK\$57.4 million).

At 31 December 2003, 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 5.8 (30 June 2003: 4.4), 4.1 (30 June 2003:3.3), 12.5% (30 June 2003: 15.6%) and 15.4% (30 June 2003: 19.9%), respectively. These changes reflected an improvement in the Group's structure of assets and liabilities.

At 31 December 2003, the Group did not have any significant contingent liabilities.

#### FOREIGN EXCHANGE EXPOSURE

Although most of the operations were carried out in the PRC in which transactions were denominated in RMB, the Directors consider that the Group has no significant exposure to foreign exchange fluctuations in view of the stability of the RMB in recent years. The Directors also consider that there will be sufficient cash resources denominated in Hong Kong dollars for the repayment of borrowings and future dividends. 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 2003.

## NUMBER AND REMUNERATION OF EMPLOYEES

At 31 December 2003, the Group had 123 full time employees in the PRC and Hong Kong. The Group recognizes the importance of 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 under review, no share options were granted to any staff. At 31 December 2003, a total of 27,000,000 share options are outstanding with exercisable periods up to 19 August 2004 with exercise prices HK\$0.2344 per share.

## PROSPECTS

For the time being, it is difficult to predict the impact of the US-Iraq War on the global economy and there are some uncertainties in the trend of the world economy. Both weigh heavily with the trend of market prices of international crude oil and chemical raw materials. In addition to the possible delayed aftermath of SARS on economic development, the prices and consumption of domestic chemical products may be affected in the short term and the Group's business will meet a great challenge. All these are challenges faced by the Group in its operation. The Group expects that it is difficult for its annual profit margin to remain at the same level of the last years as the pressure from high costs of raw materials will probably remain in the second half of the year.

Given the above-mentioned market condition, the Group will keep an eye on market changes, arrange production and operation reasonably and adopt flexible operation strategy. In line with our continued development strategy of "expand market share, improve cost-effectiveness and make prudent investment", the Group will also accelerate the market share expansion, product upgrading and operating cost control in order to flexibly and proactively optimize its profitability and generate the expected result.



## DISCLOSURE OF ADDITIONAL INFORMATION

### DIRECTORS' INTERESTS OR SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2003, the interests or short positions of the Directors and chief executive of the Company in the shares or underlying shares or, as the case may be, the percentage in the equity interest and debentures of the Company or its associated corporations (within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"), to be notified to the Company and the Stock Exchange were as follows:

Name of Director	The Company/ name of associated corporation	Capacity	Number and class of securities/percentage in equity interest
Mr. Wang Dan Hui	The Company	Interest of a controlled corporation (notes 1 & 4)	151,410,000 ordinary shares/ Long position
Mr. Wu Chieho Joseph	The Company	Interest of a controlled corporation (notes 2 & 4)	13,650,000 ordinary shares/ Long position
Mr. Wang Hailou	The Company	Interest of a controlled corporation (note 3)	10,500,000 ordinary shares/ Long position

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 issued 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 issued 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 issued share capital of Clever China is beneficially owned by Mr. Wang Hailou.
4. Mr. Wang Dan Hui and Mr. Wu Chieho Joseph have resigned from the office of executive directors of the Company with effect from 13 January 2004.
5. Ms Chan Yuk Foebe and Mr. Chu Ki were appointed as executive directors of the Company on 13 January 2004, while Mr. Peng Zhanrong was appointed as executive director of the Company on 26 February 2004.

Save as disclosed above, as at 31 December 2003, none of the Directors and the chief executive of the Company had any interest and short positions in the shares, underlying shares or, as the case may be, the percentage in the equity interest and debentures of the Company or its associated corporations (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed in the share option scheme disclosures in note 15 to the financial statements, at no time during the Period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## INTERESTS OF SHAREHOLDERS DISCLOSABLE UNDER THE SFO

As at 31 December 2003, the following persons, other than a Director or chief executive of the Company, had an interest or a short position in the shares and underlying shares in the company as recorded in the register required to be kept under section 336 of the SFO:

Name of shareholder	Number of ordinary shares	Nature of interest	Approximate percentage of interest
Noble Resources	Long position 151,410,000	Beneficial owner*	16.24%

\* On 14 January 2004, the Board announced that they have been informed by Noble Resources, Success Faith and Clever China that they have entered into the Share Purchase Agreement on 11 January 2004 with Master Oriental Limited ("Master Oriental") for the disposal of shares. Pursuant to the Share Purchase Agreement, Noble Resources, Success Faith and Clever China agreed to sell their entire interest in the Company, being an aggregate of 175,560,000 shares, representing approximately 18.83% of the issued share capital of the Company, to Master Oriental at an aggregate consideration of HK\$86,902,200. Master Oriental and its beneficial owner, Heng Tai Consumables Group Limited, are the independent third parties who are independent of and not connected with the chief executive, directors or substantial shareholders of the Company or any of their respective associates or any of Noble Resources, Success Faith and Clever China.

Save as disclosed above, as at 31 December 2003, no person, other than a Director, had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO.



## 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 of association or the Companies Law (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to the 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.

Since Mr. Feng Jianming has resigned from the office of independent non-executive director of the Company with effect from 26 February 2004, the Audit Committee now comprises two independent non-executive directors of the Company, namely, 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 my heart-felt gratitude to our staff, shareholders, investors, customers and business partners who have given continuous support to the Group.

By order of the Board  
**Chan Yuk Foebé**  
*Chairman and Executive Director*

Hong Kong, 18 March 2004