



CORPORATE INFORMATION

Board of Directors

Executive Directors
Ms. Chan Yuk Foebe
Mr. Chu Ki
Mr. Peng Zhanrong
Mr. Wang Hailou

Independent Non-executive Directors

Mr. Ma Wing Yun Bryan
Mr. Meng Fanxi
Mr. Wong Kai Tat (appointed on
30 September 2004 and resigned
on 21 December 2004)

Company Secretary

Mr. Kwok Yuen Ying Riki

Registered Office

Century Yard
Cricket Square
Hutchins Drive
P. O. Box 2681 CT
George Town
Grand Cayman
British West Indies

Head Office and Principal Place of Business in Hong Kong

Room 1818, 18th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

Authorised Representatives

Ms. Chan Yuk Foebe
Mr. Chu Ki

Auditors

RSM Nelson Wheeler
Certified Public Accountants
7th Floor, Allied Kajima Building
138 Gloucester Road
Hong Kong

Legal Advisers to the Company

Simmons & Simmons
35th Floor
Cheung Kong Center
2 Queen's Road 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

Hang Seng Bank Limited
83 Des Voeux Road Central
Central
Hong Kong

Principal Share Registrar and Transfer Office

Bank of Bermuda (Cayman) Limited
P. O. Box 513 G.T.
2nd Floor, Strathvale House
North Church Street
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
	31 December		
	2004	2003	
	<i>HK\$'000</i>	<i>HK\$'000</i>	
TURNOVER	300,628	202,926	48.2%
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	40,318	38,745	4.1%
BASIC EARNINGS PER SHARE	HK3.2 cents	HK4.4 cents	(27.3%)
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 2004 (“Period”). The results had been reviewed by the Company’s audit committee (“Audit Committee”).

**CONDENSED CONSOLIDATED INCOME STATEMENT**

	<i>Notes</i>	Unaudited six months ended 31 December	
		2004 HK\$'000	2003 HK\$'000
TURNOVER	2	300,628	202,926
Cost of sales		(226,373)	(142,777)
Gross profit		74,255	60,149
Other revenue		4,603	199
Selling and distribution costs		(4,057)	(3,783)
Administrative expenses		(13,241)	(9,020)
Other operating expenses		(483)	(376)
Non-recurring litigation fee and legal fee for set up of a subsidiary	4	(4,234)	–
PROFIT FROM OPERATING ACTIVITIES	4	56,843	47,169
Finance costs		(526)	(121)
PROFIT BEFORE TAX		56,317	47,048
Tax	5	(8,652)	(3,718)
PROFIT BEFORE MINORITY INTERESTS		47,665	43,330
Minority interests		(7,347)	(4,585)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		40,318	38,745
EARNINGS PER SHARE	6		
– Basic		HK3.2 cents	HK4.4 cents
– Diluted		N/A	HK4.3 cents

**CONDENSED CONSOLIDATED BALANCE SHEET**

	<i>Notes</i>	Unaudited 31 December 2004 HK\$'000	Audited 30 June 2004 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	7	197,837	114,196
Other assets	8	13,234	13,407
Deferred development costs	9	4,953	4,953
Deposits paid for the establishment of proposed joint ventures	10	5,140	30,140
		221,164	162,696
CURRENT ASSETS			
Inventories		117,361	64,683
Trade receivables	11	150,305	129,233
Prepayments, deposits and other receivables		34,694	25,539
Cash and cash equivalents		163,298	83,636
		465,658	303,091
CURRENT LIABILITIES			
Interest-bearing bank and other borrowings, secured		—	146
Short term borrowing		—	20,000
Trade payables	12	7,272	5,702
Other payables and accruals		15,070	6,951
Tax payable		41,158	32,506
		63,500	65,305
NET CURRENT ASSETS		402,158	237,786
TOTAL ASSETS LESS CURRENT LIABILITIES		623,322	400,482
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings, secured		—	3,956
MINORITY INTERESTS		73,864	28,284
		549,458	368,242
CAPITAL AND RESERVES			
Issued capital	13	14,496	9,664
Reserves		534,962	358,578
		549,458	368,242



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

	For the six month ended 31 December 2004				
	Share premium account <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 2004	47,341	106	5,958	305,173	358,578
Rights Issue	140,128	-	-	-	140,128
Rights Issue expenses	(4,062)	-	-	-	(4,062)
Net profit for the Period	-	-	-	40,318	40,318
At 31 December 2004	183,407	106	5,958	345,491	534,962

	For the six month ended 31 December 2003					
	Share premium account <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Fixed asset revaluation reserve <i>HK\$'000</i>	Investment property revaluation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK'000</i>
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	38,062	106	5,884	20	277,118	321,190



CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited six months ended 31 December	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
NET CASH INFLOW FROM OPERATING ACTIVITIES	28,344	11,647
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(89,580)	(9,346)
NET CASH INFLOW FROM FINANCING ACTIVITIES	140,898	3,324
NET INCREASE IN CASH AND CASH EQUIVALENTS	79,662	5,625
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	83,636	57,374
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	163,298	62,999
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	163,298	62,999



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 Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public 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 2004.

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.



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

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 results information for the Group's business segments:

	Manufacture and sale of									
	Lubricants		Anti-corrosive coatings		Additives		Vinyl acetate		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	175,442	119,087	107,486	82,159	1,974	1,680	15,726	-	300,628	202,926
Segment results	31,872	28,304	25,004	20,225	518	510	2,454	-	59,848	49,039
Unallocated revenue									4,603	199
Unallocated expenses									(7,608)	(2,069)
Profit from operating activities									56,843	47,169
Finance costs									(526)	(121)
Profit before tax									56,317	47,048
Tax									(8,652)	(3,718)
Profit before minority interests									47,665	43,330
Minority interests									(7,347)	(4,585)
Net profit from ordinary activities attributable to shareholders									40,318	38,745

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)****3. Segment Information (Cont'd)***(ii) Geographical segments*

All 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	
	2004	2003
	HK\$'000	HK\$'000
Cost of inventories sold	208,649	142,777
Depreciation	1,659	2,190
Amortisation of other assets	173	173
Loss on disposal of an investment property	70	–
Interest income	(63)	(94)
Net rental income	(20)	(105)

The Group has incurred litigation fee and legal fee for set up of a subsidiary of approximately HK\$4,200,000. These are non-recurring and one-off expenses.

5. Tax

	Six months ended 31 December	
	2004	2003
	HK\$'000	HK\$'000
Current Period provision:		
Hong Kong	–	–
Elsewhere in the PRC	8,652	3,718
Tax charge for the Period	8,652	3,718



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

5. Tax (Cont'd)

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 (2003: 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.

According to the Income Tax Law of the PRC, Daqing Black Bird Chemical Co., Ltd. (formerly known as Daqing Black Bird Co., Ltd.) ("Daqing Black Bird"), a subsidiary of the Company, is subject to an income tax rate of 15%, being the preferential tax rate applicable to Daqing Black Bird operating in one of the high and new technology industrial development zones of the PRC.

Mudanjiang Dongbei Chemical Engineering Company Limited ("Mudanjiang Subsidiary") was exempt from the income tax of the PRC for two years starting from the first profitable year of its operations, i.e., from 1 January 2004 to 31 December 2005. Mudanjiang Subsidiary is also entitled to a 50% relief from the income tax of the PRC for the following three years, i.e., from 1 January 2006 to 31 December 2008. Upon expiry of the tax relief period, Mudanjiang Subsidiary will be subject to an income tax rate of 33%.

The provision for income tax of the other subsidiaries operating in the PRC have been calculated at the rate of 33%, based on existing legislation, interpretations and practices in respect thereof.

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	Hong Kong		The PRC		Total	
	2004 HK\$'000	2004 %	2004 HK\$'000	2004 %	2004 HK\$'000	2004 %
Profit/(loss) before tax	(7,610)		63,927		56,317	
Tax at the statutory tax rate	(1,332)	17.5	21,096	33.0	19,764	35.1
Preferential statutory tax rate offered	-	-	(12,522)	(19.6)	(12,522)	(22.2)
Lower tax rate for tax relief granted	-	-	78	0.1	78	0.1
Income not subject to tax	(1)	-	-	-	(1)	-
Expenses not deductible for tax	1,333	(17.5)	-	-	1,333	2.4
Tax charge at the Group's effective tax rate	-	-	8,652	13.5	8,652	15.4

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)****5. Tax (Cont'd)**

	Hong Kong		The PRC		Total	
	2003 HK\$'000	2003 %	2003 HK\$'000	2003 %	2003 HK\$'000	2003 %
Profit/(loss) before tax	(2,522)		49,570		47,048	
Tax at the statutory tax rate	(404)	16.0	16,358	33.0	15,954	33.9
Preferential statutory tax rate offered	-	-	(8,923)	(18.0)	(8,923)	(19.0)
Lower tax rate for tax relief granted	-	-	(3,717)	(7.5)	(3,717)	(7.9)
Expenses not deductible for tax	328	(13.0)	-	-	328	0.8
Deferred tax assets in respect of tax losses not recognised	76	(3.0)	-	-	76	0.1
Tax charge at the Group's effective tax rate	-	-	3,718	7.5	3,718	7.9

Deferred tax has not been provided as the Group did not have any significant unprovided deferred tax liabilities during the Period (2003: Nil).

6. Earning Per Share

The calculation 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\$40,318,000 (2003: HK\$38,745,000), and the weighted average of 1,255,006,957 (2003: 890,200,000) ordinary shares in issue during the Period.

No diluted earnings per share was presented for the Period as there were no potential ordinary shares in issue during the Period.

The calculation of diluted earnings per share for the six months ended 31 December 2003 is based on the Group's net profit from ordinary activities attributable to shareholders for the six months ended 31 December 2003 of approximately HK\$38,745,000. The weighted average number of ordinary shares used in the calculation is 890,200,000 ordinary shares in issue during the six months ended 31 December 2003, as used in the basic earnings per share calculation; and the weighted average of 15,252,000 ordinary shares assumed to have been issued at no consideration on the deemed exercise of the share options outstanding during the six months ended 31 December 2003.

The rights issue in the proportion of one rights share for every two shares held by the shareholders on 25 August 2004 (note 13) has no material effect on the basic and diluted earnings per share for the six months ended 31 December 2003.



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

7. Fixed Assets

During the Period, the additions to fixed assets including the construction in progress in the PRC were approximately HK\$89.6 million.

8. Other Assets

	<i>HK\$'000</i>
Cost:	
At 1 July 2004 and 31 December 2004	13,832
Accumulated amortisation:	
At 1 July 2004	425
Amortisation provided during the Period	173
At 31 December 2004	598
Net book value:	
At 31 December 2004	13,234
At 30 June 2004	13,407

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. Deferred Development Costs

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.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)****10. Deposits Paid for the Establishment of Proposed Joint Ventures**

	31 December 2004 HK\$'000	30 June 2004 HK\$'000
Huludao BoHai Shipping Black Bird Painting Co., Ltd. ("Huludao Subsidiary")	5,140	5,140
Mudanjiang Subsidiary	–	25,000
	5,140	30,140

On 20 January 2003, the Group entered into an agreement with an independent third party to establish the Huludao Subsidiary, a Sino-foreign equity joint venture in the PRC (the "Huludao Agreement"). Pursuant to the Huludao Agreement, the Group would have a 65% equity interest in the Huludao Subsidiary. The principal activities of the Huludao Subsidiary are the manufacture and sale of anti-corrosive coatings. The proposed total investment in the Huludao Subsidiary is RMB20,000,000 (equivalent to approximately HK\$18,692,000), of which RMB8,000,000 (equivalent to approximately HK\$7,477,000) is the proposed registered capital. As at 31 December 2004, the Group had paid HK\$5,140,000 as a partial contribution for its commitment, totalling HK\$12,149,000, of the proposed total investment of the Huludao Subsidiary. The remaining contribution required from the Group to fulfil the proposed total investment in the Huludao Subsidiary of HK\$7,009,000 is disclosed as a capital commitment in note 17(b) to the Interim Financial Statements.



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

11. Trade Receivables

The Group normally allows credit terms to established customers ranging from 30 to 150 days.

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

	31 December 2004 HK\$'000	30 June 2004 HK\$'000
Within 30 days	55,241	43,787
31 – 60 days	46,549	40,957
61 – 90 days	19,437	17,102
91 – 120 days	11,719	10,311
121 – 365 days	17,359	15,275
Over 365 days	–	1,801
	150,305	129,233

Included in the Group's trade receivables as at 31 December 2004 is an amount due from the joint venture partner of the proposed Sino-foreign equity joint venture of approximately HK\$11,200,000 (30 June 2004: HK\$10,167,000), which is repayable on credit terms similar to those offered to other customers of the Group.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)****12. 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:

	31 December 2004 HK\$'000	30 June 2004 HK\$'000
Within 30 days	5,437	3,887
31 – 60 days	1,351	1,336
61 – 90 days	224	222
Over 90 days	260	257
	7,272	5,702

13. Share Capital**Shares**

	31 December 2004 HK\$'000	30 June 2004 HK\$'000
Authorised:		
2,000,000,000 ordinary shares of HK\$0.01 each	20,000	20,000
Issued and fully paid:		
1,449,600,000 (30 June 2004: 966,400,000) ordinary shares of HK\$0.01 each	14,496	9,664



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

13. Share Capital (Cont'd)

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

	Number of ordinary shares issued <i>'000</i>	Par value <i>HK\$'000</i>
At 1 July 2004	966,400	9,664
Rights issue	483,200	4,832
At 31 December 2004	1,449,600	14,496

The Company issued 483,200,000 ordinary shares of HK\$0.01 each at HK\$0.30 per share by way of a rights issue in the proportion of one rights share for every two shares held. The net proceeds of the rights issue of approximately HK\$140 million were used to finance business acquisitions and for general working capital purposes.

14. 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 further share options may be granted thereunder, 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.



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

14. Share Option Schemes (Cont'd)

The following share options were outstanding under the New 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 July 2004	Adjustments*	Granted during the Period	Exercised during the Period	Lapsed during the Period	At 31 December 2004				At grant date of options HK\$	At exercise date of options HK\$
Other employees											
In aggregate	13,000,000	6,500,000	-	-	-	19,500,000	1 April 2004	7 April 2004 to 6 April 2007	0.313	0.475	N/A

* Adjustment for the effect of rights issue during the Period.

** 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.

15. Related Party Transactions

There is no significant related party transaction during the Period (2003: Nil).

16. Contingent Liabilities

The Group did not have any significant contingent liabilities as at the balance sheet date (30 June 2004: Nil).



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

17. Commitments

(a) Commitments under operating leases

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 31 December 2004, the Group had total future minimum lease payments under non-cancellable operating leases for leasehold land and buildings falling due as follows:

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Within one year	1,121	1,410
In the second to fifth years, inclusive	5,844	5,844
Beyond five years	2,056	2,617
	9,021	9,871

The company did not have any operating lease arrangements as at 31 December 2004 (30 June 2004: Nil).

(b) Capital commitments

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

	31 December 2004 <i>HK\$'000</i>	30 June 2004 <i>HK\$'000</i>
Contracted, but not provided for:		
(a) Leasehold buildings and plant under construction	10,280	3,738
(b) Contribution to PRC joint ventures (note 10)	7,009	29,628
(c) Development costs	1,963	1,963
	19,252	35,329



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

18. Post Balance Sheet Events

On 5 January 2005, Rich & Healthy Company Limited ("**Rick & Healthy**") and its directors, Chung Hok Sum and Lau Sau Wing on the one side and the Company, Earlsmead Enterprises Limited ("**Earlsmead**"), Chan Yuk Foebe, Wang Dan Hui and Wang Hailou on the other side entered into a settlement agreement (the "**Settlement Agreement**") whereby the parties agreed to settle all the proceedings involving the Company, including, Rich & Healthy against the Company, Earlsmead, Chan Yuk Foebe, Wang Dan Hui, Ng Ming Wah, Wu Chieho (also known as Chieho Joseph Wu) and Wang Hailou on 13 July 2004 ("**HCA No. 1642 of 2004**"), the Summons issued on 12th August 2004 by the Company, Earlsmead and Chan Yuk Foebe applying HCA No. 1642 of 2004 to be stayed or alternatively struck out and the action brought by the Company and Earlsmead against Rich & Healthy and Chung Hok Sum by way of an amended Writ of Summons on 6 May 2004.

Taking into account the number of litigation, and the estimated time and legal cost involved, the Directors consider that it is in the interest of the Company and the shareholders as a whole to enter into the Settlement Agreement.

Pursuant to the Settlement Agreement:

- (1) Rich & Healthy and its directors, Chung Hok Sum and Lau Sau Wing acknowledge that Earlsmead holds 90% interest in Daqing Black Bird;
- (2) Rich & Healthy, Chung Hok Sum and Lau Sau Wing agree that all the allegations which Rich & Healthy has in relation to Earlsmead's interest in Daqing Black Bird and Earlsmead's acquisition of its interest in Daqing Black Bird are withdrawn forever; and
- (3) The parties enter into the Settlement Agreement in full and final settlement of all the disputes in relation to Daqing Black Bird and none of them will revive any claims against the other party.

The Directors confirm that the Company does not have to pay any consideration with respect to the settlement. As far as the Directors are aware, there is no outstanding legal proceeding concerning the Company's 90% interest in Daqing Black Bird.



INTERIM DIVIDEND

The Directors have resolved that no interim dividend will be declared in respect of the Period (2003: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the Period, the price of raw materials for the Group's products remained high and increased in frequent manner which was unusual in recent years. The management responded very fast to the changing market environment and the Group has managed to increase the price of our products after negotiations. As a results, the Group has successfully transferred the cost increase onto most of the intermediate customers.

As such, for the six months ended 31 December 2004, the Group recorded HK\$300.6 million in turnover, representing an increase of 48.2% over the corresponding period of the previous year, while the profit attributable to shareholders was HK\$40.3 million, representing an increasing by 4.1% as compared with the corresponding period of the previous year. Directors believe that the overall business of the Group is improving. The Group has incurred litigation fee and legal fee for set up of a subsidiary of approximately HK\$4.2 million. These are non-recurring and one-off expenses. In fact, profit from operating activities should record an increase of approximately 29.0% before deducting aforesaid litigation fee and legal fee for set up of a subsidiary as compared to the corresponding period of last year.

During the Period, turnovers of lubricants and anti-corrosive coating amounted to HK\$175.4 million and HK\$107.5 million respectively, representing an increase of 47.3% and 30.8% respectively over the same period last year, mainly due to the price of the Group's products driven up by substantial increase in material price. However, in order to balance the market keen competition and our objective of expanding the market share strategically, the Group has tried to put the cost increase as much as possible to customers which resulted in the operating profit of HK\$31.9 million and HK\$25.0 million only, representing an increase of 12.6% and 23.6% as compared with the corresponding period of the previous year, but were improved as compared to the second half of the previous year.



MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Business Review (Cont'd)

With respect to vinyl acetate business, the renovation and expansion of Mudanjiang Dongbei Chemical Engineering Company Limited's (牡丹江東北化工有限公司) vinyl acetate plant was completed in last September. After continuous trial runs for several months, the annual designed production capacity of the Mudanjiang Plant has now reached 15,000 tonnes vinyl acetate. Mudanjiang Subsidiary is a joint venture established by the Group with Daqing Gaoxingqu Qinglian Petroleum and Chemical Co. Limited.

Vinyl acetate sector recorded a turnover of HK\$15.7 million during the Period while operating profit of HK\$2.5 million. The Group has made a remarkable achievement that it is one of the first chemical enterprise to enable expansion in capacities, production and profit realisation in the same year.

Net Proceeds Raised by Rights Issue

The net proceeds raised by rights issue in the equity market in September 2004 was about HK\$140,000,000, of which HK\$86,000,000 has been utilised by the Group as at the date of this report with HK\$54,000,000 still being unused. During the Period, approximately HK\$61,000,000 has been injected into Mudanjiang vinyl acetate plant for expanding the production capacity of vinyl acetate; about HK\$20,000,000 was used to repay a short term loan rendered by an independent third party; and around HK\$5,000,000 was used as operation capital of the Group.

Capital Expenses

The expenses on non-current asset was approximately HK\$51,300,000 during the Period which is mainly used for renovating and expanding the Mudanjiang vinyl acetate plant as well as the maintenance of associated buildings. The first phase expansion of the Mudanjiang vinyl acetate project was completed as scheduled.

Liquidity and Financial Ratios

At 31 December 2004, the Group had total assets of approximately HK\$686.8 million (30 June 2004: HK\$465.7 million) which were financed by current liabilities of approximately HK\$63.5 million (30 June 2004: HK\$65.3 million), no non-current liabilities (30 June 2004: HK\$3.9 million), minority interests of approximately HK\$73.8 million (30 June 2004: HK\$28.3 million) and shareholders equity of approximately HK\$549.5 million (30 June 2004: HK\$368.2 million).



MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Liquidity and Financial Ratios (Cont'd)

At 31 December 2004, the current assets of the Group amounted to approximately HK\$465.7 million (30 June 2004: HK\$303.0 million) comprising inventories of approximately HK\$117.4 million (30 June 2004: HK\$64.7 million), trade receivables of approximately HK\$150.3 million (30 June 2004: HK\$129.2 million), prepayment, deposits and other receivables of approximately HK\$34.7 million (30 June 2004: HK\$25.5 million), cash and cash equivalents of approximately HK\$163.3 million (30 June 2004: HK\$83.6 million).

At 31 December 2004, 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 7.3 (30 June 2004: 4.6), 5.5 (30 June 2004: 3.7), 9.3% (30 June 2004: 14.9%) and 11.6% (30 June 2004: 18.8%), respectively. These changes reflected an improvement in the Group's structure of assets and liabilities.

At 31 December 2004, 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 2004.

Number and Remuneration of Employees

At 31 December 2004, the Group had 335 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 2004, a total of 19,500,000 share options are outstanding with exercisable periods up to 6 April 2007 with exercise prices HK\$0.313 per share.



MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Prospects

Looking ahead 2005, the Group will endeavor to explore new business and plans to enter into different chemical sectors. The Directors believe that the domestic coal related chemical industry is more competitive than the petrochemical industry. With the global supply of petroleum remains in shortage, China continues to increase import annually and the local production of petroleum is decreasing, the prices of petrochemical raw materials fluctuate significantly. On the other hand, China is extremely rich in coal and therefore the prices of coal and related chemical raw materials are relatively stable. In addition, the production technology of coal related chemicals in China has already been keeping up with the international level.

Mudanjiang vinyl acetate plant, in which the Group invested last year, adopts the production method of petrochemical technique of calcium carbide methodology (電石法化工工藝方法). The method requires more coal related chemical raw materials as ingredients comparing with that of the lubricants and anti-corrosive coatings businesses. Therefore, it could relieve the pressure on increasing production cost due to the price hike of crude oil. Moreover, our Mudanjiang vinyl acetate plant is the first and only PRC plant using calcium carbide methodology to produce vinyl acetate with superior quality (concentration greater than 99.98%) which is higher than that of the PRC nation-wide recognized quality standard.

Such convincible quality accomplishment depends very much on expertise. Our Group has recruited a team of petrochemical professionals from the local largest petrochemical institutional enterprises in 2004. The professors have more than 30 years experience in petrochemical industry. With their in depth knowledge and know-how, the refurbishment and increase in capacities of vinyl acetate production facility was completed safely and cost-effectively.

The trial run of the vinyl acetate production facility was smoothly completed in 2004. The production cost is expected to have room for adjusting downward by means of mass production and further resources savings. Moreover, domestic demand for vinyl acetate is high. Under such demand pull market, Mudanjiang vinyl acetate plant does not have any inventory being piled up and our side may charge a higher price from customers. With enhanced gross margin, vinyl acetate is believed to bring about promising profit for the Group in 2005.



MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Prospects (Cont'd)

In view of the potential growth in profits, the Group has already increased its equity interest in Mudanjiang vinyl acetate plant from 55% to 63.11%. Directors strongly believe that vinyl acetate business will have a strong growth in 2005.

In addition, the Group will continue taking advantage of the business opportunities created by the PRC government's policy in relation to the reform and restructure of the existing state owned industry in the region. It will keep looking for further development opportunities in the coal related chemical industry and downstream enterprise as well as actively seeking for potential acquisition projects. The objective is to establish the petrochemical industry chain in the northeastern region so as to maximize the returns for shareholders from the synergy effect.

DISCLOSURE OF ADDITIONAL INFORMATION

Directors' Interests or Short Positions in Shares and Underlying Shares

At 31 December 2004, none of the directors and chief executive of the Company had any interests or short positions 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 of Hong Kong Limited (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 of Hong Kong Limited ("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 schemes disclosures in note 14 to the Interim 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**

At 31 December 2004, 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
Master Oriental Limited ("Master Oriental")	Long position 263,340,000 (note 1)	Corporate interests	18.17%
Heng Tai Consumables Group Limited ("Heng Tai")	Long position 263,340,000 (note 1)	Corporate interests	18.17%
Neon Liberty Capital Management, LLC	Long position 115,416,999 (note 2)	Corporate interests	7.96%
UBS AG	Long position 85,574,976 (note 2)	Corporate interests	5.90%
Chan Yuen Tung	Long position 177,145,488 (note 2)	Beneficial owner	12.22%

Notes:

1. Master Oriental, a company incorporated in Hong Kong, is a wholly owned subsidiary of Heng Tai, a company incorporated in the Cayman Islands whose shares are listed on the Stock Exchange. In accordance with the SFO, the interests of Master Oriental are deemed to be, and have therefore been included in the interests of Heng Tai.
2. To the best knowledge of the directors, Neon Liberty Capital Management, LLC, UBS AG and Mr. Chan Yuen Tung are not connected persons of the Company and are not connected with any of the directors, chief executive and substantial shareholders of the Company or any of its subsidiaries or their respective associates (as defined in the Listing Rules).

Save as disclosed above, as at 31 December 2004, no other person 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.



SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors as at the date of this report, there is sufficient public float of more than 25% of the Company's shares in the market as required under the Listing Rules.

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.

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 and the Audit Committee considers 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 Foebe

Executive Director

Hong Kong, 23 February 2005