

Chairman's Statement 07

On behalf of the board (the "Board") of directors (the "Directors") of the Company, I have great pleasure to present the first annual report of operating results of the Group for the year ended 30th June 2001, since its listing on the Stock Exchange on 2nd May 2001.

Year 2001 marked an important milestone in the corporate development of Sunlord Group. During the year, Sunlord Group worked hard to gradually expand the sale of petroleum refined products through its extensive nationwide sales and marketing network and reported record sales of approximately HK\$145.8 million and net profit of approximately HK\$39.7 million for the year. With these results, the Company was successfully listed on the Stock Exchange in May 2001. We are delighted to report that the production bases and technological resources developed over the past years have begun to generate favorable returns and benefits.

During the year, the Group reported an encouraging and significant growth in its results, with turnover and net profit amounted to approximately HK\$145.8 million and HK\$39.7 million, respectively, representing increase approximately of 36.2% and 41.9%, respectively from last year. Earnings per share was HK5.7 cents, representing an increase of approximately 39% from last year.

BUSINESS REVIEW

To enhance the corporate profile of Sunlord Group in the PRC and overseas and to strengthen its capital base and financial resources for continuous expansions, the Company has opted for a listing on the Main Board of the Stock Exchange.

The Company's successful listing in May this year has also served to fuel the continued business development of the Group, as we strengthen our competitive edge and expand the ongoing growth of our production capability. Most importantly, it enabled us to leverage on our leading position in the petroleum refined products in the PRC. We are certain that all these will bring a fruitful return to the shareholders.

The Group has placed a strong emphasis on quality control. The Group obtained the ISO 9002 certificate in 2000. All stages of the Group's production process, from inspection of incoming raw materials, production to delivery of finished products, are in compliance with the standards imposed by the Group's stringent quality control policy which follows the requirements of ISO 9002.

In 2000, several of the Group's lubricant products were licensed as quality products recognized by the American Petroleum Institute, the major trade association representing the US Petroleum industry. These products are widely accepted and used by the industrial users. This marked the start of the rapid growth in sales of the Group.

During the year, the Group participated in China International Lubricating Oil, Grease and Refining Technology Exhibition and established business relationships with a number of companies including automobile manufacturers and machinery manufacturers. The Group planned to select and appoint some of these companies as distributors for the Group's products. This will enable the Group to maintain cost-effectiveness in sales and marketing.

The Group succeeded in trial production of environmental friendly ceramic-metal lubricants in 2000 and began mass production in August 2001. Since gross profit margin of environmental friendly ceramic-metal product is high, it is expected that such product will contribute significantly to the Group's profit in the coming years.

It is our objective to capitalize on our dominant market position in petroleum refined products in the PRC in order to capture the emerging opportunities and the enormous demand for the environmental friendly products in the PRC and abroad.

The cash position of the Group was strengthened after the listing of the Company in May 2001. The Group generally finances its operations with internally generated funds. At 30 June 2001, the Group has cash and cash equivalent of approximately HK\$29,637,000 and finance lease payables of approximately HK\$660,000. The Group has no bank borrowings during the period.

08 Chairman's Statement

PLAN AND PROSPECTS

Lubricants

The PRC is currently the third largest user of lubricants globally. The estimated annual consumption is approximately 4 million tons in 2000 and is expected to grow in the next ten years. Due to the expected replacement of old machinery, equipment and motor vehicles, the quantity of lubricants required is expected to increase.

Lubricant is widely used in the automobile industry, as it is essential to the operation of motor vehicles' engines, gearboxes and other moving parts. It is also widely used in most types of machinery and in the petroleum industry such as the application on the machinery for extraction of crude oil in oil fields.

The increased convenience of highway transportation in the PRC and hence, the increase in use of automobile have led to a surge in the demand for lubricants. Highway construction is expected to proceed at full speed as the PRC is currently undergoing national highway network structuring. This will link up the major cities in the PRC and is expected to be completed by 2010.

Based on the vastly improved roads, the growth in ownership of motor vehicles and the increase in the consumption of crude oil, the consumption of lubricants in the PRC is expected to continue to grow in the future.

Anti-corrosive

Infrastructure for the transportation of crude oil and natural gas

Crude oil and natural gas are transmitted by pipelines in the PRC. "West-East Gas Pipeline Projects" from the western part of the PRC, including Xinjiang Tarim Oil and Gas Region, to the eastern part of the PRC with the final destination in Shanghai and the Yangtze River Delta Region will be constructed in different stages from 2001 to 2005. The project will enable the supply clean, environmental friendly and economical gas to Eastern part of China. The length of the pipelines to be constructed is estimated to be approximately 4,200 km with a total investment of approximately RMB150 billion.

Water transmission systems in the PRC

Approximately, a quarter of water supply in the PRC does not meet the standard of drinking water imposed the government. In addition, only one third of the 33 major water supply areas in the PRC attained grade one of the standard on water cleanliness set out by the government. The others were considered unsatisfactory. Moreover, the PRC government plans to impose an additional 53 on top of the original 33 criteria to guarantee the quality of drinking water.

Water transportation in the PRC

The distribution of water supply is uneven in the PRC. The northern part of the PRC accounts for 37% of the total population but 12% of the total water supply. The PRC government has also placed strong emphasis in the construction of water transmission systems from the south to the north. The State Council of the PRC has held a series of discussions to study the feasibility of the South-to-North Water Transmission Engineering Project. It involves the construction of three major groups of water transmission pipelines of a total length of approximately 2,600 km. If approved by the PRC government, the project will be one of the 10th China National "Five Year" Development Plan and is expected to be completed within six to seven years.

Chairman's Statement 09

Outlook

Looking ahead, while maintaining a steady and healthy development, the Group will capitalize on its strengths and strive to achieve the following objectives:

1. The Group intends to expand its existing production capacity by the purchase and installation of advanced production equipment and facilities in order to increase the annual production capacity of lubricants from 50,000 tons to 200,000 tons and anti-corrosive coating from 3,000 tons to 10,000 tons;
2. the Group will establish and increase the business relationships with a number of companies including automobile manufacturers and machinery manufacturers;
3. the Group will co-operate with the municipal governments and Water Resources Planning & Administration Bureau in the PRC to improve the standard of drinking water by upgrading the water transmission systems;
4. to further extend our market presence, we will commence the development and expansion of our distribution network by establishing additional representative offices in major cities in the PRC such as Beijing, Shanghai and Guangzhou. Representative office will also be established in Hong Kong to capture overseas business opportunities;
5. the Group will invest approximately HK\$5 million in the research and development ("R&D") to improve our manufacturing technology and R&D capabilities. This will reinforce the Company's competitive advantages, keeping us ahead of our competitors. To maintain our competitive advantages, we also aim to market new products, especially the environmental friendly products in future.

Application of proceeds

At 30 September 2001, among the net proceeds from the Share Offer of approximately HK\$20 million, approximately HK\$12 million was used for purchasing and the establishment of additional machinery and new production facilities at Daqing City in the PRC, and approximately HK\$1 million was used for R&D. The net proceeds which have not yet been applied for are now placed on short term deposits with licensed banks in Hong Kong. It will be utilized for the purchase and installation of production equipment and facilities at the production plant in the PRC, R&D of new products and improvement of the Group's existing production technology, production processes and product quality, and the expansion of distribution and sales network.

I take this opportunity to thank all my fellow directors for their invaluable contribution. Let me also express my appreciation to our shareholders, customers and business partners, as well as our staff, for their continuous support and dedication. Without your support, Sunlord Group would not be the market leader as it stands today.

Wang Dan Hui

Chairman and Executive Director

18 October, 2001