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BUSINESS DEVELOPMENT

The Group's factory occupies an area of approximately 5,665 m². It currently employs more than 100 employee nationwide. The research team consists of 16 engineers and senior technology professionals, including famous coating and lubricant specialists, who fully understand the customers' needs and keep abreast of the development in the industry. Major projects on hand include the Water Pipeline Re-engineering Project from Dongjiang, Guangdong Province to Shenzhen, Water Supply System in the eastern part of Shenzhen, various CNPC oil field projects e.g. Daqing Oil Field and Xinjiang Oil Field, production of environmental friendly ceramic-metal lubricants.

OPERATING RESULTS

The following is a summary of the consolidated/pro forma combined results of the Group for the four years ended 30 June 2001 prepared on the basis set out in note 1 below:

	Year ended 30 June			
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
Turnover	<u>145,763</u>	<u>106,998</u>	<u>92,076</u>	<u>85,516</u>
Profit before tax	<u>49,485</u>	33,561	27,318	24,458
Tax	<u>(7,871)</u>	<u>(4,064)</u>	<u>(3,215)</u>	<u>(2,957)</u>
Profit before minority interests	<u>41,614</u>	29,497	24,103	21,501
Minority interests	<u>(1,926)</u>	<u>(1,537)</u>	<u>(1,268)</u>	<u>(1,094)</u>
Net profit from ordinary activities attributable to shareholders	<u><u>39,688</u></u>	<u><u>27,960</u></u>	<u><u>22,835</u></u>	<u><u>20,407</u></u>

Note:

- The summary of the pro forma combined results of the Group for each of the three years ended 30 June 2000 was extracted from the Company's prospectus dated 18 April 2001. Such summary was prepared in accordance with the audited financial statements of the companies now comprising the Group as if the current structure of the Group had been in existence throughout these financial years and was presented on the basis set out in note 1 of the "Notes to Financial Statements". The consolidated results of the Group for the year ended 30 June 2001 are set out on page 25 of this annual report.

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GROWTH OF SALES

Below is the sales analysis of the Group:

	2001 HK\$'000	2000 HK\$'000	Change %
Lubricants	107,350	75,988	41.3
Anti-corrosive coating	36,536	29,661	23.2
Additive	1,877	1,349	39.1
Total	<u>145,763</u>	<u>106,998</u>	<u>36.2</u>

The turnover of the Group in 2001 were HK\$145.8 million, approximately 36.2% compared to 2000. The increase in sale was mainly due to the rise in sales volume of the products as the demand from the PRC and overseas marketing from the Group's products increased continuously over the years.

During the year under review, sale of lubricants increased approximately 41.3% as compared to that of 2000. The significant increase resulted from the improvement of the quality of the Group's products. 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. In addition, the Group establishing business relationship with a number of companies including automobile manufactures and machinery manufacturers when the Group participated in China International Lubricating Oil, Grease and Refining Technology Exhibition.

The sale of anti-corrosive coating increased approximately 23.2% as compared to that of 2000. The increase resulted from the demand of the product from the oil field engineering projects, water transmission pipelines projects and water transmission systems, including Daqing Oil Field, Tarim Oil Field, Xinjiang Oil Field and Water Pipeline Re-engineering Project from Dongjiang, Guangdong Province to Shenzhen.

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OTHER REVENUE, OPERATING EXPENSES AND FINANCE COSTS

	Year				
	2001		2000		change
	HK\$'000	% to turnover	HK\$'000	% to turnover	%
Other revenue	229	0.2	71	0.1	222.5
Selling and distribution expenses	4,224	2.9	3,583	3.3	17.9
Administrative expenses	6,042	4.1	3,917	3.7	54.3
Other operating expenses	1,131	0.8	986	0.9	14.7
	11,397	7.8	8,486	7.9	34.3

Other revenue of the Group in 2000 represented bank interest earned. The increase in bank interest earned was due to the received of net proceeds for the new issue of shares of the Company.

In practice, the Group controls its expenses in conjunction with its sales performance. Moreover, the Group implements certain cost-cutting measures to control its expenses. As a result, the Group's selling and distribution and administrative expenses remained as a reasonable level.

A substantial portion of other operating expenses was attributed to research and development cost. The expenditures were classified into two categories: new products and technical know-how related to the production of high quality products (e.g. lubricants recognized by the API in the USA). As the expenditure was not related to any specific products, it was directly charged to the profit and loss account. In 2001, the Group produced environmental friendly ceramic-metal lubricants with API standard on behalf of a USA company. In future, the Group will increase the expenditure in research and development in order to develop its production technology and new products, which are expected to be commercialized in the coming years.

PROFIT GROWTH

Combining the effects of the changes in turnover and operating expenses, the Group's net profit from ordinary activities attributable to shareholders increased by approximately HK\$11.7 million in 2001 compared to the previous year. The net profit margin also increased from 26.1% to 27.2%. To summarise, the significant growth in net profit from ordinary activities attributable to shareholders was attributable to the sale of the Group's products.

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FINANCIAL POSITION

Structure of assets and liabilities

As at 30 June 2001, total assets of the Group increased by approximately HK\$71 million to approximately HK\$149 million, while the net current assets of the Group increased by approximately HK\$41 million to approximately HK\$53 million. The total liabilities increased by approximately HK\$12 million to approximately HK\$36 million. The shareholders' equity was approximately HK\$106 million, representing an increase of approximately HK\$57 million over 2000.

In view of the expansion of the Group's production capacity, both the production facilities and working capital requirement increased during the year, which was financed by the Group's internal resources. With the strong operating results and proceeds from the Share Offer, the Group's reliance on external financing is expected to be lessened.

As at the closing date of the year under review, the Group's current ratio, quick ratio, gearing ratio and debts to equity ratio of the Group were approximately 2.5 (2000: 1.5), 1.9 (2000: 1.1), 24% (2000: 31%) and 34% (2000: 49%), respectively. These changes reflected an improvement in the Group's structure of assets and liabilities.

Below is the summary of major balance sheets items:

	30 June		
	2001 HK\$'000	2000 HK\$'000	Change %
Non current Assets	59,733	41,365	44.4
Current Assets	89,282	36,275	146.1
Total Assets	149,015	77,640	91.9
Current Liabilities	35,868	23,962	49.7
Non-current liabilities	458	0	N/A
Total liabilities	36,326	23,962	51.6
Minority interests	6,626	4,378	51.4
Capital and reserves	106,063	49,300	115.1