



## CHAIRMAN'S STATEMENT

On behalf of the board (the "Board") of directors (the "Directors") of Sunlord Chemical Group Limited ("Sunlord" or the "Company" and together with its subsidiaries, "Sunlord Group" or the "Group"), I am pleased to present the annual report of the Group for the year ended 30 June, 2002. The Company recorded a profit before tax of HK\$96 million in 2002, an increase of 95% as compared with last year. Net profit was HK\$76 million, an increase of 92% over last year. The profit generated by the Company during 2002 mainly came from the production and sales of lubricants and anti-corrosive coating.

The basic and diluted earnings per share of the Company were HK9.1 cents and HK8.8 cents respectively.

The Board proposed a final dividend of HK0.45 cent per share for the year ended 30 June 2002 (final dividend distributed for the year ended 30 June 2001 was HK0.75 cent per share) which will be put forward at the annual general meeting to be held on 18 November 2002 for approval.

### BUSINESS REVIEW

#### Lubricants

##### *Lubricants for heavy machines*

With the continuous upgrading in the quality of our lubricants for the use in heavy machines, the Group became the designated lubricants provider for the thirteen oil fields of China National Petroleum Corporation ("CNPC") in December 2001. With the gradual open up of Tarim Oil Field in the future, the demand for heavy machine lubricants will increase significantly and which in turn will stimulate the business growth of the Group. For overseas markets, the Group is seeking opportunities to cooperate with large scale overseas lubricant enterprise to further develop overseas markets.

##### *Lubricants for automobiles*

During the year, the Group has been actively exploring the domestic market of automobiles lubricants. Currently, the Group provides lubricants for two of the Top Five domestic automobiles manufacturers. With the promulgated state policy of emphasising on the development of automobiles industry, it is expected that the demand for automobiles will increase substantially and the demand for lubricants will be stimulated as well. In order to be in line with the government policy of the People's Republic of China (the "PRC" or "China") and to continue to explore the domestic market, the Group is actively seeking to cooperate with other large scale domestic automobiles manufacturers either through acquisition or consolidation so as to further expand its sales network and market shares.

In addition, in view of the active implementation of environmental protection by the PRC government, the Group anticipates the potential growth of environmental friendly lubricants will be promising. The Group is currently under discussion with certain large scale overseas lubricants manufacturers and large scale domestic automobiles manufacturers in relation to the manufacturing of recycled lubricants.

### BUSINESS REVIEW *(Continued)*

#### Anti-corrosive coating

##### *Anti-corrosive coating for drinking water pipes*

In view of the serious polluted problem of the domestic water transmission system, the PRC government has commenced works to improve drinking water quality, including the implementation of stringent measures which require the anti-corrosive coating used in water pipe must pass strict examination. In anticipation of the demand for anti-corrosive coating used in water pipes, the Group has developed the "Anti-corrosive coating for drinking water pipe" which is the first of its type to have obtained the approval from the Ministry of Public Health of the PRC and has been used in various larger scale projects during the year, including the "Dongjiang Water Project", "Shenzhen East Water Supply Project". It has also been used in the water supply systems of a number of major cities in the PRC, for example, the "Zhejiang Province Wuxi Water Supply System" and "Tarim Oil Field Water Supply System". With the increase in hygiene standards imposed by the PRC government on the quality of drinking water, provinces and cities of the PRC will gradually replace their drinking water pipes. To date, two third of the provinces and cities of the PRC fail to meet the PRC government standard and the Group is actively exploring such huge market.

##### *Anti-corrosive coating for large scale infrastructures*

The Group's products passed the test of CNPC in 2001 with its quality being recognized. In November of the same year, the Group became the designated anti-corrosive lubricants supplier of the "West-East Gas Pipeline Projects" for the Lanzhou-Chengdu-Chongqing section. The Group's product is able to maintain a competitive edge for its high quality and low production cost and its market potential is promising. Its product is also being used in the anti-corrosive engineering projects of "Daqing Oil Field" and "Xinjiang Oil Field", and the construction projects of "Liaohe Oil Field" and "Jiling Oil Field". With the formal commencement of the "West-East Gas Pipeline Projects", the Group is well prepared to bid for the project contracts in other sections.

##### *Anti-corrosive coating for use on board*

The Group's "On board anti-corrosive coating" have obtained Certificate of Work Approval from China Classification Society, an important member of the international shipping industry, marine construction and engineering and offshore oil field, in early 2002 in recognition of its quality having reached international standard. The Group was thus fostered as one of the main suppliers of on board anti-corrosive coating. In March, the Group was invited to bid for the "Hanzhou Bay Bridge Project". Currently, the Group is undergoing discussion with large scale domestic vessel manufacturers, shipping companies, marine construction and engineering and offshore oil field concerning possible business cooperation.



## CHAIRMAN'S STATEMENT

### PROSPECTS

During the year, the Group has formally become the “Overseas Window” of Daqing Municipal People’s Government (“Daqing Municipal Government”) and has proposed to change its name into “Daqing Petroleum & Chemical Group Limited”. In August this year, the Daqing Municipal Government duly assigned the Group in assistance with the enterprises of Daqing (“Daqing Enterprises”) in the course of listing. The Group will gather professionals from Hong Kong and abroad to form a “Listing Consultation Committee” to give full support to the Daqing Enterprises seeking listing abroad, in Hong Kong or within PRC. In order to be in line with the overall economic planning and deployment of Daqing City, the Group has also set up an “Enterprise Consultation Committee” together with Daqing Municipal Government as well as overseas professionals. The main objectives of which are to assist Daqing Enterprises during the course of structural adjustment so as to improve their assets quality and to facilitate the process of merger, acquisition, reorganization and spin-off in order to achieve internal structural adjustment and improve the operation efficiency of enterprises. Enterprises that fulfill the listing requirements after consultation will then apply for listing with the assistance of the Listing Consultation Committee.

The Group may charge consultation fees in return for assisting enterprises apply for listing and improving their operating efficiency. Besides, the Group also receive bonus from Daqing Municipal Government which serves as additional income to the Group. Moreover, the Group does not preclude the possibility to invest in such projects in case of good investment opportunity emerges.

The Group is actively approaching large scale overseas enterprises to present Daqing City and its high quality projects in order to bring in advance technologies and management personnel to assist the development of Daqing City. The Group does not preclude the possibility of joining large scale overseas enterprises to develop large scale projects with Daqing Municipal Government.

The Group believes, with the support and guidance of Daqing Party Committee and Daqing Municipal Government, its development will better serve the overall economic planning and deployment of Daqing City.

With the accession of the PRC to the World Trade Organisation (“WTO”), the domestic market will further open up ever since. This will be beneficial to our personnel of advanced technology and management, and facilitate us to speed up the implementation of overseas development strategy, to develop international operation, to participate in international competition on an equity basis and to untap development opportunities. Meanwhile, given the accession of the PRC to the WTO will result in the gradual reduction in import tariff of oils products and chemical industrial products, and the gradual open up of retail and wholesale market of oil products, we understand that the pressure of market competition will undoubtedly be intensified. All these are challenges that we will encounter.

In the face of future business environment and challenges, we will continue our strategy of core business development and cost reduction. We will focus on the enhancement of corporate operation efficiency and production cost control, and to strengthen our competitiveness so as to maintain steady growth of earning.



## CHAIRMAN'S STATEMENT

### PROSPECTS *(Continued)*

This year the Group will carry out a management restructuring. Several personnel have been successively invited to join the Group. They come from the Daqing Municipal Government, domestic major automobile Manufacturers and senior management of major domestic and foreign petrochemical enterprises. They have extensive experience in the management of petrochemical enterprises. Mr. Wan Hailou will lead the New Management, mainly in charge of the Group's daily operation, production, quality control and financial management, and the full development of the Group's core business as well as further exploration of domestic markets. In Hong Kong, the Group is currently recruiting management staffs with experience in the petrochemical industry to facilitate the development of Hong Kong and overseas markets.

I will be responsible for the overall planning, financial management of the Group and focus on merger and acquisition (M&A). We have retained several personnel from overseas for the formation of an "Independent Advisory Team" to assist me in managing the Group, carrying out M&A researches and exploring overseas markets. They have management background of large overseas enterprises, with wide exposure in the enhancement of corporate operation efficiency, M&A and financial management. They will pay regular visit to the PRC, and report to and advise the New Management and me on the production, operation and financial status of the Group. They will also carry out M&A project researches and submit research reports to the New Management on M&A proposals, financial arrangements and the further improvement of M&A projects.

In the years ahead, the Group will also implement active cost control. The Group is in the process of negotiating the acquisition of some projects related to its own business (such as production lines of chemical industrial raw materials, sales networks etc.), to further control production costs and sales costs, and to increase production capacity, with an aim to enhance profitability and competitiveness of the Group. On the other hand, the Group will continue to allocate resources on research and development to upgrade the quality and competitiveness of its products.

Currently the Group is identifying potential projects/products, and will not preclude the possibility of acquiring such projects/products to generate additional income for the Group.

In conclusion, apart from the further consolidation and expansion of domestic market, we will also strive to explore international markets and take active and prudent steps in the development of our own business. Meanwhile, through M&A and cooperation, we will actively develop non-core businesses and increase the source of income to further enhance the competitiveness of the Group, and will continue to add value to the Company.

It is my pleasure to lead a team of elites with long, successful and practical experience in so many disciplines who all work together to propel the Group forward. To every one of them, and our directors, bankers and advisors, I thank you for all your fine work over the past year and your commitment to the future.

**Wang Dan Hui**

*Chairman and Executive Director*

18 October 2002