1. CORPORATE INFORMATION

The principal place of business of the Company is located at Unit 2303, 23rd Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 14 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

2. IMPACT OF ISSUED AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE

The following recently issued and revised Hong Kong Statements of Standard Accounting Practice ("SSAPs") and related Interpretation are effective for the first time in the preparation of the current year's financial statements:

- SSAP 2.109 (Revised): "Events after the balance sheet date"
- SSAP 2.118 (Revised): "Revenue"
- SSAP 2.126: "Segment reporting"
- SSAP 2.128: "Provisions, contingent liabilities and contingent assets"
- SSAP 2.129: "Intangible assets"
- SSAP 2.130: "Business combinations"
- SSAP 2.131: "Impairment of assets"
- SSAP 2.132: "Consolidated financial statements and accounting for investments in subsidiaries"
- Interpretation 13: "Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs and related Interpretation are summarised as follows:

SSAP 2.109 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. Its principal impact on these financial statements is that the proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained profits on a separate line within the capital and reserves section of the balance sheet. The prior year adjustment arising from the adoption of this revised SSAP is detailed in note 11 to the financial statements.

SSAP 2.118 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 2.109 described above. Proposed final dividends from subsidiaries that are declared and approved by the subsidiaries after the balance sheet date are no longer recognised in the Company's own financial statements for the year. SSAP 2.118 (Revised) has had no major impact on these financial statements.

2. IMPACT OF ISSUED AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE *(Continued)*

SSAP 2.126 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 5 to the financial statements.

SSAP 2.128 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. SSAP 2.128 has had no major impact on these financial statements.

SSAP 2.129 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. SSAP 2.129 has had no major impact on these financial statements.

SSAP 2.130 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. SSAP 2.130 requires the disclosure of goodwill and negative goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. Negative goodwill is recognised in the consolidated profit and loss account depending on the circumstances from which it arose, as further described in the accounting policy for negative goodwill disclosed in note 3 to the financial statements. Interpretation 13 prescribes the application of SSAP 2.130 to goodwill arising from acquisitions in previous years which remains eliminated against consolidated reserves. The adoption of SSAP 2.130 has not resulted in a prior year adjustment for the reasons detailed in notes 3 and 23 to the financial statements.

SSAP 2.131 prescribes the recognition and measurement criteria for impairments of assets. SSAP 2.131 has had no major impact on these financial statements.

SSAP 2.132 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements. SSAP 2.132 has had no major impact on these financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with SSAPs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain fixed assets as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 30 June 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively.

The consolidated financial statements for the year ended 30 June 2001 have been prepared using the merger basis of accounting as a result of the reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the public listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited. Under this basis, the Company has been treated as the holding company of the subsidiaries pursuant to the Group Reorganisation for the financial year presented, rather than from the date of acquisition of the subsidiaries. Accordingly, the consolidated results of the Group for the year ended 30 June 2001 include the results of the Company and its subsidiaries with effect from 1 July 2000, or since their respective dates of incorporation/establishment, where this is a shorter period, as if the current Group structure had been in existence throughout the year.

In the opinion of the directors, the comparative consolidated financial statements prepared on the above basis presented more fairly the results and state of affairs of the Group as a whole.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. The MPF Scheme became effective on 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed to the MPF Scheme.

The staff of the Company's subsidiary operating in the People's Republic of China (the "PRC") participates in the retirement benefits scheme (the "PRC RB Scheme") operated by the local municipal government in Heilongjiang Province, the PRC. The PRC subsidiary is required to contribute a certain percentage of their payroll to the PRC RB Scheme to fund the benefits. The only obligation of the Group with respect to the PRC RB Scheme is to pay the ongoing required contributions under the PRC RB Scheme. Contributions under the PRC RB Scheme are charged to the profit and loss account as they become payable in accordance with the rules of the PRC RB Scheme.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

In the previous year, the Company recognised its proposed final dividend to shareholders, which was declared and approved after the balance sheet date, as a liability in its balance sheet. The revised accounting treatments for dividends resulting from the adoption of SSAP 2.109 (Revised) has given rise to prior year adjustments in both the Group's and the Company's financial statements, further details of which are included in note 11 to the financial statements.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets are dealt with as movements in the fixed asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the fixed asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset, less any estimated residual value, over the following estimated useful lives:

Leasehold land and buildings	The shorter of the lease terms and 30 to 50 years
Plant and machinery	10 to 30 years
Furniture, office equipment and motor vehicles	5 years

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset. On disposal or retirement of a revalued asset, the attributable revaluation surplus realised is transferred directly to retained profits as a movement in reserves.

Construction in progress represents leasehold buildings and plant under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Investment in a club membership

Investment in a club membership is stated at cost less any impairment losses. Cost includes fees and expenses directly related to the acquisition of the club membership.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In prior years, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. The Group has adopted the transitional provision of SSAP 2.130 that permits negative goodwill on acquisitions which occurred prior to 1 July 2001, to remain credited to the capital reserve. Negative goodwill on subsequent acquisitions is treated according to the new accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

Inventories

Inventories are stated at the lower of cost and net realisable value after allowances for obsolete or slow-moving items. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads based on a normal level of operating activities. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and for financial reporting purposes, to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of the balance sheet classification, cash and bank balances represent assets which are not restricted as to use.

4. 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 year.

5. SEGMENT INFORMATION

SSAP 2.126 was adopted during the year, as detailed in note 2 to the financial statements. 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.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products they provide. Each of the Group's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

Manufacture and sale of:

(i) lubricants;

(ii) anti-corrosive coating; and

(iii) additive.

In determining the Group's geographical segments, revenue and results are attributed to the segments based on the location of the Group's markets, and assets are attributed to the segments based on the location of the assets.

5. SEGMENT INFORMATION *(Continued)*

(a) Business segments

The following tables present revenue, results and certain asset, liability and expenditure information for the Group's business segments.

Group

	Manufacture and sale of							
	Lubricants		Anti-corrosive coating		Additive		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:								
Sales to external customers	**211,548**	107,350	**90,008**	36,536	**3,731**	1,877	**305,287**	145,763
Segment results	**67,924**	37,466	**33,607**	13,094	**1,022**	632	**102,553**	51,192
Unallocated revenue							**206**	229
Unallocated expenses							**(6,291)**	(1,929)
Profit from operating activities							**96,468**	49,492
Finance costs							**(225)**	(7)
Profit before tax							**96,243**	49,485
Tax							**(16,500)**	(7,871)
Profit before minority interests							**79,743**	41,614
Minority interests							**(3,575)**	(1,926)
Net profit from ordinary activities attributable to shareholders							**76,168**	39,688

5. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

Group

	Manufacture and sale of							
	Lubricants		Anti-corrosive coating		Additive		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**145,271**	87,419	**61,809**	29,753	**2,562**	1,529	**209,642**	118,701
Unallocated assets							**62,696**	30,314
Total assets							**272,338**	149,015
Segment liabilities	**12,405**	8,151	**5,278**	2,774	**219**	143	**17,902**	11,068
Unallocated liabilities							**39,008**	19,258
Total liabilities							**56,910**	30,326
Other segment information:								
Depreciation	**827**	1,531	**352**	521	**15**	27	**1,194**	2,079
Unallocated depreciation							**407**	183
							1,601	2,262
Capital expenditure	**4,857**	12,203	**2,066**	4,153	**86**	213	**7,009**	16,569
Unallocated capital expenditure							**6,056**	846
							13,065	17,415

5. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

The following tables present revenue, results and certain asset and expenditure information for the Group's geographical segments.

Group

	The PRC		Hong Kong		Elsewhere in Asia		Europe and North America		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	K$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:										
Sales to external customers	**280,253**	119,950	**–**	–	**6,411**	8,916	**18,623**	16,897	**305,287**	145,763
Segment results	**93,827**	42,467	**–**	–	**2,146**	2,985	**6,580**	5,740	**102,553**	51,192
Other segment information:										
Segment assets	**203,558**	118,674	**6,734**	704	**–**	–	**–**	–	**210,292**	119,378
Unallocated assets									**62,046**	29,637
Total assets									**272,338**	149,015
Capital expenditure	**7,659**	16,587	**5,406**	828	**–**	–	**–**	–	**13,065**	17,415
Unallocated capital expenditure									**–**	–
									13,065	17,415

6. PROFIT FROM OPERATING ACTIVITIES

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

	2002	2001
	HK$'000	HK$'000
Cost of inventories sold	**188,933**	85,103
Depreciation	**1,601**	2,262
Minimum lease payments under operating leases for leasehold land and buildings	**538**	208
Staff costs (excluding directors' remuneration – note 7):		
Wages and salaries	**2,774**	1,890
Retirement benefits scheme contributions	**18**	7
Auditors' remuneration	**800**	800
Loss on disposal of a fixed asset	**2**	–
Research and development costs expensed for the year	**1,889**	1,131
Interest income	**(206)**	(229)

7. DIRECTORS' REMUNERATION AND SIX HIGHEST PAID EMPLOYEES

Details of the remuneration of the directors of the Company for the year disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance are as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Fees:		
Executive directors	**–**	–
Independent non-executive directors	**–**	–
Basic salaries, housing benefits, other allowances and benefits in kind:		
Executive directors	**1,272**	672
Independent non-executive directors	**50**	50
	1,322	722

The remuneration of each of the directors fell within the Nil to HK$1,000,000 band for each of the two years ended 30 June 2001 and 2002.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

The six highest paid employees during the year included four (2001: four) directors, details of whose remuneration are disclosed above. The details of the remuneration of the remaining two (2001: two) non-director, highest paid employees, whose remuneration fell within the Nil to HK$1,000,000 band, are as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Basic salaries, housing benefits, other allowances and benefits in kind	**370**	338
Retirement benefits scheme contributions	**18**	7
	388	345

8. FINANCE COSTS

	Group 2002 HK$'000	2001 HK$'000
Interest on a bank loan repayable after five years	**162**	–
Interest on finance leases	**63**	7
	225	7

9. TAX

	Group 2002 HK$'000	2001 HK$'000
Current year provision:		
Hong Kong	**–**	–
Elsewhere in the PRC	**16,500**	7,871
Tax charge for the year	**16,500**	7,871

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong in respect of the year (2001: 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 Co., Ltd. ("Daqing Black Bird"), a subsidiary of the Company, which operates in one of the high and new technology industrial development zones of the PRC, was exempt from the income tax of the PRC for three years starting from the first profitable year of its operations, ie, from 1 January 1998 to 31 December 2000. The subsidiary is also entitled to a 50% relief from the income tax of the PRC for the following three years, ie, from 1 January 2001 to 31 December 2003. Upon expiry of the tax relief period, this subsidiary will be subject to the income tax rate of 15%, being the preferential tax rate applicable to this subsidiary operating in the high and new technology industrial development zones of the PRC. The provisions for income tax of other subsidiaries operating in the PRC have been calculated at the rate of 33%, based on existing legislation, interpretations and practices in respect thereof.

No provision for deferred tax has been made as the Group did not have any significant unprovided deferred tax liabilities in respect of the year (2001: Nil).

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

10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year ended 30 June 2002 was approximately HK$5,918,000 (period from 7 December 2000 (date of incorporation) to 30 June 2001: HK$6,975,000).

11. DIVIDEND

	2002	2001
	HK$'000	HK$'000
Proposed final - HK0.45 cent (2001: HK0.75 cent) per ordinary share	**3,929**	6,000

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

During the year, the Group adopted the revised SSAP 2.109 "Events after the balance sheet date", as detailed in note 2 to the financial statements. To comply with this revised SSAP, a prior year adjustment has been made to reclassify the proposed final dividend for the year ended 30 June 2001 of HK$6,000,000, which was recognised as a current liability at the prior year end, to the proposed final dividend reserve account within the capital and reserves section of the balance sheet. The result of this has been to reduce both the Group's and the Company's current liabilities and increase the reserves previously reported as at 30 June 2001, by HK$6,000,000.

The effect of this change in accounting policy as at 30 June 2002, is that the current year's proposed final dividend of HK$3,929,000 has been included in the proposed final dividend account within the capital and reserves section of the balance sheet, whereas in previous years it would have been recognised as a current liability at the balance sheet date.

12. EARNINGS 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 year of approximately HK$76,168,000 (2001: HK$39,688,000) and the weighted average number of 840,600,000 (2001: 701,698,630) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year ended 30 June 2002 is based on the Group's net profit from ordinary activities attributable to shareholders for the year of approximately HK$76,168,000. The weighted average number of ordinary shares used in the calculation is 840,600,000 ordinary shares in issue during the year, as used in the basic earnings per share calculation; and the weighted average of 21,089,499 ordinary shares assumed to have been issued at no consideration on the deemed exercise of the share options outstanding during the year.

There were no potential dilutive ordinary shares in existence for the year ended 30 June 2001 and, accordingly, no diluted earnings per share amount has been presented for that year.

13. FIXED ASSETS

Group

	Leasehold land and buildings HK$'000	Construction in progress HK$'000	Plant and machinery HK$'000	Furniture, office equipment and motor vehicles HK$'000	Total HK$'000
Cost or valuation:					
At 1 July 2001	32,000	16,337	14,722	2,592	65,651
Additions	4,683	7,010	–	722	12,415
Disposal	–	–	–	(410)	(410)
Revaluation	(1,083)	–	–	–	(1,083)
At 30 June 2002	35,600	23,347	14,722	2,904	76,573
Analysis of cost or valuation:					
At cost	–	23,347	14,722	2,904	40,973
At valuation	35,600	–	–	–	35,600
	35,600	23,347	14,722	2,904	76,573
Accumulated depreciation:					
At 1 July 2001	–	–	4,627	1,291	5,918
Provided during the year	591	–	392	618	1,601
Disposal	–	–	–	(178)	(178)
Written back on revaluation	(591)	–	–	–	(591)
At 30 June 2002	–	–	5,019	1,731	6,750
Net book value:					
At 30 June 2002	35,600	23,347	9,703	1,173	69,823
At 30 June 2001	32,000	16,337	10,095	1,301	59,733

13. FIXED ASSETS *(Continued)*

The Group's leasehold land and buildings included above are held under the following lease terms:

	2002	2001
	HK$'000	HK$'000
A medium term lease in Hong Kong	4,600	–
Medium term leases in the PRC	31,000	32,000
	35,600	32,000

At 30 June 2002, the Group's leasehold land and buildings in Hong Kong were revalued on an open market value, existing use basis, by DTZ Debenham Tie Leung Limited ("DTZ"), an independent firm of professional valuers, at HK$4,600,000. The resulting revaluation surplus of approximately HK$11,000 had been credited to the fixed asset revaluation reserve (note 23).

At 30 June 2002, the Group's leasehold land and buildings in the PRC were revalued on a open market value, depreciated replacement cost basis by DTZ, at HK$31,000,000. The resulting revaluation deficit of approximately HK$503,000 had been debited to the fixed asset revaluation reserve (note 23) (at 30 June 2001, a surplus on revaluation of approximately HK$3,215,000 in relation to these leasehold land and buildings had been credited to the fixed asset revaluation reserve (note 23)).

Had the Group's leasehold land and buildings been carried at historical cost less accumulated depreciation, their carrying value would have been approximately HK$32,877,000 (2001: HK$28,785,000).

At 30 June 2002, the Group's leasehold land and buildings held in Hong Kong, with an aggregate net book value of approximately HK$4,600,000 were pledged to secure banking facilities granted to the Group.

The net book value of the motor vehicles of the Group held under finance leases included in the total amount of the fixed assets at 30 June 2002 amounted to approximately HK$694,000 (2001: HK$648,000).

14. INTERESTS IN SUBSIDIARIES

	Company	
	2002	2001
	HK$'000	HK$'000
Unlisted shares, at cost	78,234	78,234
Due from subsidiaries	42,220	20,298
	120,454	98,532

The amounts due from subsidiaries are unsecured, interest-free and are not repayable before 30 June 2003.

14. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ establishment/ and operations*	Paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Directly held				
Earlsmead Enterprises Limited ("Earlsmead")	British Virgin Islands ("BVI")	Ordinary US$100	100%	Investment holding
Indirectly held				
Daqing Black Bird Co., Ltd.	PRC#	RMB 5,000,000	90%	Manufacture and sale of petroleum refined products
Jet Sheen International Limited	Hong Kong	Ordinary HK$10,000	100%	Provision of administrative services
Ombudsman Developments Limited	BVI/ PRC	Ordinary US$1	100%	Trading of petroleum refined products
Pun Mun Agents Limited	BVI/ Europe, North America and Asia	Ordinary US$1	100%	Provision of marketing services
Seng Lai Services Limited	BVI/ PRC	Ordinary US$1	100%	Provision of quality control services
STB Company Limited	Hong Kong	Ordinary HK$2	100%	Property holding
Tsai Hong Properties Limited	BVI/ PRC	Ordinary US$1	100%	Provision of distribution rights and intellectual property holding

* Where different

\# Daqing Black Bird Co., Ltd. is a sino-foreign equity joint venture established in the PRC for an operating period of 15 years commencing from the approval date of 20 August 1997 as stated on its certificate of approval.

15. INVENTORIES

	Group	
	2002	2001
	HK$'000	HK$'000
Raw materials	**27,342**	15,337
Finished goods	**19,251**	4,698
	46,593	20,035

None of the inventories were stated at net realisable value as at 30 June 2002 (2001: Nil).

16. TRADE RECEIVABLES

The Group normally allows credit terms to established customers ranging from 30 to 120 days. 100% 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 date of recognition of the sale, is as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
1 – 30 days	**68,837**	28,724
31 – 60 days	**9,443**	5,378
61 – 90 days	**7,592**	1,965
91 – 120 days	**3,883**	1,273
	89,755	37,340

17. CASH AND BANK BALANCES

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**53,903**	22,477	**251**	108
Time deposits	**8,143**	7,160	**8,143**	7,160
	62,046	29,637	**8,394**	7,268

18. INTEREST-BEARING BANK AND OTHER BORROWINGS, SECURED

	Group	
	2002	2001
	HK$'000	HK$'000
Bank loan, secured and repayable:		
Within one year	**101**	–
In the second year	**106**	–
In the third to fifth years, inclusive	**353**	
Beyond five years	**2,615**	–
	3,175	–
Other borrowing, secured and repayable:		
In the second year	**23**	–
In the third to fifth years, inclusive	**93**	
Beyond five years	**1,049**	–
	1,165	–
	4,340	–
Portion classified as current liabilities	**(101)**	–
Long term portion	**4,239**	–

19. FINANCE LEASE PAYABLES

The Group leases two motor vehicles for its general business purpose. These leases are classified as finance leases and have remaining lease terms of two and three years, respectively.

At 30 June 2002, the total future minimum lease payment under finance leases and their present values, were as follows:

	Group			
	Minimum lease payments 2002 HK$'000	**Present value of minimum lease payments 2002 HK$'000**	Minimum lease payments 2001 HK$'000	Present value of minimum lease payments 2001 HK$'000
Amounts payable:				
Within one year	**292**	**279**	267	252
In the second year	**281**	**249**	267	224
In the third to fifth years, inclusive	**151**	**130**	245	184
Total minimum finance lease payments	724	**658**	779	660
Future finance charges	**(66)**		(119)	
Total net finance lease payables	**658**		660	
Portion classified as current liabilities	**(279)**		(202)	
Long term portion	**379**		458	

At 30 June 2002, the Group's finance leases were secured by a corporate guarantee given by the Company.

20. BANKING FACILITIES

At 30 June 2002, the Group's banking facilities were secured by the following:

(i) a first legal charge on the Group's leasehold land and buildings in Hong Kong (note 13); and

(ii) corporate guarantees given by the Company.

21. TRADE PAYABLES

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

An aging analysis of the trade payables as at the balance sheet date, based on the receipt of goods purchased, is as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
1 – 30 days	**13,593**	8,361
31 – 60 days	**1,758**	1,152
61 – 90 days	**935**	61
	16,286	9,574

22. SHARE CAPITAL

Shares

	2002	2001
	HK$'000	HK$'000
Authorised:		
2,000,000,000 ordinary shares of HK$0.01 each	**20,000**	20,000
Issued and fully paid:		
873,000,000 (2001: 800,000,000) ordinary shares of HK$0.01 each	**8,730**	8,000

During the year, the following movements in share capital took place:

(a) On 21 November 2001, the Company entered into a placing agreement for the placement of 60,000,000 ordinary shares in the Company of HK$0.01 each at a price of HK$0.36 per share to certain independent third parties. The placement was completed on 10 December 2001 and proceeds of approximately HK$20,441,000, net of expenses, were raised by the Company.

(b) On 10 December 2001, 13,000,000 share options, which entitled the holders to subscribe for ordinary shares of HK$0.01 each in the Company at the price of HK$0.2344 per share at any time up to 19 August 2004, were exercised and total proceeds of approximately HK$3,047,000 were received by the Company.

22. SHARE CAPITAL *(Continued)*

Shares *(Continued)*

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

	Notes	Number of shares issued '000	Par value HK$'000
At 1 July 2001		800,000	8,000
Issue of new shares	*(a)*	60,000	600
Share options exercised	*(b)*	13,000	130
At 30 June 2002		873,000	8,730

Shares options

The Company operates a share option scheme (the "SO Scheme"), further details of which are set out under the heading "Share option scheme" in the Report of the Directors on pages 22 to 24.

On 8 August 2001, the Company granted a total of 80,000,000 share options under the SO Scheme to certain employees of the Company for a nominal consideration of HK$1 in total per grantee. The share options granted entitled the holders to subscribe for a total of 80,000,000 ordinary shares of HK$0.01 each in the Company at an exercise price of HK$0.2344 per ordinary share, subject to adjustment, at any time during the period from 20 August 2001 to 19 August 2004, both dates inclusive.

During the year, 13,000,000 share options to subscribe for the ordinary shares of HK$0.01 each in the Company were exercised at a subscription price of HK$0.2344 per share, resulting in the issue of 13,000,000 new shares in the Company at a total consideration of approximately HK$3,047,000.

During the year, 25,000,000 share options lapsed following the resignation of certain employees.

At the balance sheet date, the Company had 42,000,000 share options outstanding under the SO Scheme, the exercise in full of which would, under the present capital structure of the Company, result in the issue of 42,000,000 additional ordinary shares of HK$0.01 each.

23. RESERVES

	Share premium HK$'000	Capital reserve HK$'000	Fixed asset revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000
Group					
At 1 July 2000	–	106	–	48,994	49,100
Issue of shares	28,800	–	–	–	28,800
Share issue expenses	(9,818)	–	–	–	(9,818)
Capitalisation issue of shares	(6,600)	–	–	–	(6,600)
Surplus on revaluation	–	–	3,215	–	3,215
Surplus on revaluation shared by minority shareholders - note 24(b)	–	–	(322)	–	(322)
Net profit for the year	–	–	–	39,688	39,688
Proposed final dividend – note 11	–	–	–	(6,000)	(6,000)
At 30 June 2001 and 1 July 2001	12,382	106	2,893	82,682	98,063
Arising on issue of new shares	21,000	–	–	–	21,000
Share issue expenses	(1,159)	–	–	–	(1,159)
Arising on exercise of share options	2,917	–	–	–	2,917
Deficit on revaluation – note 13	–	–	(492)	–	(492)
Deficit on revaluation shared by minority shareholders – note 24(b)	–	–	50	–	50
Net profit for the year	–	–	–	76,168	76,168
Proposed final dividend – note 11	–	–	–	(3,929)	(3,929)
At 30 June 2002	35,140	106	2,451	154,921	192,618

23. RESERVES *(Continued)*

	Share premium HK$'000	Retained profits HK$'000	Total HK$'000
Company			
Arising on acquisition of Earlsmead and applied in payment of 10,000,000 shares allotted nil paid on incorporation	78,034	–	78,034
Issue of shares	28,800	–	28,800
Share issue expenses	(9,818)	–	(9,818)
Capitalisation issue of shares	(6,600)	–	(6,600)
Net profit for the period	–	6,975	6,975
Proposed final dividend – note 11	–	(6,000)	(6,000)
At 30 June 2001 and 1 July 2001	90,416	975	91,391
Arising on issue of new shares	21,000	–	21,000
Share issue expenses	(1,159)	–	(1,159)
Arising on exercise of share options	2,917	–	2,917
Net profit for the year	–	5,918	5,918
Proposed final dividend – note 11	–	(3,929)	(3,929)
At 30 June 2002	113,174	2,964	116,138

Notes:

(1) The share premium account of the Group includes (i) the premium arising from the new issue during the year; and (ii) the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group Reorganisation, over the nominal value of the shares of the Company issued in exchange therefor.

(2) The share premium account of the Company includes (i) the premium arising from the new issue during the year; and (ii) the difference between the then combined net asset value of the subsidiaries acquired pursuant to the Group Reorganisation, over the nominal value of the shares of the Company issued in exchange therefor.

In accordance with the Companies Law (Revised) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

(3) As detailed in note 3 to the financial statements, the Group has adopted the transitional provision of SSAP 2.130 that permits negative goodwill on acquisitions which occurred prior to 1 July 2001 to remain credited to the Group's capital reserve. The amount of the negative goodwill remaining credited to the Group's capital reserve arising from the acquisition of a subsidiary in prior years was approximately HK$106,000 as at 1 July 2001 and 30 June 2002.

24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit from operating activities to net cash inflow from operating activities

	2002 HK$'000	2001 HK$'000
Profit from operating activities	**96,468**	49,492
Interest income	**(206)**	(229)
Loss on disposal of a fixed asset	**2**	–
Depreciation	**1,601**	2,262
Increase in prepayments, deposits and other receivables	**(1,201)**	(674)
Increase in inventories	**(26,558)**	(9,289)
Increase in trade receivables	**(52,415)**	(18,655)
Increase/(decrease) in trade payables	**6,712**	(2,240)
(Decrease)/increase in other payables and accruals	**(216)**	73
Net cash inflow from operating activities	**24,187**	20,740

(b) Analysis of changes in financing activities during the year

	Bank and other borrowings, secured HK$'000	Finance lease payables HK$'000	Minority interests HK$'000	Issued capital and share premium HK$'000
Balance at 1 July 2000	–	–	4,378	200
Inception of finance lease contracts	–	810	–	–
Cash (outflow)/inflow from financing activities, net	–	(150)	–	20,182
Share of profit for the year	–	–	1,926	–
Share of revaluation surplus – note 23	–	–	322	–
Balance at 30 June 2001 and 1 July 2001	–	660	6,626	20,382
Inception of finance lease contracts	–	450	–	–
Cash inflow/(outflow) from financing activities, net	4,340	(452)	–	23,488
Share of profit for the year	–	–	3,575	–
Share of revaluation deficit – note 23	–	–	(50)	–
Balance at 30 June 2002	4,340	658	10,151	43,870

24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(c) **Major non-cash transactions**

During the year, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of approximately HK$450,000 (2001: HK$810,000).

25. CONTINGENT LIABILITIES

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

At 30 June 2002, contingent liabilities not provided for in the financial statements were as follows:

	Company	
	2002	2001
	HK$'000	HK$'000
Guarantee given to a bank in connection with a banking facility granted to a subsidiary	**3,260**	–
Guarantee given to a finance company in connection with a financing facility granted to a subsidiary	**1,165**	–
Guarantees of hire purchase financing facilities granted by a finance company to a subsidiary	**724**	779
	5,149	779

At 30 June 2002, the banking facility granted to the subsidiary were utilised to the extent of approximately HK$3,175,000.

26. OPERATING LEASE ARRANGEMENTS

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

At 30 June 2002, the Group had total future minimum lease payments under non-cancellable operating leases for leasehold land and buildings falling due as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Within one year	**513**	113
In the second to fifth years, inclusive	**–**	36
	513	149

The Company did not have any operating lease arrangements as at 30 June 2002 (2001: Nil).

27. COMMITMENTS

In addition to the operating lease commitments detailed in note 26 above, the Group had the following outstanding commitments:

	2002	2001
	HK$'000	HK$'000
Contracted capital commitments in respect of leasehold buildings and plant under construction	**3,505**	1,262

The Company did not have any significant commitments as at 30 June 2002 (2001: Nil).

28. RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions with a related party:

	2002	2001
	HK$'000	HK$'000
Rental expenses paid to Ng Lung Kee Transportation Company Limited ("Ng Lung Kee")	**80**	96

Mr. Ng Ming Wah, a director of the Company, is also a director and shareholder of Ng Lung Kee. On 9 January 2002, Mr. Ng Ming Wah resigned as a director of the company.

In the opinion of the directors, the above transactions were carried out in the ordinary course of business of the Group with reference to the open market rental value of the properties.

29. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the following events occurred:

(a) On 18 October 2002, the Company proposed to change its name to Daqing Petroleum & Chemical Group Limited; and

(b) On 18 October 2002, the Company proposed to declare a final dividend of HK0.45 cent per ordinary share to its shareholders whose names appeared on the register of members of the Company on 12 November 2002, as detailed in note 11 to the financial statements.

30. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

31. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18 October 2002.