For the year ended 30 June 2004

1. CORPORATE INFORMATION

The principal place of business of the Company is located at Room 1818, 18th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong. The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

2. IMPACT OF REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted for the first time, the revised Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 12 "Incomes taxes" issued by the Hong Kong Institute of Certified Public Accountants.

SSAP 12 (revised) prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carry forward of unused tax losses (deferred tax).

In the absence of any specific transitional requirements in SSAP 12 (revised), the new accounting policy has been applied retrospectively, but the adoption of SSAP 12 (revised) has not had any material effect on the results for the current year or prior accounting periods. However, the related note disclosures are now more extensive than previously required. These disclosures are presented in note 9 to the financial statements and include a reconciliation between the accounting profit/loss and the tax expense for the year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, 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 and investment property as further explained in the respective accounting policies below.

For the year ended 30 June 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 30 June 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

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;

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

(c) rental income, on a time proportion basis over the lease terms.

Leased assets

Leases that transfer substantially all the risks and rewards 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 income statement 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.

For the year ended 30 June 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Employee benefits

Retirement benefits schemes

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. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement 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 income statement as they become payable in accordance with the rules of the PRC RB Scheme.

Share option schemes

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option schemes is not recorded in the Company's or the Group's balance sheet until such time as the share options are exercised, and no charge is recorded in the income statement or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding share options.

Foreign currencies

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

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The income statements of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the year ended 30 June 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign currencies (Cont'd)

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Trade receivables

Trade receivables are recognised and carried at original invoiced amount. An estimate for doubtful debts is made and deducted when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Other assets

Other assets represent land use rights and are stated at cost less accumulated amortisation and any impairment losses. Amortisation is provided on a straight-line basis over the lease terms.

Research and development costs

All research costs are charged to the income statement 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.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are available as to use.

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.

For the year ended 30 June 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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 income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets, other than investment properties and 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 income statement 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, other than investment properties, 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 income statement. Any subsequent revaluation surplus is credited to the income statement 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.

For the year ended 30 June 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Fixed assets and depreciation (Cont'd)

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
Leasehold improvements	The shorter of the lease terms and 10 years
Furniture, office equipment and motor vehicles	5 years

The gain or loss on disposal or retirement of a fixed asset recognised in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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 properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year, except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the then carrying amount over the remaining term of the lease.

Changes in the values of the investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the income statement.

Borrowing costs

All borrowing costs are charged to the income statement in the year in which they are incurred.

For the year ended 30 June 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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 results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

(a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;

(b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;

(c) an associate, if the Company does not have unilateral or joint control, but is in a position to exercise significant influence, directly or indirectly, over the joint venture company; or

(d) a long term investment, if the Company has neither joint control of, nor is in a position to exercise significant influence, directly or indirectly, over the joint venture company.

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.

For the year ended 30 June 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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 income statement 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 income statement 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.

SSAP 30 "Business combinations" was adopted by the Group for its accounting period beginning 1 July 2001. Prior to that date, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such 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 SSAP 30 negative goodwill 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 income statement 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.

For the year ended 30 June 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provide that a realiable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

For the year ended 30 June 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Income tax (Cont'd)

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foresesable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and term deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, 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

Segment information is presented by way of two segment formats: (a) on a primary segment reporting basis, by business segment; and (b) 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 the other business segments. The Group's business segments are as follows:

Manufacture and sale of:

(a) lubricants;

(b) anti-corrosive coatings; and

(c) additives.

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

For the year ended 30 June 2004

5. SEGMENT INFORMATION (Cont'd)

(a) Business segments

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

	Manufacture and sale of							
	Lubricants		Anti-corrosive coatings		Additives		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:								
Sales to external customers	**236,667**	229,741	**168,879**	133,155	**3,336**	3,980	**408,882**	366,876
Segment results	**47,116**	64,939	**43,026**	42,346	**865**	923	**91,007**	108,208
Unallocated revenue							**382**	343
Unallocated expenses							**(6,456)**	(6,109)
Profit from operating activities							**84,933**	102,442
Finance costs							**(310)**	(197)
Profit before tax							**84,623**	102,245
Tax							**(9,907)**	(7,991)
Profit before minority interests							**74,716**	94,254
Minority interests							**(7,916)**	(9,825)
Net profit from ordinary activities attributable to shareholders							**66,800**	84,429

For the year ended 30 June 2004

5. SEGMENT INFORMATION (Cont'd)

(a) Business segments (Cont'd)

	Manufacture and sale of							
	Lubricants		Anti-corrosive coatings		Additives		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**198,194**	187,226	**141,427**	108,514	**2,794**	3,243	**342,415**	298,983
Unallocated assets							**123,372**	68,004
Total assets							**465,787**	366,987
Segment liabilities	**4,744**	10,257	**3,385**	5,945	**68**	177	**8,197**	16,379
Unallocated liabilities							**61,064**	41,020
Total liabilities							**69,261**	57,399
Other segment information:								
Depreciation	**1,887**	1,629	**1,347**	944	**26**	28	**3,260**	2,601
Unallocated depreciation							**240**	433
							3,500	3,034
Amortisation of other assets	**200**	49	**143**	29	**3**	1	**346**	79
Capital expenditure	**6,762**	22,079	**4,825**	12,797	**95**	383	**11,682**	35,259
Unallocated capital expenditure							**759**	24,519
							12,441	59,778

(b) Geographical segments

All of the Group's revenue, results, assets and liabilities are derived from customers in the PRC and accordingly, no further detailed analysis of the Group's geographical segments is presented.

For the year ended 30 June 2004

6. PROFIT FROM OPERATING ACTIVITIES

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

	Note	2004 HK$'000	2003 HK$'000
Cost of inventories sold*		**297,783**	239,969
Depreciation*	13	**3,500**	3,034
Amortisation of other assets	14	**346**	79
Minimum lease payments under operating leases for leasehold land and buildings		**1,372**	1,133
Staff costs (excluding directors' remuneration – note 7):			
Wages and salaries*		**3,884**	3,667
Retirement benefits scheme contributions		**5**	15
Auditors' remuneration		**500**	750
Research and development costs expensed for the year**		**798**	791
Interest income		**–**	(144)
Net rental income		**(274)**	(180)

* Part of the depreciation and staff costs for the year is included in "Cost of sales" on the face of the consolidated income statement.

** The research and development costs expensed for the year are included in "Other operating expenses" on the face of the consolidated income statement.

For the year ended 30 June 2004

7. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Details of the remuneration of the directors of the Company for the year disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance are as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Fees:		
Executive directors	**–**	–
Independent non-executive directors	**–**	–
Basic salaries, housing benefits, other allowances and benefits in kind:		
Executive directors	**614**	1,152
Independent non-executive directors	**46**	50
	660	1,202

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 2003 and 2004.

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

The five (2003: five) highest paid employees during the year included three (2003: three) directors, details of whose remuneration are disclosed above. Details of the remuneration of the remaining two (2003: two) non-director, highest paid employees, whose remuneration fell within the Nil to HK$1,000,000 band, are as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Basic salaries, housing benefits, other allowances and benefits in kind	**197**	293
Retirement benefits scheme contributions	**5**	15
	202	308

For the year ended 30 June 2004

8. FINANCE COSTS

	Group	
	2004	2003
	HK$'000	*HK$'000*
Interest on bank loan not wholly repayable within five years	**152**	158
Interest on other loans		
Wholly repayable within five years	**50**	–
Not wholly repayable within five years	**81**	–
Interest on finance leases	**27**	39
	310	197

9. TAX

	Group	
	2004	2003
	HK$'000	*HK$'000*
Current year provision:		
Hong Kong	**–**	–
Elsewhere in the PRC	**9,907**	7,991
Tax charge for the year	**9,907**	7,991

During the year, the increase in Hong Kong profits tax rate from 16% to 17.5% became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 30 June 2004. However, 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 (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.

For the year ended 30 June 2004

9. TAX (Cont'd)

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 exempted from the income tax of the PRC for three years starting from the first profitable year of its operations, i.e., from 1 January 1998 to 31 December 2000. Daqing Black Bird is also entitled to a 50% relief from the income tax of the PRC for the following three years, i.e., from 1 January 2001 to 31 December 2003. Upon expiry of the tax relief period, Daqing Black Bird will be 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. 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	2004	2004	2004	2004	2004
	HK$'000	%	*HK$'000*	%	*HK$'000*	%
Profit/(loss) before tax	(5,982)		90,605		84,623	
Tax at the statutory tax rate	(1,046)	17.5	29,900	33.0	28,854	34.1
Preferential statutory tax rate offered	–	–	(16,309)	(18.0)	(16,309)	(19.3)
Lower tax rate for tax relief granted	–	–	(3,684)	(4.1)	(3,684)	(4.3)
Income not subject to tax	(19)	0.3	–	–	(19)	(0.1)
Expenses not deductible for tax	937	(15.7)	–	–	937	1.1
Deferred tax assets in respect of tax losses not recognised	128	(2.1)	–	–	128	0.2
Tax charge at the Group's effective tax rate	–	–	9,907	10.9	9,907	11.7

For the year ended 30 June 2004

9. TAX (Cont'd)

	Hong Kong		The PRC		Total	
	2003	2003	2003	2003	2003	2003
	HK$'000	%	*HK$'000*	%	*HK$'000*	%
Profit/(loss) before tax	(3,998)		106,243		102,245	
Tax at the statutory tax rate	(640)	16.0	35,060	33.0	34,420	33.7
Preferential statutory tax rate offered	–	–	(19,124)	(18.0)	(19,124)	(18.7)
Lower tax rate for tax relief granted	–	–	(7,945)	(7.5)	(7,945)	(7.8)
Income not subject to tax	(156)	4.0	–	–	(156)	(0.2)
Expenses not deductible for tax	495	(12.0)	–	–	495	0.5
Deferred tax assets in respect of tax losses not recognised	301	(8.0)	–	–	301	0.3
Tax charge at the Group's effective tax rate	–	–	7,991	7.5	7,991	7.8

Deferred tax has not been provided as the Group did not have any significant unprovided deferred tax liabilities in respect of the year (2003: Nil).

10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 30 June 2004 is dealt with in the financial statements of the Company to the extent of HK$6,872,000 (2003: HK$27,001,000).

For the year ended 30 June 2004

11. DIVIDEND

	2004	2003
	HK$'000	*HK$'000*
HK$Nil (2003: proposed final of HK 0.11 cent per ordinary share)	**–**	977

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 HK$66,800,000 (2003: HK$84,429,000) and the weighted average of 945,678,689 (2003: 916,650,000) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year ended 30 June 2004 is based on the Group's net profit from ordinary activities attributable to shareholders for the year of HK$66,800,000 (2003: HK$84,429,000). The weighted average number of ordinary shares used in the calculation is 945,678,689 (2003: 916,650,000) ordinary shares in issue during the year, as used in the basic earnings per share calculation; and the weighted average of 8,549,878 (2003: 11,244,611) ordinary shares assumed to have been issued at no consideration on the deemed exercise of the share options outstanding during the year.

The comparative weighted average number of shares in issue and basic and diluted earnings per share for the year ended 30 June 2003 have been adjusted to reflect the bonus issue of shares on the basis of one bonus share for every twenty shares held by shareholders on 20 November 2003 (note 25).

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13. FIXED ASSETS

Group

	Investment property HK$'000	Leasehold land and buildings HK$'000	Construction in progress HK$'000	Plant and machinery HK$'000	Leasehold improvements HK$'000	Furniture, office equipment and motor vehicles HK$'000	Total HK$'000
Cost or valuation:							
At 1 July 2003	4,620	45,477	39,095	17,981	3,032	4,884	115,089
Additions	–	–	11,682	–	186	573	12,441
Disposal	–	–	–	–	–	(188)	(188)
Disposal of a subsidary	–	–	–	–	–	(1,685)	(1,685)
Revaluation	(340)	(1,281)	–	–	–	–	(1,621)
At 30 June 2004	4,280	44,196	50,777	17,981	3,218	3,584	124,036
Accumulated depreciation:							
At 1 July 2003	–	–	–	5,871	501	2,140	8,512
Provided during the year	–	1,376	–	1,061	315	748	3,500
Disposal	–	–	–	–	–	(188)	(188)
Disposal of a subsidiary	–	–	–	–	–	(608)	(608)
Written back on revaluation	–	(1,376)	–	–	–	–	(1,376)
At 30 June 2004	–	–	–	6,932	816	2,092	9,840
Net book value:							
At 30 June 2004	4,280	44,196	50,777	11,049	2,402	1,492	114,196
At 30 June 2003	4,620	45,477	39,095	12,110	2,531	2,744	106,577
Analysis of cost or valuation at 30 June 2004:							
At cost	–	–	50,777	17,981	3,218	3,584	75,560
At valuation	4,280	44,196	–	–	–	–	48,476
	4,280	44,196	50,777	17,981	3,218	3,584	124,036

The Group's leasehold land and buildings included above are held under medium term leases in the PRC.

For the year ended 30 June 2004

13. FIXED ASSETS (Cont'd)

At 30 June 2004, the Group's leasehold land and buildings in the PRC were revalued using an open market value, depreciated replacement cost basis by Castores Magi Surveyors Limited ("Castores Magi"), independent professionally qualified valuers, at HK$44,196,000 (2003: HK$45,477,000). The resulting revaluation surplus of HK$95,000 (2003: HK$3,815,000) has been credited to the fixed asset revaluation reserve as set out in the consolidated statement of changes in equity.

Had the Group's leasehold land and buildings been carried at historical cost less accumulated depreciation, their carrying value would have been HK$37,450,000 (2003: HK$45,466,000).

On 10 August 2004, the Group entered into a sale and purchase agreement to dispose of its investment property at a consideration of HK$4,280,000 (note 32(b) to the financial statements). At 30 June 2004, the investment property was stated at the consideration receivable upon disposal. The resulting revaluation deficit of HK$340,000 was first debited to the investment property revaluation reserve and fixed asset revaluation reserve to the extent of HK$20,000 and HK$11,000 respectively as set out in the consolidated statement of changes in equity and thereafter was debited to profit from operating activities.

At 30 June 2004, the Group's investment property held in Hong Kong under a medium term lease with an aggregate net book value of HK$4,280,000 (2003: HK$4,620,000) was pledged to secure banking facilities granted to the Group (note 23 to the financial statements).

14. OTHER ASSETS

Group

	Land use rights *HK$'000*
Cost:	
At 1 July 2003 and 30 June 2004	13,832
Accumulated amortisation:	
At 1 July 2003	79
Amortisation provided during the year	346
At 30 June 2004	425
Net book value:	
At 30 June 2004	13,407
At 30 June 2003	13,753

For the year ended 30 June 2004

14. OTHER ASSETS (Cont'd)

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. The parcel of land was acquired by the Group with a cash consideration of RMB14,800,000 (equivalent to approximately HK$13,832,000) during the year ended 30 June 2003 and such consideration paid has been classified as other assets while the construction costs incurred by the Group of HK$25,093,000 (2003: HK$15,748,000) for the related buildings have been classified as construction in progress under fixed assets (note 13 to the financial statements).

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.

15. DEFERRED DEVELOPMENT COSTS

In the opinion of the directors, no amortisation was provided for the year as the products are still at the development stage and are not yet available for use to the Group.

16. DEPOSITS PAID FOR THE ESTABLISHMENT OF PROPOSED JOINT VENTURES

	Group	
	2004	2003
	HK$'000	*HK$'000*
Huludao BoHai Shipping Black Bird Painting Co., Ltd. ("Huludao Subsidiary") (note (a))	**5,140**	5,140
Mudanjiang Dongbei Chemical Engineering Company Limited ("Mudanjiang Subsidiary") (note (b))	**25,000**	–
	30,140	5,140

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16. DEPOSITS PAID FOR THE ESTABLISHMENT OF PROPOSED JOINT VENTURES (Cont'd)

(a) 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 30 June 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 30(b) to the financial statements.

(b) On 27 May 2004, the Group entered into an agreement with an independent third party to establish the Mudanjiang Subsidiary, a Sino-foreign equity joint venture in the PRC (the "Mudanjiang Agreement"). Pursuant to the Mudanjiang Agreement, the Group would have a 55% equity interest in the Mudanjiang Subsidiary. The principal activities of the Mudanjiang Subsidiary are the manufacture and sale of vinyl acetate. The proposed registered capital of the Mudanjiang Subsidiary is RMB90,910,000 (equivalent to approximately HK$86,581,000). As at 30 June 2004, the Group had paid HK$25,000,000 as a partial contribution for its commitment, totalling RMB50,000,000 (equivalent to approximately HK$47,619,000), of the proposed total investment of the Mudanjiang Subsidiary. The remaining contribution required from the Group to fulfil the proposed total investment in the Mudanjiang Subsidiary of HK$22,619,000 is disclosed as a capital commitment in note 30(b) to the financial statements.

17. INTERESTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK$'000	*HK$'000*
Unlisted shares, at cost	**78,234**	78,234
Due from subsidiaries	**109,558**	72,258
	187,792	150,492

The amounts due from subsidiaries are unsecured, interest-free and are not repayable before 30 June 2005.

For the year ended 30 June 2004

17. INTERESTS IN SUBSIDIARIES (Cont'd)

Particulars of the subsidiaries as at the balance sheet date are as follows:

Name	Place of incorporation/ establishment and operations*	Nominal value of paid-up share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2004	2003	
Directly held					
Earlsmead Enterprises Limited ("Earlsmead")	British Virgin Islands ("BVI")	Ordinary US$100	100	100	Investment holding
Gold Capture Investment Inc.	BVI	Ordinary US$1	100	–	Inactive
Indirectly held					
Daqing Black Bird	PRC#	RMB 5,000,000	90	90	Manufacture and sale of petroleum refined products
Ombudsman Developments Limited	BVI	Ordinary US$1	100	100	Inactive
Pun Mun Agents Limited	BVI	Ordinary US$1	100	100	Inactive
Seng Lai Services Limited	BVI	Ordinary US$1	100	100	Inactive

For the year ended 30 June 2004

17. INTERESTS IN SUBSIDIARIES (Cont'd)

Name	Place of incorporation/ establishment and operations *	Nominal value of paid-up share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2004	2003	
STB Company Limited	Hong Kong	Ordinary HK$2	100	100	Property holding
Success Eagle Investment Limited	Hong Kong	Ordinary HK$1	100	–	Provision of administrative services
Tsai Hong Properties Limited	BVI	Ordinary US$1	100	100	Inactive

* Where different

Daqing Black Bird 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.

18. INVENTORIES

	Group	
	2004	2003
	HK$'000	*HK$'000*
Raw materials	**42,012**	40,519
Finished goods	**22,671**	18,880
	64,683	59,399

None of the inventories was stated at net realisable value as at 30 June 2004 (2003: Nil).

For the year ended 30 June 2004

19. 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 invoice date, is as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Within 30 days	**43,787**	30,780
31 – 60 days	**40,957**	41,314
61 – 90 days	**17,102**	13,968
91 – 120 days	**10,311**	9,608
121 – 365 days	**15,275**	8,121
Over 365 days	**1,801**	–
	129,233	103,791

Included in the Group's trade receivables as at 30 June 2004 is an amount due from the joint venture partner of the proposed Sino-foreign equity joint venture of HK$10,167,000 (2003: HK$3,022,000), which is repayable on credit terms similar to those offered to other customers of the Group.

20. CASH AND CASH EQUIVALENTS

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**83,636**	56,136	**3,169**	990
Time deposits	**–**	1,238	**–**	1,238
Cash and cash equivalents	**83,636**	57,374	**3,169**	2,228

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$80,439,000 (2003: HK$54,708,000). The RMB is not freely convertible into other currencies. However, under the PRC's Foreign Exchange Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

For the year ended 30 June 2004

21. 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 invoice date, is as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Within 30 days	**3,887**	191
31 – 60 days	**1,336**	3,711
61 – 90 days	**222**	8,026
Over 90 days	**257**	1,317
	5,702	13,245

22. INTEREST-BEARING BANK AND OTHER BORROWINGS, SECURED

	Group	
	2004	2003
	HK$'000	*HK$'000*
Bank loan, secured and repayable:		
Within one year	**113**	107
In the second year	**119**	113
In the third to fifth years, inclusive	**392**	374
Beyond five years	**2,342**	2,479
	2,966	3,073
Other borrowing, secured and repayable:		
Within one year	**33**	28
In the second year	**36**	33
In the third to fifth years, inclusive	**126**	117
Beyond five years	**941**	987
	1,136	1,165
	4,102	4,238
Portion classified as current liabilities	**(146)**	(135)
Non-current portion	**3,956**	4,103

For the year ended 30 June 2004

23. BANKING FACILITIES

At 30 June 2004, the Group's banking facilities were secured by the following:

(a) a first legal charge on the Group's investment property in Hong Kong (note 13 to the financial statements); and

(b) a corporate guarantee executed by the Company.

24. SHORT TERM BORROWING

The loan was unsecured and repayable on 24 September 2004. The loan bore monthly interest of HK$50,000.

On 14 September 2004, the Group repaid the loan together with interest of HK$150,000.

25. SHARE CAPITAL

Shares

	2004	2003
	HK$'000	*HK$'000*
Authorised:		
2,000,000,000 ordinary shares of HK$0.01 each	**20,000**	20,000
Issued and fully paid:		
966,400,000 (2003: 873,000,000) ordinary shares of HK$0.01 each	**9,664**	8,730

For the year ended 30 June 2004

25. SHARE CAPITAL (Cont'd)

A summary of the movements in the issued share capital of the Company during the two years ended 30 June 2003 and 2004 is as follows:

	Number of ordinary shares issued	Par value
	'000	*HK$'000*
At 1 July 2002 and 30 June 2003	873,000	8,730
Bonus issue	44,400	444
Share options exercised	49,000	490
At 30 June 2004	966,400	9,664

On 20 November 2003, 44,400,000 new ordinary shares of HK$0.01 each were allotted and issued as bonus shares on the basis of one bonus share for every twenty shares held by the shareholders. The bonus shares rank pari passu in all respects with the ordinary shares of the Company in issue on the date of allotment.

Shares options

Details of the Company's share option schemes and the share options issued thereunder are included in note 26 to the financial statements.

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26. 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.

A summary of the Old Scheme and the New Scheme is set out below:

(a) **Old Scheme**

The Company previously operated the Old Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Old Scheme included any director or employee of the Company and its subsidiaries. The Old Scheme was approved by the shareholders on 8 April 2001 and, unless otherwise cancelled or amended, would have remained in force for 10 years from its date of adoption.

At 30 June 2004, there were no share options remained outstanding under the Old Scheme.

(b) **New Scheme**

The New Scheme became effective on 18 November 2002 for a period of 10 years. Under the New Scheme, the directors may, at their sole discretion, grant to any eligible participants options to subscribe for ordinary shares of the Company at the highest of (i) the closing price of the shares of the Company as stated in the daily quotation sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of the offer of grant, which must be a business day; (ii) the average closing price of the shares of the Company as stated in the daily quotation sheet of the Stock Exchange for the five business days immediately preceding the date of the offer of grant, which must be a business day; and (iii) the nominal value of the shares. The offer for a grant of share options may be accepted within 21 days from the date of the offer. The exercise period of the share options granted is determinable by the directors and in any event not later than 10 years from the date of grant of share options, subject to the provisions for early termination thereof.

The maximum number of shares to be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the relevant class of shares of the Company in issue from time to time. The total number of shares which may be allotted and issued upon exercise of all options to be granted under the New Scheme is an amount equivalent to 10% of the shares of the Company in issue as at the date of the extraordinary general meeting held on 18 November 2002.

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26. SHARE OPTION SCHEMES (Cont'd)

(b) New Scheme (Cont'd)

At 30 June 2004, there were 13,000,000 share options granted which remained outstanding under the New Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 13,000,000 additional ordinary shares of the Company and additional share capital of HK$130,000 and share premium of HK$5,980,000 (before share issue expenses).

Share options do not confer rights to the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the share option schemes during the year:

	Number of share options								Price of Company's shares***	
Category or name of participant	At 1 July 2003	Granted during year	Exercised during the year	Lapsed during the year	At 30 June 2004	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$	At grant date of options HK$	At exercise date of options HK$
Other employees										
Old Scheme	42,000,000	–	(42,000,000)	–	–	8 August 2001	20 August 2001 to 19 August 2004	0.2344	0.295	N/A
New Scheme	–	20,000,000	(7,000,000)	–	13,000,000	1 April 2004	7 April 2004 to 6 April 2007	0.47	0.475	N/A

* 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.

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27. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity in the financial statements.

The share premium account of the Group includes (i) the premium arising from the new issue of shares; and (ii) the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the group reorganisation for the purpose of the listing of the Company's shares on the Stock Exchange in the prior year, over the nominal value of the shares of the Company issued in exchange therefor.

As further detailed in note 3 to the financial statements, on the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted negative goodwill in respect of acquisitions which occurred prior to the Group's accounting period beginning 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 the prior years was HK$106,000 (2003: HK$106,000) as at 30 June 2004.

(b) Company

		Reserves		
		Share premium account	**Retained profits**	**Total**
	Note	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2002		113,174	2,964	116,138
Net profit for the year		–	27,001	27,001
Proposed final 2003 dividend	11	–	(977)	(977)
At 30 June 2003 and 1 July 2003		113,174	28,988	142,162
Bonus issue		(444)	–	(444)
Exercise of share options		12,645	–	12,645
Net profit for the year		–	6,872	6,872
At 30 June 2004		125,375	35,860	161,235

For the year ended 30 June 2004

27. RESERVES (Cont'd)

(b) Company (Cont'd)

Notes:

The share premium account of the Company includes (i) the premium arising from the new issue of shares; and (ii) the difference between the then combined net asset value of the subsidiaries acquired pursuant to the group reorganisation referred to in note (a) above, 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 of the Company 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 account may also be distributed in the form of fully paid bonus shares.

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Major non-cash transaction

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 HK$463,000 (2003: HK$340,000).

(b) Disposal of a subsidiary

	2004	2003
	HK$'000	*HK$'000*
Net assets disposed		
Fixed assets	**1,077**	–
Investment in a club membership	**650**	–
Prepayments, deposits and other receivables	**380**	–
Cash and bank balances	**112**	–
Finance lease payables	**(771)**	–
	1,448	–
Loss on disposal of a subsidiary	**(1,438)**	–
Cash consideration	**10**	–
Cash and bank balances disposed	**(112)**	–
Net cash outflow on disposal	**(102)**	–

The subsidiary did not have a significant contribution to the Group's results or cash flows for the year.

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29. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at the balance sheet date (2003: Nil).

At 30 June 2004, the Company had the following contingent liabilities not provided for in the financial statements:

	Company	
	2004	2003
	HK$'000	*HK$'000*
Guarantee given to a bank in connection with a banking facility granted to a subsidiary	**2,966**	3,073
Guarantee given to a finance company in connection with a financing facility granted to a subsidiary	**1,136**	1,165
Guarantees of hire purchase financing facilities granted by a finance company to a subsidiary	**–**	574
	4,102	4,812

At 30 June 2004, the banking facility granted to the subsidiary was utilised to the extent of HK$2,966,000 (2003: HK$3,073,000).

The above corporate guarantees were released subsequent to the disposal of the Group's investment property (note 32(b) to the financial statements).

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30. 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 30 June 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	2003
	HK$'000	*HK$'000*
Within one year	**1,410**	1,121
In the second to fifth years, inclusive	**5,844**	9,346
Beyond five years	**2,617**	–
	9,871	10,467

The Company did not have any operating lease arrangements as at 30 June 2004 (2003: Nil).

(b) **Capital commitments**

	Group	
	2004	2003
	HK$'000	*HK$'000*
Authorised, but not contracted for:		
Proposed acquisition of an 80% equity interest in an entity in the PRC	**–**	17,944
Contracted, but not provided for:		
(i) Leasehold buildings and plant under construction	**3,738**	15,421
(ii) Contributions to PRC joint ventures	**29,628**	7,009
(iii) Development costs	**1,963**	1,963
	35,329	24,393

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30. COMMITMENTS (Cont'd)

(b) Capital commitments (Cont'd)

	Company	
	2004	2003
	HK$'000	*HK$'000*
Authorised, but not contracted for:		
Proposed acquisition of an 80% equity interest in an entity in the PRC	**–**	17,944

31. PENDING LITIGATION

On 13 July 2004, a writ of summons with statement of claim naming Rich & Healthy Company Limited ("R&H") as plaintiff and the Company, Earlsmead and certain other individuals as defendants was issued. It was alleged by R&H in the statement of claim that Earlsmead's acquisition of an 80% equity interest in Daqing Black Bird was fraudulent and that it is still the legal and beneficial owner of the 80% equity interest in Daqing Black Bird (the "Action"). The Company has obtained legal advice from two independent PRC law firms and was advised that based on the documents filed at the relevant authorities in the PRC and the evidence produced by the Company and R&H, R&H had never injected any capital into Daqing Black Bird and it does not have and never has had any interest in Daqing Black Bird. In view of the foregoing, the directors are of the opinion that the Action will not have any material adverse impact on the financial condition or operations of the Group.

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32. POST BALANCE SHEET EVENTS

In addition to those disclosed elsewhere in the financial statements, the Group has the following significant post balance sheet events:

(a) On 5 August 2004, the Directors announced that the Company proposed to effect a rights issue at HK$0.30 per rights share, payable in full on acceptance (in the proportion of one rights share for every two shares held). Under the rights issue, 483,200,000 new ordinary shares of HK$0.01 each were allotted and issued at HK$0.30 per rights share. These shares rank pari passu in all respects with the ordinary shares of the Company in issue on the date of allotment. The rights issue was completed on 17 September 2004.

With effect from the completion of the rights issue, the exercise price and the number of shares to be allotted upon the exercise of the outstanding share options has been adjusted in accordance with the terms of the Company's New Scheme (note 26(b) to the financial statements) as follows:

Exercise period of share options	Exercise price of share options prior to the rights issue *HK$*	Exercise price of share options after the rights issue *HK$*	Number of shares to be allotted upon the exercise of the outstanding share options prior to the rights issue	Number of shares to be allotted upon the exercise of the outstanding share options after the rights issue
7 April 2004 to 6 April 2007	0.47	0.313	13,000,000	19,500,000

(b) On 10 August 2004, the Group entered into a sale and purchase agreement to dispose of its investment property at a consideration of HK$4,280,000.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18 October 2004.