DAQING PETROLEUM AND CHEMICAL GROUP LIMITED
大慶石油化工集團有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 362)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2004

The Board of Directors ("Board" or "Directors") of Daqing Petroleum and Chemical Group Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim financial statements ("Interim Financial Statements") of the Company and its subsidiaries (collectively the "Group") for the six months ended 31 December 2004 ("Period").

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Unaudited six months ended 31 December 2004 HK$'000	2003 HK$'000
TURNOVER	2	**300,628**	202,926
Cost of sales		**(226,373)**	(142,777)
Gross profit		**74,255**	60,149
Other revenue		**4,603**	199
Selling and distribution costs		**(4,057)**	(3,783)
Administrative expenses		**(13,241)**	(9,020)
Other operating expenses		**(483)**	(376)
Non-recurring litigation fee and legal fee for set up of a subsidiary	4	**(4,234)**	–
PROFIT FROM OPERATING ACTIVITIES	4	**56,843**	47,169
Finance costs		**(526)**	(121)
PROFIT BEFORE TAX		**56,317**	47,048
Tax	5	**(8,652)**	(3,718)
PROFIT BEFORE MINORITY INTERESTS		**47,665**	43,330
Minority interests		**(7,347)**	(4,585)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		**40,318**	38,745
EARNINGS PER SHARE	6		
– Basic		**HK$3.2 cents**	HK4.4 cents
– Diluted		**N/A**	HK4.3 cents

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	Unaudited 31 December 2004 HK$'000	Audited 30 June 2004 HK$'000
NON-CURRENT ASSETS			
Fixed assets	7	**197,837**	114,196
Other assets	8	**13,234**	13,407
Deferred development costs	9	**4,953**	4,953
Deposits paid for the establishment of proposed joint ventures	10	**5,140**	30,140
		221,164	162,696
CURRENT ASSETS			
Inventories		**117,361**	64,683
Trade receivables	11	**150,305**	129,233
Prepayments, deposits and other receivables		**34,694**	25,539
Cash and cash equivalents		**163,298**	83,636
		465,658	303,091
CURRENT LIABILITIES			
Interest-bearing bank and other borrowings, secured		**—**	146
Short term borrowing		**—**	20,000
Trade payables	12	**7,272**	5,702
Other payables and accruals		**15,070**	6,951
Tax payable		**41,158**	32,506
		63,500	65,305
NET CURRENT ASSETS		**402,158**	237,786
TOTAL ASSETS LESS CURRENT LIABILITIES		**623,322**	400,482
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings, secured		**—**	3,956
MINORITY INTERESTS		**73,864**	28,284
		549,458	368,242
CAPITAL AND RESERVES			
Issued capital		**14,496**	9,324
Reserves		**534,962**	358,578
		549,458	368,242

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES

The Interim Financial Statements of the Group have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The accounting policies and the basis of presentation are consistent with those used in the annual financial statements for the year ended 30 June 2004.

2. 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 Period.

3. SEGMENT INFORMATION

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.

(i) Business segments

The following table presents revenue and results information for the Group's business segments:

	Manufacture and sale of: Lubricants 2004 HK$'000	Lubricants 2003 HK$'000	Anti-corrosive coatings 2004 HK$'000	Anti-corrosive coatings 2003 HK$'000	Additives 2004 HK$'000	Additives 2003 HK$'000	Vinyl acetate 2004 HK$'000	Vinyl acetate 2003 HK$'000	Consolidated 2004 HK$'000	Consolidated 2003 HK$'000
Segment revenue: Sales to external customers	**175,442**	119,087	**107,486**	82,159	**1,974**	1,680	**15,726**	–	**300,628**	202,926
Segment results	**31,872**	28,304	**25,004**	20,225	**518**	510	**2,454**	–	**59,848**	49,039
Unallocated revenue									**4,603**	199
Unallocated expenses									**(7,608)**	(2,069)
Profit from operating activities									**56,843**	47,169
Finance costs									**(526)**	(121)
Profit before tax									**56,317**	47,048
Tax									**(8,652)**	(3,718)
Profit before minority interests									**47,665**	43,330
Minority interests									**(7,347)**	(4,585)
Net profit from ordinary activities attributable to shareholders									**40,318**	38,745

(ii) Geographical segments

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

4. PROFIT FROM OPERATING ACTIVITIES

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

	Six months ended 31 December 2004 HK$'000	2003 HK$'000
Cost of inventories sold	**208,649**	142,777
Depreciation	**1,659**	2,190
Amortisation of other assets	**173**	173
Loss on disposal of an investment property	**70**	–
Interest income	**(63)**	(94)
Net rental income	**(20)**	(105)

The Group has incurred litigation fee and legal fee for set up of a subsidiary of approximately HK$4,200,000. These are non-recurring and one-off expenses.

5. TAX

	Six months ended 31 December 2004 HK$'000	2003 HK$'000
Current Period provision:		
Hong Kong	**—**	–
Elsewhere in the PRC	**8,652**	3,718
Tax charge for the Period	**8,652**	3,718

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the Period (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.

According to the Income Tax Law of the PRC, Daqing Black Bird Chemical Co., Ltd. (formerly known as Daqing Black Bird Co., Ltd.) ("Daqing Black Bird"), a subsidiary of the Company, is 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.

Mudanjiang Dongbei Chemical Engineering Company Limited ("Mudanjiang Subsidiary") was exempt from the income tax of the PRC for two years starting from the first profitable year of its operations, i.e., from 1 January 2004 to 31 December 2005. Mudanjiang Subsidiary is also entitled to a 50% relief from the income tax of the PRC for the following three years, i.e., from 1 January 2006 to 31 December 2008. Upon expiry of the tax relief period, Mudanjiang Subsidiary will be subject to an income tax rate of 33%.

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 2004 HK$'000	Hong Kong 2004 %	The PRC 2004 HK$'000	The PRC 2004 %	Total 2004 HK$'000	Total 2004 %
Profit/(loss) before tax	**(7,610)**		**63,927**		**56,317**	
Tax at the statutory tax rate	**(1,332)**	**17.5**	**21,096**	**33.0**	**19,764**	**35.1**
Preferential statutory tax rate offered	**—**	**—**	**(12,522)**	**(19.6)**	**(12,522)**	**(22.2)**
Lower tax rate for tax relief granted	**—**	**—**	**78**	**0.1**	**78**	**0.1**
Income not subject to tax	**(1)**	**—**	**—**	**—**	**(1)**	**—**
Expenses not deductible for tax	**1,333**	**(17.5)**	**—**	**—**	**1,333**	**2.4**
Tax charge at the Group's effective tax rate	**–**	**–**	**8,652**	**13.5**	**8,652**	**15.4**

	Hong Kong 2003 HK$'000	Hong Kong 2003 %	The PRC 2003 HK$'000	The PRC 2003 %	Total 2003 HK$'000	Total 2003 %
Profit/(loss) before tax	(2,522)		49,570		47,048	
Tax at the statutory tax rate	(404)	16.0	16,358	33.0	15,954	33.9
Preferential statutory tax rate offered	–	–	(8,923)	(18.0)	(8,923)	(19.0)
Lower tax rate for tax relief granted	–	–	(3,717)	(7.5)	(3,717)	(7.9)
Expenses not deductible for tax	328	(13.0)	–	–	328	(13.0)
Deferred tax assets in respect of tax losses not recognised	76	(3.0)	–	–	76	(3.0)
Tax charge at the Group's effective tax rate	–	–	3,718	7.5	3,718	7.5

Deferred tax has not been provided as the Group did not have any significant unprovided deferred tax liabilities during the Period (2003: Nil).

6. EARNING 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 Period of approximately HK$40,318,000 (2003: HK$38,745,000), and the weighted average of 1,255,006,957 (2003: 890,200,000) ordinary shares in issue during the Period.

No diluted earnings per share was presented for the Period as there were no potential ordinary shares in issue during the Period.

The calculation of diluted earnings per share for the six months ended 31 December 2003 is based on the Group's net profit from ordinary activities attributable to shareholders for the six months ended 31 December 2003 of approximately HK$38,745,000. The weighted average number of ordinary shares used in the calculation is 890,200,000 ordinary shares in issue during the six months ended 31 December 2003, as used in the basic earnings per share calculation; and the weighted average of 15,252,000 ordinary shares assumed to have been issued at no consideration on the deemed exercise of the share options outstanding during the six months ended 31 December 2003.

The rights issue in the proportion of one rights share for every two shares held by the shareholders on 25 August 2004 has no material effect on the basic and diluted earnings per share for the six months ended 31 December 2003.

7. **FIXED ASSETS**

During the Period, the additions to fixed assets including the construction in progress in the PRC were approximately HK$89.6 million.

8. **OTHER ASSETS**

	HK$'000
Cost:	
At 1 July 2004 and 31 December 2004	13,832
Accumulated amortisation:	
At 1 July 2004	425
Amortisation provided during the Period	173
At 31 December 2004	598
Net book value:	
At 31 December 2004	13,234
At 30 June 2004	13,407

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.

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.

9. **DEFERRED DEVELOPMENT COSTS**

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

10. **DEPOSITS PAID FOR THE ESTABLISHMENT OF PROPOSED JOINT VENTURES**

	31 December 2004 ***HK$'000***	30 June 2004 *HK$'000*
Huludao BoHai Shipping Black Bird Painting Co., Ltd. ("Huludao Subsidiary")	**5,140**	5,140
Mudanjiang Subsidiary	–	25,000
	5,140	30,140

As at 31 December 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.

11. **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 the invoice date, is as follows:

	31 December 2004 ***HK$'000***	30 June 2004 *HK$'000*
Within 30 days	**55,241**	43,787
31 – 60 days	**46,549**	40,957
61 – 90 days	**19,437**	17,102
91 – 120 days	**11,719**	10,311
121 – 365 days	**17,359**	15,275
Over 365 days	—	1,801
	150,305	129,233

Included in the Group's trade receivables as at 31 December 2004 is an amount due from the joint venture partner of the proposed Sino-foreign equity joint venture of approximately HK$11,200,000 (30 June 2004: HK$10,167,000), which is repayable on credit terms similar to those offered to other customers of the Group.

12. **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 the invoice date, is as follows:

	31 December 2004 ***HK$'000***	30 June 2004 *HK$'000*
Within 30 days	**5,437**	3,887
31 – 60 days	**1,351**	1,336
61 – 90 days	**224**	222
Over 90 days	**260**	257
	7,272	5,702

INTERIM DIVIDEND

The Directors have resolved that no interim dividend will be declared in respect of the Period (2003: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

During the Period, the price of raw materials for the Group's products remained high and increased in frequent manner which was unusual in recent years. The management responded very fast to the changing market environment and the Group has managed to increase the price of our products after negotiations. As a results, the Group has successfully transferred the cost increase onto most of the intermediate customers.

As such, for the six months ended 31 December 2004, the Group recorded HK$300.6 million in turnover, representing an increase of 48.2% over the corresponding period of the previous year, while the profit attributable to shareholders was HK$40.3 million, representing an increasing by 4.1% as compared with the corresponding period of the previous year. Directors believe that the overall business of the Group is improving. The Group has incurred litigation fee and legal fee for set up of a subsidiary of approximately HK$4.2 million. These are non-recurring and one-off expenses. In fact, profit from operating activities should record an increase of approximately 29% before deducting aforesaid litigation fee and legal fee for set up of a subsidiary as compared to the corresponding period of last year.

During the Period, turnovers of lubricants and anti-corrosive coating amounted to HK$175.4 million and HK$107.5 million respectively, representing an increase of 47.3% and 30.8% respectively over the same period last year, mainly due to the price of the Group's products driven up by substantial increase in material price. However, in order to balance the market keen competition and our objective of expanding the market share strategically, the Group has tried to put the cost increase as much as possible to customers which resulted in the operating profit of HK$31.9 million and HK$25.0 million only, representing a increase of 12.6% and 23.6% as compared with the corresponding period of the previous year, but were improved as compared to the second half of the previous year.

With respect to vinyl acetate business, the renovation and expansion of Mudanjiang Dongbei Chemical Engineering Company Limited's（牡丹江東北化工有限公司）vinyl acetate plant was completed in last September. After continuous trial runs for several months, the annual designed production capacity of the Mudanjiang Plant has now reached 15,000 tonnes vinyl acetate. Mudanjiang Subsidiary is a joint venture established by the Group with Daqing Gaoxingqu Qinglian Petroleum and Chemical Co. Limited.

Vinyl acetate sector recorded a turnover of HK$15.7 million during the Period while operating profit of HK$2.5 million. The Group has made a remarkable achievement that it is one of the first chemical enterprise to enable expansion in capacities, production and profit realisation in the same year.

NET PROCEEDS RAISED BY RIGHTS ISSUE

The net proceeds raised by right issue in the equity market in September 2004 was about HK$140,000,000, of which HK$86,000,000 has been utilised by the Group as at the date of this report with HK$54,000,000 still being unused. During the Period, approximately HK$61,000,000 has been injected into Mudanjiang vinyl acetate plant for expanding the production capacity of vinyl acetate; about HK$20,000,000 was used to repay a short term loan rendered by an independent third party; and around HK$5,000,000 was used as operation capital of the Group.

LIQUIDITY AND FINANCIAL RATIOS

At 31 December 2004, the Group had total assets of approximately HK$686.8 million (30 June 2004: HK$465.7 million) which were financed by current liabilities of approximately HK$63.5 million (30 June 2004: HK$65.3 million), no non-current liabilities (30 June 2004: HK$3.9 million), minority interests of approximately HK$73.8 million (30 June 2004: HK$28.3 million) and shareholders equity of approximately HK$549.5 million (30 June 2004: HK$368.2 million).

At 31 December 2004, the current assets of the Group amounted to approximately HK$465.7 million (30 June 2004: HK$303.0 million) comprising inventories of approximately HK$117.4 million (30 June 2004: HK$64.7 million), trade receivables of approximately HK$150.3 million (30 June 2004: HK$129.2 million), prepayment, deposits and other receivables of approximately HK$34.7 million (30 June 2004: HK$25.5 million), cash and cash equivalents of approximately HK$163.3 million (30 June 2004: HK$83.6 million).

At 31 December 2004, the Group's current ratio (current assets/current liabilities), quick ratio ((current assets – inventory)/current liabilities)), gearing ratio (total debts/total assets) and debts to equity ratio (total debts/shareholders' equity) of the Group were approximately 7.3 (30 June 2004: 4.6), 5.5 (30 June 2004: 3.7), 9.3% (30 June 2004: 14.9%) and 11.6% (30 June 2004: 18.8%), respectively. These changes reflected an improvement in the Group's structure of assets and liabilities.

At 31 December 2004, the Group did not have any significant contingent liabilities.

FOREIGN EXCHANGE EXPOSURE

Although most of the operations were carried out in the PRC in which transactions were denominated in RMB, the Directors consider that the Group has no significant exposure to foreign exchange fluctuations in view of the stability of the RMB in recent years. The Directors also consider that there will be sufficient cash resources denominated in Hong Kong dollars for the repayment of borrowings and future dividends. During the Period under review, the Group did not use any financial instrument for hedging purposes and the Group did not have any hedging instrument outstanding as at 31 December 2004.

NUMBER AND REMUNERATION OF EMPLOYEES

At 31 December 2004, the Group had 335 full time employees in the PRC and Hong Kong. The Group recognizes the importance of human resources to its success. Remuneration is maintained at competitive levels with discretionary bonuses payable on a merit basis and in line with industry practice. Other staff benefits provided by the Group include mandatory provident fund, insurance schemes and performances related commissions.

During the Period under review, no share options were granted to any staff. At 31 December 2004, a total of 19,500,000 share options are outstanding with exercisable periods up to 6 April 2007 with exercise prices HK$0.313 per share.

PROSPECTS

Looking ahead 2005, the Group will endeavor to explore new business and plans to enter into different chemical sectors. The Directors believe that the domestic coal related chemical industry is more competitive than the petrochemical industry. With the global supply of petroleum remains in shortage, China continues to increase import annually and the local production of petroleum is decreasing, the prices of petrochemical raw materials fluctuate significantly. On the other hand, China is extremely rich in coal and therefore the prices of coal and related chemical raw materials are relatively stable. In addition, the production technology of coal related chemicals in China has already been keeping up with the international level.

Mudanjiang vinyl acetate plant, in which the Group invested last year, adopts the production method of petrochemical technique of calcium carbide methodology (電石法化工工藝方法). The method requires more coal related chemical raw materials as ingredients comparing with that of the lubricants and anti-corrosive coatings businesses. Therefore, it could relieve the pressure on increasing production cost due to the price hike of crude oil. Moreover, our Mudanjiang vinyl acetate plant is the first and only PRC plant using calcium carbide methodology to produce vinyl acetate with superior quality (concentration greater than 99.98%) which is higher than that of the PRC nation-wide recognized quality standard.

Such convincible quality accomplishment depends very much on expertise. Our group has recruited a team of petrochemical professionals from the local largest petrochemical institutional enterprises in 2004. The professors have more than 30 years experience in petrochemical industry. With their in depth knowledge and know-how, the refurbishment and increase in capacities of vinyl acetate production facility was completed safely and cost-effectively.

The trial run of the vinyl acetate production facility was smoothly completed in 2004. The production cost is expected to have room for adjusting downward by means of mass production and further resources savings. Moreover, domestic demand for vinyl acetate is high. Under such demand pull market, Mudanjiang vinyl acetate plant does not have any inventory being piled up and our side may charge a higher price from customers. With enhanced gross margin, Vinyl acetate is believed to bring about promising profit for the Group in 2005.

In view of the potential growth in profits, the Group has already increased its equity interest in Mudanjiang vinyl acetate plant from 55% to 63.11%. Directors strongly believe that Vinyl acetate business will have a strong growth in 2005.

In addition, the Group will continue taking advantage of the business opportunities created by the PRC government's policy in relation to the reform and restructure of the existing state owned industry in the region. It will keep looking for further development opportunities in the coal related chemical industry and downstream enterprise as well as actively seeking for potential acquisition projects. The objective is to establish the petrochemical industry chain in the northeastern region so as to maximize returns for shareholders from the synergy effect.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Period.

CODE OF BEST PRACTICE

To comply with the Code of Best Practice as set out in Appendix 14 of the Listing Rules (the "Code of Best Practice"), the Company set up an Audit Committee on 8 April 2001, with written terms of reference, for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal control systems.

The Audit Committee now comprises two independent non-executive directors of the Company, namely, Mr. Ma Wing Yun Bryan and Mr. Meng Fanxi.

The Group's Interim Financial Statements for the Period have been reviewed by the Audit Committee and the Audit Committee considers that such statements comply with applicable accounting standards and requirements and that adequate disclosures have been made.

In the opinion of the Directors, the Company has compiled with the Code of Best Practice throughout the Period.

PUBLICATION OF FURTHER INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

A detailed Interim Financial Statements for the Period required by paragraphs 46(1) to 46(6) of Appendix 16 to the Listing Rules will be published on the website of the Stock Exchange in due course.

APPRECIATION

On behalf of the Board, I would like to extend my heart-felt gratitude to our staff, shareholders, investors, customers and business partners who have given continuous support to the Group.

By order of the Board
Chan Yuk Foebe
Executive Director

Hong Kong, 23 February 2005

As at the date of this announcement, the Board comprises of Ms. Chan Yuk Foebe, Mr. Wang Hailou, Mr. Chu Ki and Mr. Peng Zhanrong, all being executive directors and Mr. Ma Wing Yun Bryan and Mr. Meng Fanxi, both being independent non-executive directors.