



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 FINAL RESULTS FOR THE YEAR ENDED 30 JUNE 2006

RESULTS

The Board of Directors ("Board" or "Directors") of Daqing Petroleum and Chemical Group Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 30 June 2006 together with the comparative figures for the previous year as follows:

Consolidated Income Statement

		2006 HK\$'000	(Restated) 2005 HK\$'000
	<i>Note</i>		
TURNOVER	3	767,225	694,091
Cost of sales		(587,184)	(530,445)
Gross profit		180,041	163,646
Other income	5	6,980	7,592
Selling and distribution costs		(13,822)	(9,040)
Administrative expenses		(45,340)	(45,297)
Other operating expenses		(7,257)	(859)
OPERATING PROFIT	6	120,602	116,042
Finance costs	7	–	(520)
PROFIT BEFORE TAX		120,602	115,522
Tax	8	(7,308)	(15,734)
PROFIT FOR THE YEAR		113,294	99,788
Attributable to:			
Equity holders of the Company		84,529	83,921
Minority interests		28,765	15,867
		113,294	99,788
EARNINGS PER SHARE	10		
– Basic		HK4.8 cents	HK6.2 cents
– Diluted		HK4.8 cents	N/A

Consolidated Balance Sheet

		2006 HK\$'000	(Restated) 2005 HK\$'000
	<i>Note</i>		
ASSETS			
Non-current assets			
Fixed assets		313,787	136,825
Land use rights		78,673	49,088
Intangible assets		9,699	15,047
Deposit paid for the establishment of a proposed joint venture		5,206	5,140
Amount paid for the acquisition of fixed assets and land use rights		–	73,551
Deferred tax assets		2,831	2,309
		410,196	281,960
Current assets			
Inventories		85,161	125,901
Trade receivables	11	124,736	176,836
Prepayments, deposits and other receivables		78,815	24,450
Cash and cash equivalents		501,666	143,057
		790,378	470,244
TOTAL ASSETS		1,200,574	752,204
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Issued capital		21,015	14,496
Retained profits		472,200	387,565
Other reserves		521,125	183,949
		1,014,340	586,010
Minority interests		113,673	81,553
Total equity		1,128,013	667,563
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		1,643	–
Current liabilities			
Short term borrowing		–	26,000
Trade payables	12	17,831	8,198
Other payables and accruals		20,612	10,196
Tax payable		32,475	40,247
		70,918	84,641
TOTAL LIABILITIES		72,561	84,641
Total equity and liabilities		1,200,574	752,204
Net current assets		719,460	385,603
Total assets less current liabilities		1,129,656	667,563

Notes:

1. Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain buildings which are carried at their fair values.

2. Adoption of new and revised Hong Kong Financial Reporting Standards

In the current year, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2005. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current year and prior years except as stated below.

(a) Minority interests

In previous years, minority interests were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the consolidated income statement as a deduction before arriving at the profit attributable to the equity holders of the Company.

With effect from 1 July 2005, in order to comply with Hong Kong Accounting Standard ("HKAS") 1 "Presentation of Financial Statements" and HKAS 27 "Consolidated and Separate Financial Statements", minority interests are presented in the consolidated balance sheet and consolidated statement of changes in equity within equity. Minority interests are presented in the consolidated income statement as an allocation of profit or loss for the year between minority and equity holders of the Company. This change in accounting policy has been applied retrospectively.

(b) Leases

Upon the adoption of HKAS 17 "Leases", the land and buildings elements are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to land use rights under operating leases, which are carried at cost and subsequently recognised in the income statement on a straight-line basis over the lease term. This change in accounting policy has been applied retrospectively.

The adoption of HKAS 17 "Leases" has resulted in a change in the accounting policy relating to the reclassification of leasehold land from fixed assets to land use rights. The up-front prepayments made for the leasehold land are expensed in the income statement on a straight-line basis over the period of the lease. In prior years, the leasehold land was accounted for at fair value less accumulated depreciation and impairment losses. HKAS 17 has been applied retrospectively.

The adoption of HKAS 17 resulted in a decrease in retained profits and fixed assets revaluation reserve at 1 July 2004 by approximately HK\$1,529,000 and HK\$5,958,000 respectively and resulted in changes in the amounts reported in the financial statements as follows:

	2006 HK\$'000	2005 HK\$'000
Decrease in fixed assets	(97,646)	(56,317)
Increase in land use rights	78,673	49,088
Decrease in other assets	–	(13,061)
Increase in deferred tax assets	1,897	2,309
Decrease in fixed asset revaluation reserve	9,817	9,817
Decrease in retained profits	2,768	3,358
Decrease in minority interests	4,491	4,806
Increase in other income	(1,317)	–
Decrease in administrative expenses	–	(32)
Increase in other operating expenses	–	5,614
Increase/(decrease) in profit attributable to minority interests	315	(1,444)
Increase/(decrease) in taxation	412	(2,309)
Decrease in EPS – basic (HK cents)	–	(0.1)
Decrease in EPS – diluted (HK cents)	–	N/A

(c) Share-based payment

The adoption of HKFRS 2 "Share-based Payment" has resulted in change in the accounting policy for employee share options. Prior to this, the grant of share options to employees did not result in a charge to the income statement. Upon the adoption of HKFRS 2, the fair value of share options at grant date is amortised over the relevant vesting periods and expensed to the income statement. This change in accounting policy has been applied retrospectively.

The adoption of HKFRS 2 resulted in changes in the amounts reported in the financial statements as follows:

	2006 HK\$'000	2005 HK\$'000
Increase in share option reserve	5,345	–
Increase in share premium	6,118	–
Increase in administrative expenses	(11,463)	–
Decrease in EPS – basic (HK cents)	(0.7)	–
Decrease in EPS – diluted (HK cents)	(0.7)	–

(d) Discount on acquisition (previously stated as negative goodwill)

In accordance with HKFRS 3 "Business Combination", any excess of the Group's share of the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In accordance with the transitional arrangement under HKFRS 3, previously recognised discount on acquisition was derecognised at the beginning of that period, with a corresponding adjustment to the opening balance of retained profits.

The adoption of HKFRS 3 resulted in changes in the amounts reported in the financial statements as follows:

	2006 HK\$'000	2005 HK\$'000
Increase in retained profits	106	–
Decrease in capital reserve	(106)	–

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The application of these new HKFRSs will not have material impact on the financial statements of the Group.

3. 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.

4. Segment information

(a) Business segments

The Group's business segments are as follows:
Manufacture and sale of:

- (a) lubricants;
- (b) anti-corrosive coatings;
- (c) additives;
- (d) vinyl acetate; and
- (e) polyvinyl-chloride.

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		Vinyl acetate		Polyvinyl-chloride		Eliminations	
	(Restated)		(Restated)		(Restated)		(Restated)		(Restated)		(Restated)	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue	179,014	380,529	113,149	225,669	5,141	3,949	226,900	83,944	243,189	–	(168)	–
Segment results	18,451	62,671	12,902	51,513	531	848	71,779	13,898	38,571	–	–	–
Unallocated income											6,980	7,592
Unallocated expenses											(28,612)	(20,480)
Operating profit											120,602	116,042
Finance costs											–	(520)
Profit before tax											120,602	115,522
Tax											(7,308)	(15,734)
Profit for the year											113,294	99,788

	Manufacture and sale of											
	Lubricants		Anti-corrosive coatings		Additives		Vinyl acetate		Polyvinyl-chloride		Consolidated	
	(Restated)		(Restated)		(Restated)		(Restated)		(Restated)		(Restated)	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	332,574	272,914	210,208	126,382	9,551	1,893	220,460	123,674	200,719	–	973,512	524,863
Unallocated assets											227,062	227,341
Total assets											1,200,574	752,204
Segment liabilities	3,351	7,833	2,118	4,646	96	81	11,571	5,941	20,929	–	38,065	18,501
Unallocated liabilities											34,496	66,140
Total liabilities											72,561	84,641
Other segment information:												
Depreciation	2,757	1,708	1,743	1,012	79	18	4,407	809	2,423	–	11,409	3,547
Unallocated depreciation											259	29
											11,668	3,576
Amortisation of intangible assets	–	–	–	–	–	–	786	–	–	–	786	–
Amortisation of land use rights	462	460	292	273	13	5	497	49	439	–	1,703	787
Capital expenditure	2,338	–	1,478	–	67	–	78,947	67,220	91,445	–	174,275	67,220
Unallocated capital expenditure											1,143	–
											175,418	67,220

(b) Geographical segments

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

5. Other income

	Group	
	2006	2005
	HK\$'000	HK\$'000
Gain on disposal of financial assets at fair value through profit and loss/trading securities	957	115
Government grants	458	1,869
Interest income	2,707	205
Profit sharing income	–	4,673
Rental income	845	20
Reversal of revaluation deficit on buildings	1,317	–
Other income	696	710
	6,980	7,592

6. Operating profit

The Group's operating profit is arrived at after charging:

	Group	
	(Restated)	
	2006	2005
	HK\$'000	HK\$'000
Auditors' remuneration	850	600
Allowance for doubtful debts	–	4,554
Amortisation of intangible assets (included in administrative expenses)	786	–
Cost of inventories sold	586,864	530,445
Depreciation	11,668	3,576
Write off of deferred development costs	5,146	–
Allowance for inventories (included in cost of inventories sold)	12,465	–
Loss on disposal of an investment property	–	70
Loss on disposal of fixed assets	30	–
Minimum lease payments under operating leases for land and buildings	3,321	2,543
Research and development costs	1,760	789
Revaluation deficit on buildings	–	5,614
Staff costs (excluding directors' remuneration):		
Wages, salaries and benefits in kind	11,227	7,438
Employee share option benefits	9,261	–
Retirement benefits scheme contributions	33	37

7. Finance costs

	Group	
	(Restated)	
	2006	2005
	HK\$'000	HK\$'000
Interest on bank loan	–	239
Interest on other loans		
Wholly repayable within five years	–	250
Not wholly repayable within five years	–	31
	–	520

8. Tax

	Group	
	(Restated)	
	2006	2005
	HK\$'000	HK\$'000
Hong Kong profits tax		
Current year	–	–
Overseas taxation		
Current year	6,955	18,043
Underprovision in prior year	1,327	–
Deferred	(974)	(2,309)
Tax charge for the year	7,308	15,734

9. Dividend

The directors do not recommend the payment of dividend for the year ended 30 June 2006 (2005: Nil).

10. Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to equity holders of the Company for the year of approximately HK\$84,529,000 (2005 (restated): HK\$83,921,000) and the weighted average of 1,751,724,495 (2005: 1,351,636,164) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year ended 30 June 2006 is based on the Group's profit attributable to equity holders of the Company for the year of approximately HK\$84,529,000. The weighted average number of ordinary shares used in the calculation represents the weighted average of 1,751,724,495 ordinary shares in issue during the year, as used in the basic earnings per share calculation; and the weighted average of 1,549,687 ordinary shares assumed to have been issued at no consideration on the deemed exercise of the share options outstanding during the year.

No dilute earnings per share was presented for the year ended 30 June 2005 as there were no potential ordinary shares in existence during the year.

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 invoice date, is as follows:

	Group	
	2006	2005
	HK\$'000	HK\$'000
Within 30 days	51,527	80,811
31 – 60 days	37,201	61,930
61 – 90 days	19,369	21,846
91 – 120 days	11,030	12,247
121 – 365 days	5,609	2
	124,736	176,836

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 invoice date, is as follows:

	Group	
	2006	2005
	HK\$'000	HK\$'000
Within 30 days	12,771	8,173
31 – 60 days	458	–
61 – 90 days	3,279	–
Over 90 days	1,323	25
	17,831	8,198

MANAGEMENT DISCUSSION AND ANALYSIS
BUSINESS ENVIRONMENT

During the year under review, the Group faced an unfavorable operating environment. The crude oil price attained at successive record highs, this in turn caused the prices of most petrochemical downstream materials to rise. Some of these materials, for example base oil, even encountered occasional supply shortages. The Group's lubricants and anti-corrosive coating businesses can only pass on cost increases to customers in part, thus unfavorably affected the profit margins. Nevertheless, the competitive advantages of the Group's coal related chemical businesses (vinyl acetate and PVC), have stood out even more clearly during this high crude oil price period, which leads to an overall increase in the Group's turnover. In addition, these also offset the effect from loss in profit margins of lubricants and anti-corrosive coating businesses. As a result, the Group attained a gentle growth of profit for the year of 13.5% over the corresponding period of the previous year. Disregarding the effect of the share option benefit expenses of approximately HK\$11,463,000 charged to income statement in current year, the growth of profit for the year is 25.0% over the corresponding period of the previous year.

BUSINESS REVIEW

Lubricants

During the year under review, intense competition from rivals has resulted in high and unstable raw material prices, which could only be partially passed on to the customers. Some medium to large enterprises continued to make use of the economy of scale and their brand names to increase their market share. Despite of such difficult operating environment, the Group took special care of its loyal customers and was able to maintain certain extent of its market share. The Group recorded a total turnover of approximately HK\$179,014,000 for the year, representing a decrease of 53.0% over approximately HK\$380,529,000 in last year, while the operating profit was approximately HK\$18,451,000, representing a decrease of 70.6% over approximately HK\$62,671,000 in last year. Following the implementation of a series of cost saving measures to optimise profitability, the Group anticipates the lubricant business will be more stable in the coming year.

Anti-Corrosive Coating

During the year under review, continued increases in raw materials prices and the imbalance of supply and demand led to highly unstable prices. Moreover, as the price increment could not be passed on to the customers, and some of the contracted customers did not renew their contracts, the business results were worse than anticipated during the year. The turnover and operating profit for the business during the year were approximately HK\$113,149,000 and HK\$12,902,000 respectively, representing significant drop of 49.9% and 75.0% from last year respectively. The Group has formulated plans on enriching product quality to improve competitiveness of anti-corrosive coating products.

Vinyl acetate

The Group commenced the development of coat related chemical sector since 2004, with vinyl acetate being its first coal related chemical project. After operating for over 20 months, the production and sales of vinyl acetate has stabilised and generate remarkable profits to the Group. During the financial year, turnover was approximately HK\$226,900,000 representing a significant increase of 80.2% (based on monthly proportional adjustment: eight months in last year and twelve months in this year) over the corresponding period of the previous year. Operating profit was HK\$71,779,000 representing a significant increase of 244.3% (based on monthly proportional adjustment: eight months in last year and twelve months in this year) over the corresponding period of the previous year. The high contribution of vinyl acetate was the mainly result of competitive advantage of coal related production methodology over that of the petroleum related production methodology during high crude oil price period.

PVC

The PVC business is the second investment project in the coal related chemical sector. The PVC manufacturing arm was officially taken over in September 2005. After operating for one year, the suspension PVC raw material production and sales segment is now on track and started to contribute considerable profits to the Group. During the financial period, the PVC segment recorded a turnover of approximately HK\$243,189,000 and an operating profit of approximately HK\$38,571,000 respectively. Within the short period of time after taking over of the PVC Factory, the Group successfully increased the effectiveness of this production line by reducing the consumption proportion of raw materials.

PROSPECTS

The Group will further integrate its assets and businesses acquired from the State units. The Board is confident to improve on the ineffective response to market of traditional state-owned enterprises through modern management techniques. The Group has developed the coal related chemical sector for more than two years. The excellent results from the coal related chemical sector are rewarding. Following the experience in reforming the state-owned assets, the Board is confident in developing the recently acquired glucose and starch business. The Directors believe that the potential of developing agricultural chemical material business is enormous, and the exploration of business opportunities of downstream products which use glucose and starch as raw materials will generate profitable returns to the shareholders.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

Capital structure

The Group maintained a strong financial position throughout the year under review. The Group financed its operations and business development with internally generated resources and equity funding.

During the year, the Company raised funds from the issuance of 104,330,000 new shares through exercise of share options by option holders with proceeds of approximately HK\$47 million.

The net proceeds raised by the placement of existing shares and subscription of new shares of the Company by a substantial shareholder announced on 24 June 2005 was about HK\$96 million, the whole amount was utilised by the Group at the date of this report. During the financial year, approximately HK\$30 million was injected into Mudanjiang Dongbei Gaoxin (of which approximately HK\$10 million for upgrading and refurbishment of the production facilities of the PVC business and approximately HK\$20 million for working capital of the PVC business); and about HK\$26 million was used as working capital of the Group. On 16 August 2006, approximately HK\$40 million was used to acquire the glucose and starch business.

The net proceeds raised by the placement of existing shares and subscription of new shares of the Company by a substantial shareholder announced on 6 April 2006 was about HK\$118 million, of which approximately HK\$77 million was utilised by the Group at the date of this report. During the financial year, approximately HK\$5 million was used as working capital of the Group. On 16 August 2006, approximately HK\$72 million was used to acquire the glucose and starch business.

The net proceeds raised by the placement of existing shares and subscription of new shares of the Company by a substantial shareholder announced on 3 May 2006 was about HK\$43 million, the whole amount was not yet utilised by the Group at the date of this report.

Liquidity and Financial Ratios

At 30 June 2006, the Group had total assets of approximately HK\$1,200.6 million (30 June 2005: HK\$752.2 million) which were financed by current liabilities of approximately HK\$70.9 million (30 June 2005: HK\$84.6 million), non-current liabilities of approximately HK\$1.6 million (30 June 2005: nil), minority interests of approximately HK\$113.7 million (30 June 2005: HK\$81.6 million) and shareholders' equity of approximately HK\$1,014.4 million (30 June 2005: HK\$586.0 million).

At 30 June 2006, the current assets of the Group amounted to approximately HK\$790.4 million (30 June 2005: HK\$470.2 million) comprising inventories of approximately HK\$85.2 million (30 June 2005: HK\$125.9 million), trade receivables of approximately HK\$124.7 million (30 June 2005: HK\$176.8 million), prepayments, deposits and other receivables of approximately HK\$78.8 million (30 June 2005: HK\$24.5 million), cash and cash equivalents of approximately HK\$501.7 million (30 June 2005: HK\$143.0 million).

At 30 June 2006, 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 11.1 (30 June 2005: 5.6), 9.9 (30 June 2005: 4.1), 6.0% (30 June 2005: 11.3%) and 7.2% (30 June 2005: 14.4%), respectively.

The financial health of the Group has been strong throughout the year as indicated by the above figures.

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 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 year 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 30 June 2006.

NUMBER AND REMUNERATION OF EMPLOYEES

At 30 June 2006, the Group had 1,004 full time employees in the PRC and Hong Kong. The Group recognises 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 performance related commissions.

At 30 June 2006, a total of 67.77 million share options are outstanding. This comprises 13.77 million with exercisable period up to 9 January 2009 at the exercise price of HK\$0.363 per share and 54.0 million with exercisable period up to 3 May 2009 at the exercise price of HK\$0.552 per share.

DIVIDEND

No dividend have been paid or declared by the Company for the year ended 30 June 2006 (2005: nil).

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 year.

REVIEW OF ACCOUNTS

The Audit Committee of the Company had reviewed the audited consolidated results of the Group for the year ended 30 June 2006.

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has during the year complied with the Code of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules, except for the following aspects:

- Under code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Currently, both roles are being performed by Ms. Chan Yuk Foebe, the Chairman. In the opinion of Directors, given the scale of operation and the size of the Group, the present arrangement is beneficial to the Company and the shareholders as a whole.
- Prior to 1 April 2006, certain independent non-executive directors were not appointed for a specific term but were subject to rotation and re-election at the annual general meeting in accordance with the Company's articles and association. Since 1 April 2006, all independent non-executive directors are appointed for a specific term and code provision A.4.1 has been fully complied with.

APPRECIATION

I would like to thank our customers, suppliers, bankers, shareholders and others who have extended their invaluable support to the Group, and my fellow Directors, managers and all staff for their considerable contributions to the Group.

By Order of the Board
Daqing Petroleum and Chemical Group Limited
Chan Yuk Foebe
Chairman

Hong Kong, 11 October 2006

As at the date of this announcement, Ms. Chan Yuk Foebe, Mr. Chiau Che Hong and Mr. Peng Zhanrong are the executive Directors and Mr. Ma Wing Yun Bryan, Mr. Meng Fanxi and Mr. Yau Chung Hong are the independent non-executive Directors.