



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 2005

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 2005 together with the comparative figures for the previous year as follows:

Consolidated Income Statement

		Year ended 30 June	
		2005	2004
	Note	HK\$'000	HK\$'000
TURNOVER			
Cost of sales	2	694,091	408,882
		(530,445)	(297,783)
Gross profit		163,646	111,099
Other revenue		7,592	382
Loss on disposal of a subsidiary		–	(1,438)
Revaluation deficit on investment property		–	(309)
Selling and distribution costs		(9,041)	(7,771)
Administrative expenses		(39,714)	(16,232)
Other operating expenses		(859)	(798)
PROFIT FROM OPERATING ACTIVITIES	4	121,624	84,933
Finance costs	5	(520)	(310)
PROFIT BEFORE TAX		121,104	84,623
Tax	6	(18,043)	(9,907)
PROFIT BEFORE MINORITY INTERESTS		103,061	74,716
Minority interests		(17,311)	(7,916)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		85,750	66,800
DIVIDEND	7		
Proposed final		–	–
EARNINGS PER SHARE	8		
– Basic		HK6.3 cents	HK7.1 cents
– Diluted		N/A	HK7.0 cents

Consolidated Balance Sheet

		As at 30 June	
		2005	2004
	Note	HK\$'000	HK\$'000
Non-current assets			
Fixed assets		193,142	114,196
Other assets		13,061	13,407
Intangible assets		10,094	–
Deferred development costs		4,953	4,953
Deposit paid for the establishment of proposed joint venture		5,140	30,140
Amount paid for the acquisition of fixed assets and land use rights		73,551	–
		299,941	162,696
Current assets			
Inventories		125,901	64,683
Trade receivables	9	176,836	129,233
Prepayments, deposits and other receivables		24,450	25,539
Cash and cash equivalents		143,057	83,636
		470,244	303,091
Current liabilities			
Interest-bearing bank and other borrowings, secured		–	146
Short term borrowing		26,000	20,000
Trade payables	10	8,198	5,702
Other payables and accruals		10,196	6,951
Tax payable		40,247	32,506
		84,641	65,305
Net current assets		385,603	237,786
Total assets less current liabilities		685,544	400,482
Non-current liabilities			
Interest-bearing bank and other borrowings, secured		–	3,956
Minority interests		86,359	28,284
		599,185	368,242
CAPITAL AND RESERVES			
Issued capital		14,496	9,664
Reserves		584,689	358,578
SHAREHOLDERS' FUNDS		599,185	368,242

Notes:

1. Recently issued Hong Kong Financial Reporting Standards

The Hong Kong Institute of Certified Public Accountants (the “HKICPA”) has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (the “new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted the new HKFRSs in the financial statements for the year ended 30 June 2005. The Group has already commenced an assessment of the impact of the new HKFRSs but is not yet in a position to state whether the new HKFRSs would have a significant impact on its results of operations and financial position.

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 year.

3. 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.

(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		Vinyl acetate		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	380,529	236,667	225,669	168,879	3,949	3,336	83,944	–	694,091	408,882
Segment results	62,651	47,116	51,501	43,026	848	865	13,898	–	128,898	91,007
Unallocated revenue									7,592	382
Unallocated expenses									(14,866)	(6,456)
Profit from operating activities									121,624	84,933
Finance costs									(520)	(310)
Profit before tax									121,104	84,623
Tax									(18,043)	(9,907)
Profit before minority interests									103,061	74,716
Minority interests									(17,311)	(7,916)
Net profit from ordinary activities attributable to shareholders									85,750	66,800
Segment assets	277,152	198,194	128,896	141,427	1,937	2,794	134,859	–	542,844	342,415
Unallocated assets									227,341	123,372
Total assets									770,185	465,787
Segment liabilities	7,833	4,744	4,646	3,385	81	68	5,941	–	18,501	8,197
Unallocated liabilities									66,140	61,064
Total liabilities									84,641	69,261
Other segment information:										
Depreciation	1,972	1,887	1,169	1,347	21	26	858	–	4,020	3,260
Unallocated depreciation									29	240
									4,049	3,500
Amortisation of other assets	216	200	128	143	2	3	–	–	346	346
Capital expenditure	–	6,762	–	4,825	–	95	90,979	–	90,979	11,682
Unallocated capital expenditure									–	759
									90,979	12,441

(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.

4. Profit from operating activities

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

	2005	2004
	HK\$'000	HK\$'000
Cost of inventories sold	530,445	297,783
Depreciation	4,049	3,500
Amortisation of other assets	346	346
Minimum lease payments under operating leases for leasehold land and buildings	1,410	1,372
Staff costs (excluding directors' remuneration):		
Wages, salaries and benefits in kind	7,438	3,884
Retirement benefits scheme contributions	37	5
Loss on disposal of investment property	70	–
Auditors' remuneration	600	500
Provision for bad and doubtful debts	4,554	–
Research and development costs expensed for the year	789	798

5. Finance costs

	2005 HK\$'000	2004 HK\$'000
Interest on bank loan		
Wholly repayable within five years	214	–
Not wholly repayable within five years	25	152
Interest on other loans		
Wholly repayable within five years	250	50
Not wholly repayable within five years	31	81
Interest on finance leases	–	27
	520	310

6. Tax

	2005 HK\$'000	2004 HK\$'000
Current year provision:		
Hong Kong	–	–
Elsewhere in the People's Republic of China (the "PRC")	18,043	9,907
Tax charge for the year	18,043	9,907

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 (2004: 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 Dongbei Chemical"), a subsidiary of the Company, is exempted 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 Dongbei Chemical 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 Dongbei Chemical 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		The PRC		Total	
	2005 HK\$'000	2005 %	2005 HK\$'000	2005 %	2005 HK\$'000	2005 %
Profit/(loss) before tax	(13,383)		134,437		121,104	
Tax at the statutory tax rate	(2,342)	17.5	44,382	33	42,040	34.7
Preferential statutory tax rate offered	–	–	(21,481)	(16.0)	(21,481)	(17.7)
Income tax exempted	–	–	(6,866)	(5.1)	(6,866)	(5.7)
Income not subject to tax	(50)	0.4	–	–	(50)	–
Expenses not deductible for tax	2,408	(18)	2,008	1.5	4,416	3.6
Unrecognised temporary difference	(18)	0.1	–	–	(18)	–
Deferred tax assets in respect of tax losses not recognised	2	–	–	–	2	–
Tax charge at the Group's effective tax rate	–	–	18,043	13.4	18,043	14.9
	Hong Kong		The PRC		Total	
	2004 HK\$'000	2004 %	2004 HK\$'000	2004 %	2004 HK\$'000	2004 %
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

Deferred tax has not been provided as the Group did not have any significant unprovided deferred tax liabilities in respect of the year (2004: Nil).

7. Dividend

The directors do not recommend the payment of any dividend for the year ended 30 June 2005 (2004: Nil).

8. 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 year of approximately HK\$85,750,000 (2004: HK\$66,800,000) and the weighted average of 1,351,636,164 (2004: 945,678,689) ordinary shares in issue 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.

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

The rights issue in the proportion of one rights share for every two share held by the shareholder on 25 August 2004 has no material effect to the basic and dilute earnings per share for the year ended 30 June 2004.

9. 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:

	2005 HK\$'000	2004 HK\$'000
Within 30 days	80,811	43,787
31 – 60 days	61,930	40,957
61 – 90 days	21,846	17,102
91 – 120 days	12,247	10,311
121 – 365 days	2	15,275
Over 365 days	–	1,801
	176,836	129,233

10. 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:

	2005 HK\$'000	2004 HK\$'000
Within 30 days	8,173	3,887
31 – 60 days	–	1,336
61 – 90 days	–	222
Over 90 days	25	257
	8,198	5,702

BUSINESS ENVIRONMENT

During the year under review, the Group faced a formidable operating environment. Global crude oil price escalated through the year and successive record highs were established. This in turn caused the prices of most petrochemical downstream materials to soar. Some of these materials even encountered occasional supply shortages. The Group's core businesses can only pass on cost increases to customers in part, and with a time lag, thus adversely affected the profit margins. Nevertheless, the competitive advantages of the Group accumulated over the years, has stood out even more clearly during this challenging operating environment, which leads to a sharp increase in the Group's turnover and offset the loss in profit margins, laying a sound foundation for steady profit growth.

BUSINESS REVIEW**Lubricants**

During the year under review, keen competition from rivals has resulted in volatile and high raw material prices, which could only be partially passed on to the market, causing profit margins for the industry to erode and forced a number of competitors out of the market. Some medium or large enterprises continued to use their brand strength and economy of scale to gain additional market shares. Amid such difficult operating environment, the Group took advantages of its effective plant management, superior logistics and good customers relations to achieve its best ever performance. The Group recorded a total turnover of approximately HK\$380,529,000 for the year, representing an increase of 60.8% over approximately HK\$236,667,000 last year, while the operating profit was approximately HK\$62,651,000, representing an increase of 33% over HK\$47,116,000 last year.

Following the gradual implementation of a series of measures to optimize profitability, the full effect is starting to materialize, and the Group's ability to pass on increased costs to the market is also enhancing. We anticipate the operating environment for this business will become more stable in the coming year.

Anti-Corrosive Coating

The rapid growth of the chemical industry in Mainland China provided an excellent opportunity for the development of anti-corrosive coating business. During the year under review, sustained increases in raw materials prices and the imbalance of supply and demand led to highly volatile prices. However, as the price fluctuations could be passed on to the market, and the continued capacity expansion over the years has given the business certain advantages in economy of scale, the business enjoyed even better operating efficiency during the year. The turnover and operating profit for the business during the year were approximately HK\$225,669,000 and approximately HK\$51,501,000 respectively, representing significant growths of 33.6% and 19.7% from last year respectively.

The Group is planning to improve some of its machineries and equipments, with a view to upgrading its production capacity to international standard. The Group is actively formulating strategies regarding new product development, vertical integration and optimizations of supporting facilities to make the necessary preparation for the long-term competitiveness and continual growth of the business.

Vinyl acetate

During the financial year, the vinyl acetate division achieved a turnover of approximately HK\$83,944,000 and operating profit (net of other revenue) of approximately HK\$13,898,000. In view of the potential profit growth, the Group increased its shareholding in the vinyl acetate business in Mudanjiang from 55% to 63.11% in November 2004. The Group's vinyl acetate arm managed to achieve excellent results, being able to commence production and achieve profit in the same year of its expansion.

Prospects

The Group will further integrate its state-owned assets and businesses acquired from the State units, and improve on the ineffective response to market of traditional state-owned enterprises through modern management strategies. In order to satisfy market demand for quality polyvinyl chloride ("PVC"), the Group has planned to restructure its newly acquired PVC production line to produce high quality PVC materials. Accordingly, its resin business will be able to ascend to the high technology quality PVC materials market from the common PVC materials market.

The Directors believe that leveraging on its extensive experience in petrochemical materials business, the Group is very optimistic towards exploring coal-related chemical materials business, and the expansion of PVC business will generate fruitful returns to the Group.

LIQUIDITY AND FINANCIAL RESOURCES**Liquidity and Financial Ratios**

At 30 June 2005, the Group had total assets of approximately HK\$770.2 million (30 June 2004: HK\$465.7 million) which were financed by current liabilities of approximately HK\$84.6 million (30 June 2004: HK\$65.3 million), non-current liabilities of approximately HK\$nil (30 June 2004: HK\$3.9 million), minority interests of approximately HK\$86.4 million (30 June 2004: HK\$28.3 million) and shareholders equity of approximately HK\$599.2 million (30 June 2004: HK\$368.2 million).

At 30 June 2005, the current assets of the Group amounted to approximately HK\$470.2 million (30 June 2004: HK\$303.0 million) comprising inventories of approximately HK\$125.9 million (30 June 2004: HK\$64.7 million), trade receivables of approximately HK\$176.8 million (30 June 2004: HK\$129.2 million), prepayments, deposits and other receivables of approximately HK\$24.5 million (30 June 2004: HK\$25.5 million), cash and cash equivalents of approximately HK\$143.0 million (30 June 2004: HK\$83.6 million). The increase in trade receivables was in line with the growth of sales amount while the debtor turnover period at approximately 93 days (30 June 2004: 115 days). The Group normally allows credit terms to established customers ranging from 30 to 150 days. Approximate 99% of the trade receivables were settled as at 31 August 2005. In order to purchase raw materials at more competitive price, the Group secured to make more direct bulk purchases from suppliers, which were mainly conducted on cash basis. As a result, the inventory turnover period increased to approximately 87 days (30 June 2004: 79 days) while the turnover period of trade payables shortened to approximately 6 days (30 June 2004: 7 days).

At 30 June 2005, 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 5.6 (30 June 2004: 4.6), 4.1 (30 June 2004: 3.7), 11.0% (30 June 2004: 14.9%) and 14.1% (30 June 2004: 18.8%), respectively. These changes reflected an improvement in the Group's structure of assets and liabilities.

DIVIDEND

No dividend have been paid or declared by the Company for the year ended 30 June 2005 (2004: nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 30 November 2005, Wednesday to 2 December 2005, Friday, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the forthcoming annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 29 November 2005, Tuesday.

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.

CORPORATE GOVERNANCE

The Company has throughout the year ended 30 June 2005 complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (in force on 1 January 2005), except that certain independent non-executive directors are not appointed for a specific term but are subject to rotation and re-election at the annual general meeting in accordance with the Company's articles and association.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities trading. Having made specific enquiry to all the Directors, all the Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code.

AUDIT COMMITTEE

The Company set up an audit committee (the "Audit Committee") on 8 April 2001, with written terms of reference, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal control systems. The Audit Committee comprises the three independent non-executive directors of the Company, namely, Mr. Ma Wing Yun Bryan, Mr. Meng Fanxi and Mr. Yau Chung Hong. The Group's consolidated financial statements for the year have been reviewed by the Audit Committee, which is of the opinion that such financial statements comply with applicable accounting standards and requirements and that adequate disclosures have been made. Two meetings were held during the year.

PUBLICATION OF DETAILED ANNUAL RESULTS ON THE STOCK EXCHANGE WEBSITE

A detailed announcement of the annual results of the Group for the year ended 30 June 2005 required by paragraphs 45(1) to 45(3) of Appendix 16 to the Listing Rules in force on 31 March 2004 will be published on the website of the Stock Exchange in due course.

APPRECIATION

On behalf of the Company, 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

Daqing Petroleum and Chemical Group Limited

Chan Yuk Foebe

Executive Director

Hong Kong, 10 October, 2005

As at the date of this announcement, the Board comprised of Ms. Chan Yuk Foebe, Mr. Chu Ki, Mr. Peng Zhanrong, Mr. Wang Hailou as Executive Directors and Mr. Ma Wing Yun Bryan, Mr. Meng Fanxi and Mr. Yau Chung Hong as Independent Non-executive Directors.