



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)

POSSIBLE ACQUISITION BY AUCTION

The Board of the Company is pleased to announce that the Company has been invited by 牡丹江市經濟委員會 (Mudanjiang City Economic Committee) and 牡丹江樹脂廠破產清算組 (Mudanjiang PVC Factory Liquidation Committee) to participate in a proposed auction of the fixed assets and land use right of 牡丹江樹脂廠 (Mudanjiang PVC Factory). The Board understands that the proposed auction is currently expected to take place in April 2005.

After having reviewed the auction invitation, the Board resolved that the Company will actively pursue the acquisition by participating in the proposed auction and will contact the relevant authorities for further details and arrangement.

Business strategies of the Company

Starting from 2003, the crude oil price is maintaining at high level due to war and tension in the Middle East. The board of directors (the "Board") of Daqing Petroleum and Chemical Group Limited (the "Company") was aware of the situation and make two strategies of diversification by vertical integration and adjusting our business from turning our production method from petroleum related chemical method to coal related chemical method. These two strategies can keep the raw material cost lower, create drivers for growth and get rid of our pressure in relying too much on petroleum. The formulation of these two strategies is passing through a lot of internal researches, studies and consultation with the specialists and professors in the industry. At present, our Mudanjiang vinyl acetate plant is adopting the calcium carbide method (one of the coal related chemical method) and this method requires lesser petroleum related raw materials as ingredients comparing with that of the lubricants and anti-corrosive coating business.

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Reasons for participation of the auction

The reasons for participating in the tender are as follows:

- (1) Consistent with our existing strategy of developing our production by coal related chemical method

Mudanjiang PVC Factory is engaged in the manufacturing and sale of sodium hydroxide, suspension PVC resins, liquid chloride and hydrochloric acid by using the calcium carbide method.

- (2) Economies of scale from bulk purchase of raw materials

The major raw material required by the Mudanjiang PVC Factory is the same as our existing vinyl acetate factory in Mudanjiang. The Company has the intention to achieve the economies of scale by merging the administration department and purchase department so as to enjoy the economies of scale of lowering the operating cost and purchase cost through bulk purchase.

- (3) Management is experience with the calcium carbide methodology

The management is very familiar with the technology of calcium carbide method and the Company is planning to utilize our experience to make renovation work after acquiring the plant. The renovation work will help to expand the existing production capacity as well as the product lines.

- (4) Take advantage of the PRC government policy on state-owned enterprises restructure

The Group is considering the possibility of acquiring other petroleum plants or businesses in the north-eastern regions in the PRC and taking the business opportunity created by the PRC government's policy in relation to the reform and restructure of the existing state-owned industry in the region. Under such policy, the local government will provide liberal government preferential measures to new joint ventures which are engaged in reforming and restructuring the existing state-owned plants and factories and the Company will try to negotiate with the government to get more preferential measures after the acquisition.

The acquisition of the fixed assets and land use rights of 牡丹江樹脂廠 (Mudanjiang PVC Factory) which is located in Mudanjiang, Heilongjiang Province, the People's Republic of China, if proceeded, may or may not constitute a notifiable transaction for the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Under the Listing Rules, the Company will publish the announcements and obtain shareholders' approval prior to entering into a transaction as may be requested.

A further announcement will be made by the Company upon confirmation of the outcome of the auction and upon any further decision of the Company in this regard.

By order of the Board
Chan Yuk Foebe
Executive Director

Hong Kong, 10 March 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.