



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)

MAJOR TRANSACTION
ACQUISITION OF BETTER DAY BIO-CHEM TECHNOLOGY LTD.
AND
RESUMPTION OF TRADING

The Board is pleased to announce that Cozy Worldwide Ltd., a wholly-owned subsidiary of the Company, entered into the Share Purchase Agreement on 18 May 2006 with Better Day Group Limited under which Better Day Group Limited agreed to sell and Cozy Worldwide Ltd. agreed to purchase the entire issued share capital of Better Day Bio-Chem. Better Day Bio-Chem is the owner of 60% of the equity interest in the EJV which is the owner of a number of assets and equipment for the production of glucose and starch. The total consideration of the Acquisition is HK\$280 million.

Completion of the Share Purchase Agreement will be subject to, amongst other things, approval of the shareholders of the Company.

The applicable percentage ratios pursuant to Rule 14.04(9) of the Listing Rules for the Acquisition exceeds 25%, but less than 100% and therefore the Acquisition constitutes a major transaction for the Company and is subject to the notification, publication and independent shareholders' approval requirements under the Listing Rules. A circular containing, amongst other things, further details of the Acquisition will be dispatched to the shareholders of the Company as soon as practicable and in accordance with the Listing Rules.

At the request of the Company, trading in the shares of the Company on the Stock Exchange has been suspended since 9:30 a.m. on 19 May 2006 (Hong Kong time), pending the release of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the shares of the Company on the Stock Exchange with effect from 9:30 a.m. on 22 May 2006 (Hong Kong time).

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SHARE PURCHASE AGREEMENT

Parties

Vendor: Better Day Group Limited

Purchaser: Cozy Worldwide Ltd.

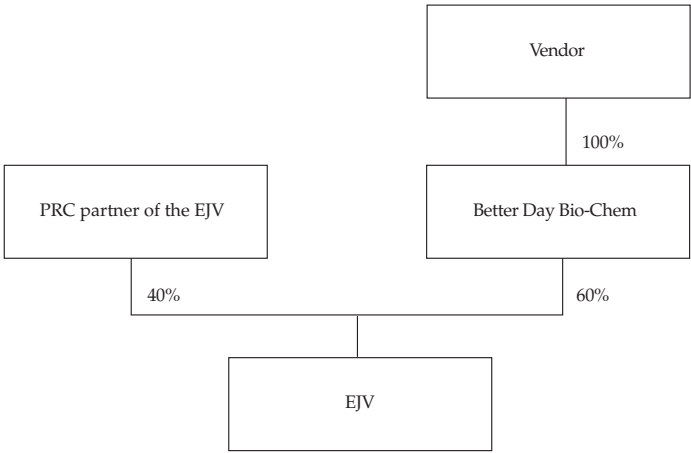
Date

18 May 2006

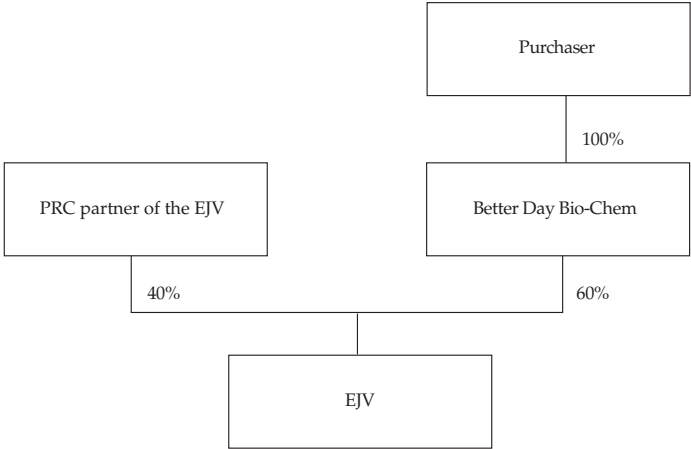
Assets to be acquired

One ordinary share in Better Day Bio-Chem, representing its entire issued share capital

Structure of the Target Group before the Acquisition



Structure of the Target Group after the Acquisition



Consideration

The total consideration for the Acquisition is HK\$280 million (subject to any adjustment made to the capacity payment as set out below) is payable in cash in two instalments as follows:

- (1) Completion payment: HK\$112 million is payable on the date of Completion.
- (2) Capacity payment: an amount determined and payable in accordance with the following:
 - (A) No later than five Business Days following the date falling six months after the date of Completion, the Vendor and the Purchaser shall jointly appoint an independent firm of appraisers ("Appraisers") to determine the Appraised Capacity Value (as defined below).
 - (B) The Appraised Capacity Value shall be the annualised production capacity of the assets owned by the EJV, measured by reference to the tonnage of glucose and starch that could be produced during a period of 12 months, as determined by the Appraisers.

- (C) The Appraisers, being a firm of real estate, machinery, equipment and business valuers comprising registered professional surveyors, shall issue a report to the parties setting out the Appraised Capacity Value determined by them by reference to the six-month period after the date of Completion.
- (D) If the Appraised Capacity Value is equal to, or more than, 200,000 tonnes of starch and 50,000 tonnes of glucose, the amount of the capacity payment shall be HK\$168 million.
- (E) If the Appraised Capacity Value is less than 200,000 tonnes of starch and 50,000 tonnes of glucose, the amount of the capacity payment shall be the amount resulting from the following:
HK\$168 million – Shortfall Value
(Shortfall Value = A + B
where "A" is HK\$1,000 for every tonne of glucose which falls short of 50,000 tonnes, provided always that "A" shall be no more than HK\$50 million; and
where "B" is HK\$100 for every tonne of starch which falls short of 200,000 tonnes, provided always that "B" shall be no more than HK\$20 million.)
- (F) With respect to the capacity payment amount, the Purchaser may elect, by giving written notice to the Vendor within five business days following the issuance of the Appraisal Report, to:
 - (i) pay the capacity payment amount on the fifth Business Day after the date falling one month after the issuance of the report by the Appraisers setting out the Appraised Capacity Value (the "Capacity Payment Due Date"); or
 - (ii) pay the capacity payment amount on a Business Day which is no later than the first year anniversary of the Capacity Payment Due Date, together with interest accruing on the capacity payment amount at the Interest Rate from the Capacity Payment Due Date until the date of actual payment of the capacity payment amount.

The consideration has been determined based on arm's-length negotiations between the Purchaser and the Vendor, having taken into account the preliminary due diligence carried out by the Company on the Target Group up to the date of this announcement, including:

- (1) the attendance of site visits by certain Directors and senior management of the Company; and
- (2) the obtaining of information from the Vendor with respect to assets and equipment which have been, or are in the process of being, acquired by the EJV.

Having conducted the due diligence and based on information available so far, the Directors (including the independent non-executive Directors) consider that the consideration amount represents the market value of the assets and equipment.

In addition, the Company has appointed an independent valuer in Hong Kong to conduct an appraisal of the assets and equipment of the EJV. As such valuer is in the process of conducting the appraisal, the Company will advise the shareholders of the Company in the circular to be dispatched in due course whether the consideration represents a premium or a discount over the net book value of the assets and equipment of the Target Group.

The Directors (including the independent non-executive Directors) consider that it has sufficient internal resources to finance the Acquisition and that there will be no adverse impact on its financial position.

Conditions

Completion of the Share Purchase Agreement is subject to, amongst other things, the following:

- (1) completion of satisfactory due diligence on the Target Group and its assets by the Purchaser;
- (2) the Purchaser, in its sole discretion, being satisfied with the valuation of the assets and equipment owned by the EJV;
- (3) the obtaining of all consents necessary or desirable for the Acquisition, including without limitation, the approval of the shareholders of the Company;
- (4) the issuance of a PRC legal opinion by the Vendor's PRC legal counsel in a form satisfactory to the Purchaser; and
- (5) the issuance of a BVI legal opinion by the Vendor's BVI legal counsel in a form satisfactory to the Purchaser.

If the conditions shall not have been satisfied or waived on or before 31 July 2006 or such other date as the parties may agree, the Share Purchase Agreement shall lapse.

REASONS AND BENEFITS FOR THE ACQUISITION

The Acquisition will enable the Group to expand its business operations and enhance its scope of growth. The Company considers that, based on its observation in the chemical market, there is a high demand for starch and glucose in the north-east region of the PRC, and Heilongjiang province (one of the three provinces in the north-east region of the PRC) has abundant supply of corn (the major raw material for the manufacture of starch and glucose) but not many starch and glucose manufacturers. The assets and equipment which are owned by Better Day Bio-Chem are starch and glucose production facilities and the Directors understand that the assets and equipment currently have the largest production capacity of its kind in the Heilongjiang province. After the acquisition of such assets and equipment by the EJV, they will be put into operation to produce starch and glucose. The starch and glucose produced can be further processed to produce acetic acid (one of the raw materials used by the Group) or petrol-related products.

The diversification of the Group’s business will enable the Group to have an alternative source of raw materials for its continuing development of the manufacture of other petrochemical related products. The Acquisition represents a step towards vertical integration of the Group’s business. In addition, the senior management of certain subsidiaries of the Company has the relevant experience in managing the Target Group’s business. The PRC partner of the EJV is engaged in the manufacture of starch in the PRC.

Although the Target Group has only been recently incorporated with no track record (and therefore no financial information is available as at the date of this announcement), the substance of the Acquisition is the purchase of the assets and equipment which are starch and glucose production facilities, such purchase to be effected through the acquisition of Better Day Bio-Chem.

The Directors (including the independent non-executive Directors) consider that the Acquisition represents a good opportunity for the Group’s development and that the terms of the Acquisition are normal commercial terms, are fair and reasonable and in the interests of the Company and the shareholders as a whole. As far as the Directors are aware, no one is required to abstain from voting at the forthcoming extraordinary general meeting of the Company.

INFORMATION ON THE COMPANY

The Group is principally engaged in the manufacture and sale of petroleum refined products and coal-related chemical products.

INFORMATION ON THE VENDOR

The Vendor is an investment holding company incorporated in the British Virgin Islands on 9 December 2005 and is principally engaged in the provision of technical support services for starch production facilities.

MAJOR TRANSACTION

The applicable percentage ratios pursuant to Rule 14.04(9) of the Listing Rules for the Acquisition exceeds 25% but less than 100% and therefore the Acquisition constitutes a major transaction for the Company under the Listing Rules and according to Rule 14.33 of the Listing Rules the Acquisition is subject to the notification, publication and independent shareholders’ approval requirements under the Listing Rules.

To the best of the Directors’ knowledge, information and belief having made all reasonable enquiry, the Vendor, its ultimate beneficial owner and the PRC partner of the EJV are third parties independent of the Company and its connected person (as defined in the Listing Rules) of the Company.

A circular containing, amongst other things, details of the Acquisition will be dispatched to the shareholders of the Company as soon as practicable and in accordance with the Listing Rules.

There were no other transactions between the Group and the Vendor and its connected persons over the past 12 months prior to the date of the Share Purchase Agreement.

At the request of the Company, trading in the shares of the Company on the Stock Exchange has been suspended since 9:30 a.m. on 19 May 2006 (Hong Kong time), pending the release of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the shares of the Company on the Stock Exchange with effect from 9:30 a.m. on 22 May 2006 (Hong Kong time).

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context otherwise requires:

“Acquisition”	the transactions contemplated under the Share Purchase Agreement, including without limitation, the acquisition of the entire issued share capital of Better Day Bio-Chem
“Better Day Bio-Chem”	Better Day Bio-Chem Technology Ltd., an investment holding company incorporated in the British Virgin Islands on 7 February 2006
“Board”	the board of Directors
“BVI”	British Virgin Islands
“Company”	Daqing Petroleum and Chemical Group Limited
“Completion”	completion of the Acquisition pursuant to the terms of the Share Purchase Agreement
“Director(s)”	the director(s) of the Company
“EJV”	Mudanjiang Gaoke Bio-Chem Pharma Co. Ltd., a sino-foreign equity joint venture enterprise established in the PRC on 27 February 2006, which is owned as to 60% by Better Day Bio-Chem and 40% by 昌圖萬順達澱粉有限公司. 昌圖萬順達澱粉有限公司 is required to inject 60% of its capital contribution within three months from the date of the business licence of the EJV, and the remaining 40% within six months from the date of the business licence of the EJV. The business scope of the EJV is the production and sales of, amongst other things, acetic acid
“Group”	The Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Interest Rate”	the rate of interest of 3% per annum above the Hong Kong dollar prime rate as quoted by The Hongkong and Shanghai Banking Corporation Limited from time to time
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	the People’s Republic of China
“Purchaser”	Cozy Worldwide Ltd.
“Share Purchase Agreement”	the share purchase agreement dated 18 May 2006 entered into between Better Day Group Limited and Cozy Worldwide Ltd.
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning ascribed to it in section 2 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Target Group”	Better Day Bio-Chem and EJV
“Vendor”	Better Day Group Limited
“%”	per cent.

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

Hong Kong, 19 May 2006

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