



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
DISPOSAL OF A SUBSIDIARY
AND
RESUMPTION OF TRADING

Financial Adviser to the Company



VC CAPITAL LIMITED
滙盈融資有限公司

The Disposal

On 11 January 2007, the Company entered into the Agreement with the Purchaser in relation to the disposal of the Sale Shares for a cash consideration of HK\$350 million. On 16 January 2007, the Company entered into the Supplemental Agreement with the Purchaser to waive the Shareholder's Loan and the Supplemental Agreement forms a part of and supplement to the Agreement.

The Sales Shares represent the entire issued share capital of Earlsmead, a wholly-owned subsidiary of the Company and its principal activity is investment holding. The Earlsmead Group is principally engaged in the petroleum refined products business, consisting of lubricants and anti-corrosive coating production.

General

The applicable percentage ratios (as defined in the Listing Rules) for the Disposal are more than 25%, but less than 75%. Pursuant to Rule 14.06(3) of the Listing Rules, the Disposal constitutes a major transaction for the Company and is therefore subject to the notification and announcement requirements and the approval of the Shareholders. As far as the Directors are aware of, no Shareholders will be required to abstain from voting for the Disposal at the EGM.

A circular containing, among other things, further details of the Agreement will be sent to the Shareholders as soon as practicable, together with a notice convening the EGM at which an ordinary resolution will be proposed for the approval of the Agreement and all transactions contemplated under thereunder.

Suspension and resumption of trading

The trading of the Shares on the Stock Exchange was suspended at the request of the Company from 9:36 a.m. on 12 January 2007 pending the publication of this announcement. The Company has made an application to the Stock Exchange for the resumption of trading of the Shares on the Stock Exchange from 9:30 a.m. on 18 January 2007.

On 11 January 2007, the Company entered into the Agreement with the Purchaser in relation to the disposal of the Sale Shares for a cash consideration of HK\$350 million. On 16 January 2007, the Company entered into the Supplemental Agreement with the Purchaser to waive the Shareholder's Loan and the Supplemental Agreement forms a part of and supplement to the Agreement.

(1) THE AGREEMENT

Date:

11 January 2007

Parties involved:

- (1) Vendor : The Company
- (2) Purchaser : Starhigh Group Limited, a company incorporated in the British Virgin Islands

To the Directors' best knowledge, information and belief having made all reasonable enquiry, the Purchaser and its ultimate beneficial owner are third parties independent of the Company and are not connected persons (as defined under the Listing Rules) of the Company.

Asset to be disposed of

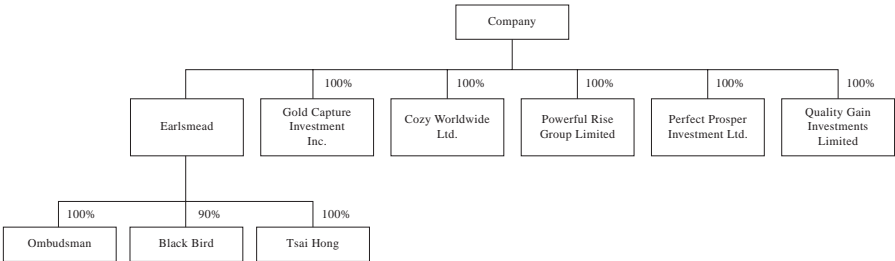
The Sales Shares represent the entire issued share capital of Earlsmead.

Earlsmead is a wholly-owned subsidiary of the Company. Earlsmead is the registered owner of the 100% interests in Ombudsman and Tsai Hong. Earlsmead is also the registered owner of 90% interests in Black Bird, which is owned as to the balance of 10% interests by Independent Third Party.

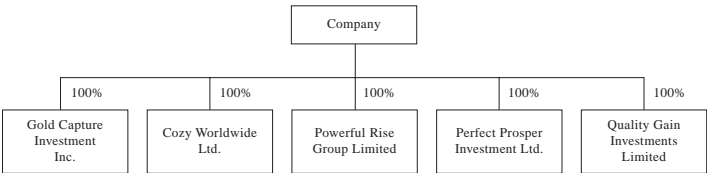
Following completion of the Disposal, the Company will cease to hold any interests in Earlsmead and Earlsmead will cease to be a subsidiary of the Company.

The corporate structure of the Company showing its principal subsidiaries before and immediately after the Disposal is set out below:

Before the Disposal



Immediately after the Disposal



Gold Capture Investment Inc., Cozy Worldwide Ltd., Powerful Rise Group Limited, Perfect Prosper Investment Ltd. and Quality Gain Investments Limited are the other principal subsidiaries of the Company and engaged in the manufacture and sale of coal-related chemical products, bio-chemical products and generation and sales of heat and electricity.

Consideration

The Consideration for the Sales Shares of HK\$350 million for the Disposal will be settled in cash by the Purchaser in the following manner:

- (i) HK\$100 million is to be paid upon Completion; and
- (ii) the remaining balance of HK\$250 million is to be paid within 3 months from the Completion Date.

Further details of the basis of determining the Consideration are stated in the section headed "Basis of the Consideration" below.

Conditions to Completion

Completion is conditional upon the fulfillment of the following conditions:

- (i) the obtaining of all consents which necessary or desirable for the implementation of the transactions contemplated by the parties under the Agreement, including without limitation, approval of the shareholders of the Vendor, if required, in relation to the Agreement and the transaction contemplated hereunder and any other approvals or notifications required pursuant to the requirements of the Listing Rules; and
- (ii) completion of legal, financial and business due diligence in respect of Earlsmead, Black Bird, Ombudsman and Tsai Hong by the Purchaser.

In the event that the Conditions are not satisfied or waived on or before 31 March 2007 or such later date as the Vendor and the Purchaser may agree, the Agreement shall lapse and no party hereto shall make any claim against the other in respect hereof, save for antecedent breach.

Completion

The Agreement provides that Completion will take place on the Completion Date.

(2) THE SUPPLEMENTAL AGREEMENT

Date:

16 January 2007

Parties involved:

- (1) Vendor : The Company
- (2) Purchaser : Starhigh Group Limited, a company incorporated in the British Virgin Islands

Waiver of the Shareholder's Loan

Pursuant to the Supplemental Agreement, upon Completion, the Company has agreed to waive all their rights, interest and title present and future in respect of the shareholder's loan of HK\$109,025,133 owing by Earlsmead to the Company.

BASIS OF THE CONSIDERATION

The Consideration for the Sales Shares of HK\$350 million for the Disposal was determined after arm's length negotiations between the Parties with reference to the unaudited net assets value of the Earlsmead Group as at 30 November 2006 and the Shareholder's Loan. The Consideration for the Sales Shares of HK\$350 million for the Disposal represents:

- (i) a discount of approximately 26.93% to the aggregate of the audited net assets value of the Earlsmead Group as at 30 June 2006 of approximately HK\$370 million and the Shareholder's Loan to be waived of approximately HK\$109 million; and
- (ii) a discount of approximately 12.06% to the aggregate of the unaudited net assets value of the Earlsmead Group as at 30 November 2006 of approximately HK\$289 million and the Shareholder's Loan to be waived of approximately HK\$109 million.

INFORMATION OF THE GROUP

The Group is principally engaged in the manufacture and sale of petroleum refined products, coal-related chemical products, bio-chemical products, and generation and sales of heat and electricity. Petroleum refined products of the Group include lubricants and anti-corrosive coating products. Coal-related chemical products comprise vinyl acetate ("VA") products and polyvinyl-chloride ("PVC") products. Bio-chemical products include corn-based starch and glucose products.

INFORMATION OF THE PURCHASER

Starhigh Group Limited, a company incorporated in the British Virgin Islands. The principal activity of the Purchaser is investment holding. The Purchaser and its ultimate beneficial owner are third parties independent of the Company and are not connected persons (as defined under the Listing Rules) of the Company.

INFORMATION ON EARLSMEAD

Earlsmead, a wholly owned subsidiary of the Company, is a company incorporated in the British Virgin Islands and its principal activity is investment holding. The Earlsmead Group is principally engaged in the petroleum refined products business, consisting of lubricants and anti-corrosive coating production. The investments of Earlsmead are its 100% interests in Ombudsman and Tsai Hong respectively, and 90% interests in Black Bird.

Based on the audited financial accounts of the Group and the Earlsmead Group, which are prepared in accordance with accounting principles generally accepted in Hong Kong, the following tables show (i) the Earlsmead Group’s contribution to the Group’s turnover, net profit (before and after taxation) for the two years ended 30 June 2006; and (ii) the Earlsmead Group’s contribution to the Group’s total assets and net assets value as at 30 June 2005 and 2006.

	For the year ended 30 June					
	2006			2005		
	Earlsmead Group HK\$'000	Group HK\$'000	%	Earlsmead Group HK\$'000	Group HK\$'000	%
Turnover	297,304	767,225	38.8	610,147	694,091	87.9
Net profit before taxation	30,322	120,602	25.1	111,761	115,522	96.7
Net profit after taxation	25,981	113,294	22.9	93,718	99,788	93.9

	As at 30 June					
	2006			2005		
	Earlsmead Group HK\$'000	Group HK\$'000	%	Earlsmead Group HK\$'000	Group HK\$'000	%
Total assets	555,791	1,200,574	46.3	530,781	752,204	70.6
Net assets value	369,508	1,014,340	36.4	337,482	586,010	57.6

Results of the Earlsmead Group for the year ended 30 June 2006 reflected decreases in turnover and net profit (before and after tax) from that for the year ended 30 June 2005 and it was attributable to the following reasons:

- intense competition has resulted in high and unstable raw material price, which could only be partially passed on to the customers; and
- some medium to large competitors continued to make use of the economies of scale and their brand names to increase their market share.

The significant decrease in the unaudited net assets value of the Earlsmead Group of approximately HK\$289 million as at 30 November 2006 from the net assets value of the Earlsmead Group of approximately HK\$370 million as at 30 June 2006 has reflected the Earlsmead Group has incurred an unaudited net loss of approximately HK\$86 million for the 5 months ended 30 November 2006.

LOSS ON DISPOSAL BY THE COMPANY

Based on the unaudited management accounts of the Earlsmead Group for the 5 months ended 30 November 2006, the Directors estimated that, upon Completion, the Group will record a loss on disposal of approximately HK\$48.5 million, which will be reflected in the consolidated profit and loss account of the Group for the year ended 30 June 2007. The estimated loss on disposal of approximately HK\$48.5 million represents the difference between the Consideration and the unaudited net assets value of the Earlsmead Group as at 30 November 2006, adjusted for the Shareholder’s Loan. The Directors believe that the Disposal would have no negative impacts on the business and the operations of the Group.

REASONS FOR THE DISPOSAL AND PROPOSED USE OF PROCEEDS

The Directors consider the terms of the Agreement and Supplemental Agreement, which were negotiated on an arm’s length basis between the Parties are fair and reasonable, and in the interest of the Group and its shareholders as a whole despite the Group will incur an estimated loss on disposal of approximately HK\$48.5 million after the Completion. Since 2006, the Group’s petroleum refined division has been operating in a very high operating cost environment. The crude oil prices attained at successive record highs, this in turn caused the prices of most petrochemical downstream materials to rise. Some of these materials even encountered occasional supply shortage as most of the crude oil was refined into other upstream materials such as gasoline. The Group’s petroleum refined products business can only pass a small part of the cost increment to customers and thus adversely affected the Earlsmead Group’s profit margins. Based on the audited financial accounts of the Earlsmead Group, the net profit margin of the Earlsmead Group is approximately 8.7% for the year ended 30 June 2006, representing a significant decrease of about 43.1% over the corresponding period of the previous year.

Other than the fluctuations in crude oil prices and shortage in raw materials supply, intense competition in the petroleum refined industry also contributed to the deteriorated performance of the petroleum refined division of the Group in the second half year of 2006. The Directors expect the petroleum refined product business of the Group will experience even tougher situation in the foreseeable future as the prices of lubricants and anti-corrosive coating products generally lag behind crude oil prices. Thus, the Directors consider the Disposal represents a good opportunity for the Group to dispose of the petroleum refined products business and provide additional resources to other Group’s core businesses including coal-related chemical products and bio-chemical products, which the Directors believe to have a higher growth potential, and is in the interests of the Shareholders as a whole.

The production and sales of coal-related chemical products, including VA and PVC, has generated remarkable profits to the Group in year 2006. Based on the 2006 annual report of the Group, the operating profit margin of the coal-related chemical products is approximately 23.5% for the year ended 30 June 2006, representing a significant increase of about 41.7% over the corresponding period of the previous year. The Directors believe that moving towards coal-related chemical products business is the right direction of the Group to achieve the goal of fast development and sustainable growth.

Furthermore, the Group has began the trial run production of starch and glucose for the bio-chemical division. The prices of starch and glucose have been increasing constantly from the end of 2004 and are still rising in the PRC, thus the Directors are confident in the development of the bio-chemical products business.

During the commercial negotiation stage of the Disposal between the Parties, it was a mutual understanding of the Parties that all the interests in the Earlsmead Group will be sold by the Company to the Purchaser at the Consideration of HK\$350 million and the Company has all along intends to waive the Shareholder’s Loan immediately before or upon Completion. After conducting due diligence on Earlsmead Group, the Purchaser would like to specify the mechanics for dealing with the Shareholder’s Loan to ensure that all the interests in the Earlsmead Group will be transferred upon Completion. As such, the Company and the Purchaser entered into the Supplemental Agreement to specify such mechanics that the Company will waive all its rights, interest and title in respect of the Shareholder’s Loan. Despite the Company will waive the Shareholder’s Loan upon Completion and incur an estimated loss on disposal of approximately HK\$48.5 million after the Completion, the Directors have considered the recent poor financial performance of the Earlsmead Group and are of view that the Disposal is fair and reasonable and in the interest of the Company and its Shareholders as a whole.

The estimated net proceeds of the Disposal is approximately HK\$350 million and is intended to be used in the following manner:

- as to approximately HK\$180 million will be applied to settle a final payment of the Company’s acquisition of a power plant in October 2006, details of the acquisition were disclosed in the circular of the Company dated 20 November 2006; and

- the remaining balance of approximately HK\$170 million will be applied for additional working capital for the Group’s existing businesses and new PVC products.

REQUIREMENTS UNDER THE LISTING RULES

The applicable percentage ratios (as defined in the Listing Rules) for the Disposal are more than 25%, but less than 75%. Pursuant to Rule 14.06(3) of the Listing Rules, the Disposal constitutes a major transaction for the Company and is therefore subject to the notification and announcement requirements and the approval of the Shareholders. As far as the Directors are aware of, no Shareholders will be required to abstain from voting for the Disposal at the EGM.

A circular containing, among other things, further details of the Agreement will be sent to the Shareholders as soon as practicable, together with a notice convening the EGM at which an ordinary resolution will be proposed for the approval of the Agreement and all transactions contemplated under thereunder.

SUSPENSION AND RESUMPTION OF TRADING

Trading in the Shares on the main board of The Stock Exchange was suspended with effect from 9:36 a.m. on 12 January 2007 at the request of the Company pending the publication of this announcement. Application has been made to the Stock Exchange for the resumption of trading of the Shares with effect from 9:30 a.m. on 18 January 2007.

TERMS USED IN THIS ANNOUNCEMENT

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

“Agreement”	the share purchase agreement dated 11 January 2007 entered into between the Company and the Purchaser in relation to the sale and purchase of the entire issued share capital of Earlsmead and details of which is set out under headed “The Agreement” of this announcement
“Black Bird”	Daqing Black Bird Co., Limited, a wholly foreign owned enterprise established in the PRC, 90% of its interests is owned by the Company
“Board”	the board of Directors
“Business Day”	a day, other than Saturday, on which licensed banks in Hong Kong are open for business throughout their normal business hours
“Company”	Daqing Petroleum and Chemical Group Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the main board of the Stock Exchange
“Completion”	the completion of the Disposal pursuant to the terms and conditions of the Agreement
“Completion Date”	the day that is the third Business Day immediately following the date of satisfaction of the Conditions
“Conditions”	the conditions precedent to Completion, as more particularly set out under the sub-section headed “Conditions to Completion” of this announcement
“Consideration”	the consideration under the Agreement as more particularly set out under the sub-section headed “Consideration” of this announcement
“Directors”	the directors of the Company
“Disposal”	the disposal of the Sales Shares by the Company pursuant to the terms of the Agreement
“Earlsmead”	Earlsmead Enterprises Limited, a company incorporated in the British Virgin Islands and is a wholly-owned subsidiary of the Company
“Earlsmead Group”	Earlsmead and its subsidiaries
“EGM”	the extraordinary general meeting of the Company to be convened and held to consider and if thought appropriate, to approve, among other matters (if any), the Disposal and all transactions contemplated under the Agreement
“Group”	the Company and its subsidiaries
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Independent Third Party”	a party who is independent of and not connected with any of the directors, chief executives or substantial shareholders of the Company or any of its subsidiaries, or their respective associates (as defined in the Listing Rules)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Ombudsman”	Ombudsman Developments Limited, a company incorporated in the British Virgin Islands, all of its interests are owned by the Company
“Parties”	the parties to the Agreement being the Company and the Purchaser
“PRC”	The People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, Macau and Taiwan
“Purchaser”	Starhigh Group Limited, a company incorporated in the British Virgin Islands
“Sale Shares”	the entire issued share capital of Earlsmead to be sold by the Company to the Purchaser pursuant to the terms and conditions under the Agreement
“Shareholder(s)”	shareholder(s) of the Company
“Shareholder’s Loan”	the shareholder’s loan in the sum of HK\$109,025,133 owing by Earlsmead to the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	the supplemental agreement to the Agreement between the Company and the Purchaser dated 16 January 2007 in relation to the sale and purchase of the entire issued share capital of Earlsmead
“Tsai Hong”	Tsai Hong Properties Limited, a company incorporated in the British Virgin Islands, all of its interests are owned by the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

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

Hong Kong, 17 January 2007

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