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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)

DISCLOSEABLE TRANSACTION ACQUISITION OF BETTERDAY POWER LIMITED

The Board announces that on 27 October 2006, the Purchaser, a wholly-owned subsidiary of the Company, entered into the Share Purchase Agreement with the Vendor under which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the entire issued share capital of BPL. BPL is the legal and beneficial owner of the entire equity interest in MBD Power. The total consideration of the Acquisition is HK\$200 million.

MBD Power is principally engaged in the generation and supply of power and steam in Mudanjiang, Heilongjiang Province, the PRC. The coal powered generation plant of MBD Power has annual generation capacities of 1.6 million tonnes of steam and 200 million kilowatt hour of electricity.

The Acquisition constitutes a discloseable transaction for the Company and is subject to the notification and announcement requirements under the Listing Rules. A circular containing, among other things, information on the Acquisition will be dispatched to the shareholders of the Company as soon as practicable and according to the Listing Rules.

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SHARE PURCHASE AGREEMENT

Parties

Vendor: Expert Star Group Limited
Purchaser: Perfect Prosper Investments Limited, a wholly-owned subsidiary of the Company

The Vendor is an investment holding company. The ultimate beneficial owner of the Vendor was introduced to the Directors in a business conference more than one year ago. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiry, each of the Vendor, BPL, MBD Power and their ultimate beneficial owners are third parties independent of the Company and connected persons (as defined in the Listing Rules) of the Company.

Date

27 October 2006

Assets to be acquired

2 ordinary shares of BPL, representing the entire issued share capital of BPL. The only material asset of BPL is its holding in the entire issued share capital of MBD Power.

MBD Power is principally engaged in the generation and supply of power and steam in Mudanjiang, Heilongjiang Province, the PRC. The coal powered generation plant of MBD Power has generation capacities of 1.6 million tonnes of steam and 200 million kilowatt hour of electricity. The power plant has been in operation since the 1960s. MBD Power is (i) the sole electricity and steam supplier to the Bio-chemical Division of the Group since August 2006; and (ii) the sole steam supplier to the Group's polyvinyl-chloride and vinyl acetate plants since 1960s and October 2004 respectively.

The following is a summary of the financial results of MBD Power, prepared based on the PRC Generally Accepted Accounting Principles (the "PRC GAAP"):

	Nine months ended 30 September 2006		Year ended 31 December 2005 2004	
	RMB million (approximately HK\$ million) (unaudited)	RMB million (approximately HK\$ million) (audited)	RMB million (approximately HK\$ million) (audited)	
Turnover	54.3 (53.2)	65.1 (63.8)	59.8 (58.6)	
Loss before tax (note)	11.2 (11.0)	14.3 (14.0)	0.6 (0.6)	
Loss attributable to shareholders of MBD Power (note)	11.2 (11.0)	14.3 (14.0)	0.6 (0.6)	

Note: There were no extraordinary items for each of the years ended 31 December 2004 and 2005 and nine months ended 30 September 2006.

In 2005 and the nine months ended 30 September 2006, MBD Power suffered from significant losses. Such losses were attributable to ineffective revenue control, inefficient sourcing of raw materials and excessive personnel costs. According to the unaudited management accounts of MBD Power for the months of August and September 2006, MBD Power achieved monthly net profits attributable to its shareholders of approximately HK\$360,000 and HK\$451,000 respectively. The improvement in performance is the result of tightened management control introduced by the new management, including more stringent internal control procedures, suppliers sourcing procedures, as well as increased demand for MBD Power's products which led to improved sales.

The following is a summary of the net assets/liabilities value of MBD Power, prepared based on the PRC GAAP:

	30 September 2006 (unaudited)	31 December 2005 (audited)	2004 (audited)
Net assets/(liabilities) value in RMB million	107.1 (note)	(8.5)	5.8
Net assets/(liabilities) value in HK\$ million	105.0 (note)	(8.3)	5.7

Note: extracted from the unaudited management accounts of MBD Power

The significant change in the unaudited net assets value of MBD Power from a net liabilities of RMB8.5 million to net assets of RMB107.1 million stated above is mainly contributed by (i) the capital injection of RMB46 million (approximately HK\$45 million) in cash by the Vendor to MBD Power; and (ii) the assets of MBD Power were revaluated upward by approximately RMB63.0 million (approximately HK\$61.8 million) by reference to the valuation prepared by 牡丹江金江資產評估事務所 (Mudanjiang Jin Jiang Property Assessment Co., Ltd.), an independent PRC firm of professional valuers (the "PRC Valuer"), which was preliminarily agreed by the relevant PRC tax authorities. According to the preliminary valuation by the PRC Valuer, the net assets value of MBD Power as at 30 September 2006 was RMB138.0 million (approximately HK\$135.3 million) (which included the capital injection of RMB46 million (approximately HK\$45 million)) based on the open market value for all assets, including land and property, plant and equipment of MBD Power.

Since BPL is only recently incorporated, therefore, no financial statements has been prepared. Save for its investment in MBD Power, BPL has no other material assets and no significant liabilities as at the date of this announcement.

Consideration

The total consideration for the Acquisition is HK\$200 million. The total consideration has been arrived at between the parties after arm's length negotiations. The total consideration represents a premium of approximately HK\$95 million, or 90.5%, over the unaudited net assets value under the PRC GAAP of MBD Power as at 30 September 2006 as the Directors considered that (i) the financial performance of MBD Power has been improving recently; (ii) the replacement value of the power plant is relatively high; and taking into account (iii) the income generating potential of MBD Power; and (iv) the costs savings and synergy arising from the Group's existing production operations. The Directors estimate that the replacement value (based on current market prices) of the principal plant and equipment to be approximately RMB200 million (approximately RMB196 million).

The total consideration will be settled by cash and is payable in two instalments as follows:

- HK\$20,000,000, being 10% of the total consideration (the "Initial Consideration"), is payable on the date of Completion; and
- HK\$180,000,000, being 90% of the total consideration (the "Deferred Consideration"), is payable within one year from the date of Completion (the "Deferred Consideration Due Date").

The Deferred Consideration, together with the interest accruing thereon on a monthly basis at the Interest Rate from the date of Completion until the date of the actual payment of the Deferred Consideration, shall be paid by the Purchaser to the Vendor on a business day which is no later than the Deferred Consideration Due Date (or such later date as the parties may agree in writing).

The Purchaser is entitled to pay to the Vendor the Deferred Consideration at any time prior to the Deferred Consideration Due Date, without any penalty, by giving at least five business days' prior written notice to the Vendor.

The Purchaser may set off any consideration amount payable by the Purchaser to the Vendor any sum due and payable by the Vendor to the Purchaser, BPL and/or MBD Power. Currently, there are no outstanding amount owing by the Vendor to the Company and the Directors do not envisage any such amount will arise.

Having conducted the due diligence whereby the PRC Valuer has conducted a preliminary valuation on the property, plant and equipment of MBD Power, 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 entire issued share capital of BPL. The Company has further engaged an international firm of independent professional valuers who are conducting an independent valuation on the property, plant and equipment of MBD Power. For the avoidance of doubt, the independent valuation on the property, plant and equipment of MBD Power is for business due diligence purpose only.

Source of funding

As at 30 June 2006, the Group had cash and cash equivalents amounted to approximately HK\$502 million. The Directors consider that the Group will have sufficient funding to satisfy the consideration for the Acquisition when they fall due. The Directors intend to finance the Initial Consideration by internal resources of the Group. Whilst the Group currently has sufficient financial resources to satisfy in full the Deferred Consideration, the Directors are considering the options available to the Group in financing the Deferred Consideration with a view to achieving its strategic objectives. The Directors have not decided in this regard and alternatives being considered include each of or a combination of internal resources, bank financing or realisation of assets and the outcome will be decided upon the time for settlement of the Deferred Consideration taking into account the prevailing capital markets conditions, the availability of other investment opportunities and strategic objectives of the Group.

Conditions

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

- completion of satisfactory legal, financial and business due diligence on BPL and/or MBD Power;
- the obtaining of consents which are necessary or desirable for the implementation of the transactions contemplated by the Vendor and the Purchaser under the Share Purchase Agreement;
- the issuance of a PRC legal opinion by the Vendor's PRC legal counsel in a form satisfactory to the Purchaser; and
- 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 December 2006 or such other date as the parties may agree in writing, the Share Purchase Agreement shall lapse and no party shall make any claim against the other in respect thereof, save for any antecedent breach. The PRC legal opinion is expected to cover, among other things, MBD Power's corporate history, business, operations and title to its assets. The BVI legal opinion is expected to cover, among other things, the due incorporation of BPL and the Vendor.

REASONS AND BENEFITS FOR THE ACQUISITION

The Group is principally engaged in the manufacture and sale of petroleum refined products, coal-related chemical products and bio-chemical products. Petroleum refined products of the Group include lubricants and anti-corrosive coating products. Coal-related chemical products comprise vinyl acetate products and polyvinyl-chloride products. The recently acquired bio-chemical products division is involved in the production of corn based starch and glucose products.

In the financial year ended 30 June 2006, the Group was able to achieve a stable growth in turnover from HK\$694.1 million in 2005 to HK\$767.2 million in 2006 and profits from HK\$99.8 million in 2005 to HK\$113.3 million in 2006. The stable performance of the Group had been achieved at a time when the Petroleum Products Division was suffering under the effects of high crude oil prices and severe margin squeeze with unstable product prices. The Directors attribute such success to the strategy of the Group to switch focus towards the Coal-related Chemical Products Division, which performed strongly owing to the relatively stable coal prices and production efficiency arising from the coal based technology for production in such Division. The Directors anticipate that the Coal-related Chemical Products Division and the Bio-chemical Products Division will continue to be areas of strategic focus for the Group.

Both such Divisions consume large amounts of steam and electrical energy as principal inputs to the production process. MBD Power is the steam supplier to both the Coal-related Chemical Products Division and the Bio-chemical Products Division of the Group and also the electricity supplier to the Bio-chemical Products Division. Apart from supplying to the Group, MBD Power also supplies steam to 50 other production plants and power to the State power grid in the Mudanjiang area in Heilongjiang Province, the PRC.

Upon Completion, MBD Power will become the Power Division and a principal supplier to the production operation of the Group. Owing to stringent licensing and approval regime in the PRC, it is unlikely that the Group can build its own new or acquire other existing power and steam generating unit in the PRC. Further, BPL and MBD Power will become wholly-owned subsidiaries of the Group, and the results of BPL and MBD Power will be consolidated into the Group's financial statement. The Directors consider that the Acquisition will achieve the strategic objective of securing a supply of the key input to the production process of the aforesaid divisions of the Group, which will enable the Group to lower the cost of production and in turn secure its competitive advantage in the region.

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, fair and reasonable and in the interests of the Company and its shareholders as a whole.

DISCLOSEABLE TRANSACTION

The applicable percentage ratios for the Acquisition is less than 25% and therefore the Acquisition constitutes a discloseable 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 and publication of an announcement requirements under the Listing Rules.

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

DEFINITIONS

"Acquisition"	the transactions contemplated under the Share Purchase Agreement, including without limitation, the acquisition of the entire issued share capital of BPL
"Board"	the board of Directors
"BPL"	Betterday Power Limited, a company incorporated under the laws of the BVI with limited liability, and is wholly-owned by the Vendor
"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
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Interest Rate"	the rate of interest of 5.5% per annum
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"MBD Power"	牡丹江佳日熱電有限公司 (Mudanjiang Better Day Power Ltd.), a wholly foreign owned enterprise established by BPL
"PRC"	the People's Republic of China
"Purchaser"	Perfect Prosper Investments Limited, a company incorporated under the laws of the BVI with limited liability, and a wholly-owned subsidiary of the Company
"Share Purchase Agreement"	the share purchase agreement dated 27 October 2006 entered into between the Vendor and the Purchaser in relation to the sale and purchase of the interest in BPL
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Vendor"	Expert Star Group Limited, a company incorporated in the British Virgin Islands with limited liability
"%"	per cent.

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

Hong Kong, 3 November 2006

For illustration purpose only, amounts expressed in RMB in this announcement have been converted into HK\$ at the rate of HK\$1 = RMB1.02.

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 Yau Bryan, Mr. Meng Fanxi and Mr. Yau Chung Hong.