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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

Reference is made to the Announcements.
The Board is pleased to announce that the Auction took place on 15 May 2005 and the Company through MDGC has won the bid at the Auction. The Consideration is RMB78.7 millions. The Consideration will be payable within 15 days from 15 May 2005 and will be funded by the Group’s internal resources.
<b>DISCLOSEABLE TRANSACTION</b>
The Acquisition constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules and the Company will send a circular containing further details regarding the Acquisition as soon as practicable and in accordance with the Listing Rules.
<b>SUSPENSION AND RESUMPTION OF TRADINGS</b>
Trading in the shares of the Company was suspended from 9:30 a.m. on 17 May 2005. An application has been made by the Company to the Stock Exchange for resumption of trading in its shares with effect from 9:30 a.m. on 18 May 2005.

INTRODUCTION

Reference is made to the Announcements.

The Board is pleased to announce that the Auction took place on 15 May 2005 and the Company through MDGC has won the bid at the Auction.

THE AUCTION

*Assets Acquired and Undertaking to the Liquidation Committee*  
On 15 May 2005, the auction of the fixed assets and land use rights of the PVC Factory took place in the auction hall of the Auction Agent in Mudanjiang, the PRC. The fixed assets and land use rights of the PVC Factory included four production lines housed in the production facilities located at 51 Daqing Road, Mudanjiang, Heilongjiang Province, PRC for the manufacturing of sodium hydroxide, suspension PVC resins, liquid chloride and hydrochloric acid using the calcium carbide method.

Under the Auction terms, MDGC has undertaken, amongst other things, to the Liquidation Committee as follows:

1.

MDGC shall honour the existing lease agreement (the “Lease”) entered into between the PVC Factory and 牡丹江鑫利化工廠有限公司 (Mudanjiang Xin Li Chemical Engineering Company Limited) (the “Lessee”), who is an independent third party not related to any of the Company and its connected persons (as defined in the Listing Rules), on 4 March 2002 whereby the Lessee has leased all the fixed assets and land use rights of the PVC Factory from the PVC Factory at RMB290,000 per month. The Lease is due to expire on 1 October 2005.
2.

MDGC will hold the assets of the PVC Factory and will hire not less than 400 employees which is expected to commence after the expiry of the Lease.
3.

In additional to the Consideration, MDGC will make a payment of RMB20 millions as development funds to an account designated by the Economic Committee for use in technological improvements and environmental protection in respect of the operations of the assets of the PVC Factory and such payment will be funded by the Group’s internal resources.

Consideration

The consideration for the acquisition of the fixed assets and land use rights of the PVC Factory is RMB78.7 millions and will be funded by the Group’s internal resources.

Payment terms

The Company shall pay the Consideration to the Liquidation Committee within 15 days from 15 May 2005. The deposit of RMB30 millions which was paid by the Company to the Liquidation Committee as a deposit to secure participation right in the Auction will be deducted from the Consideration accordingly.

The Company confirms that save as disclosed herein there is no other material terms to the Acquisition and the Auction.

REASONS FOR THE ACQUISITION

The Board believes that the Acquisition will expand the development of coal related chemical production forming a part of calcium carbide production chain, increase the range of products that the Group can offer and reduce the effects of high crude oil price on the Group’s performance. As stated in the Company’s announcement dated 10 March 2005, the Company considers that the acquisition of the assets is consistent with the Group’s existing strategy of developing its production chain based principally upon coal related chemical methodology and the Group will benefit from economy of scale from bulk purchase of raw materials. The Group can also utilise its management experience with the calcium carbide methodology in relation to improve the efficiency and effectiveness of the PVC Factory. In addition, the Group can also consolidate its presence in Mudanjiang as its another production base in the north-eastern region of the PRC.

Taking into account the reference value of the fixed assets and land use rights of the PVC Factory (being RMB 78,155,700) as stated by the Auction Agent in the auction particulars, the Directors, including the independent non-executive Directors, consider that the terms of the Acquisition and the Consideration are fair and reasonable and in the interests of the Company and its shareholders as a whole.

INFORMATION OF THE PARTIES INVOLVED

The Company is an investment holding company and its subsidiaries are engaged in manufacturing and sale of petroleum refined products and other supporting services such as administrative and marketing services.

The Liquidation Committee is a committee whose members are appointed by the Intermediate People’s Court of Mudanjiang City, Heilongjiang Province, to oversee the liquidation of the PVC Factory by disposing the fixed assets and land use rights of the PVC Factory.

The Company confirms that, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiry, the Liquidation Committee is a third party independent of the Company and its connected persons.

DISCLOSEABLE TRANSACTION

As MDGC is an indirectly wholly-owned subsidiary of the Company and each of the assets ratio and the consideration ratio (as defined in the Listing Rules) is 5% or more but less than 25%, the Acquisition constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules and the Company will send a circular containing further details regarding the Acquisition as soon as practicable and in accordance with the Listing Rules.

SUSPENSION AND RESUMPTION OF TRADINGS

Trading in the shares of the Company was suspended from 9:30 a.m. on 17 May 2005. An application has been made by the Company to the Stock Exchange for resumption of trading in its shares with effect from 9:30 a.m. on 18 May 2005.

DEFINITIONS

“Acquisition”	the subsequent acquisition of the fixed assets and land use rights in the PVC Factory from the Liquidation Committee pursuant to the Auction
“Announcements”	the announcements dated 10 March 2005 and 5 May 2005 issued by the Company relating to the Auction
“Auction”	the auction of the fixed assets and land use rights of the PVC Factory) on 15 May 2005 in the auction hall of the Auction Agent in Mudanjiang, the PRC
“Auction Agent”	牡丹江市拍賣行 (Mudanjiang City Auction House), which was authorised by the Liquidation Committee to handle the auction properties of the PVC Factory in accordance with 中華人民共和國拍賣法 (Auction Law of the PRC)
“Board”	the board of Directors
“Company”	Daqing Petroleum & 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 and together with its subsidiaries, the “Group”
“Consideration”	RMB78.7 millions, being the highest bid offered to the Liquidation Committee at the Auction, excluding the RMB20 millions expected to be paid as development funds to an account designated by the Economic Committee for use in technological improvements and environmental protection in respect of the operations of the assets of the PVC Factory
“Directors”	the directors of the Company
“Economic Committee”	牡丹江市經濟委員會 (Mudanjiang City Economic Committee), a committee of the People’s Government of Mudanjiang City, Heilongjiang Province, PRC
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars
“Liquidation Committee”	牡丹江樹脂廠破產清算組 (Mudanjiang PVC Factory Liquidation Committee), a committee whose members are appointed by the Intermediate People’s Court of Mudanjiang City, Heilongjiang Province on 29 May 2003 to oversee the liquidation of the PVC Factory by disposing the fixed assets and land use rights of the PVC Factory
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“MDGC”	牡丹江東北高新化工有限公司 (Mudanjiang Dongbei Gaoxin Chemical Co., Ltd.), a wholly-foreign owned enterprise established in the PRC and is a wholly-owned subsidiary of Gold Capture Investments Inc. which is wholly-owned by the Company
“PRC”	the People’s Republic of China
“PVC”	polyvinyl chloride or vinyl
“PVC Factory”	牡丹江樹脂廠 (Mudanjiang PVC Factory) which is located in Mudanjiang, Heilongjiang Province, the PRC
“RMB”	Renminbi Yuan, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

By order of the Board

Daqing Petroleum & Chemical Group Limited

Chan Yuk Foebe

Executive Director

Hong Kong, 17 May 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, Mr. Meng Fanxi and Mr. Yan Chung Hong, all being independent non-executive directors.