



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)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 30 JUNE 2004

RESULTS

The Board of Directors (“Board” or “Directors”) of Daqing Petroleum and Chemical Group Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the year ended 30 June 2004 together with the comparative figures for the previous year as follows:

Year ended 30 June			
	2004	2003	
	<i>HKS'000</i>	<i>HKS'000</i>	
Notes			
TURNOVER	2	366,876	
Cost of sales		(239,969)	
Gross profit		126,907	
Other revenue		343	
Loss on disposal of a subsidiary		–	
Revaluation deficit on investment property		–	
Selling and distribution costs		(7,252)	
Administrative expenses		(16,765)	
Other operating expenses		(791)	
PROFIT FROM OPERATING ACTIVITIES	4	102,442	
Finance costs	5	(197)	
PROFIT BEFORE TAX		102,245	
Tax	6	(7,991)	
PROFIT BEFORE MINORITY INTERESTS		94,254	
Minority interests		(9,825)	
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		84,429	
		<u>84,429</u>	
DIVIDEND	7	–	
Proposed final		977	
EARNINGS PER SHARE	8	HK9.2 cents	
– Basic		HK9.2 cents	
– Diluted		HK9.1 cents	

Note:

1. Impact of revised Hong Kong Statement of Standard Accounting Practice

In the current year, the Group has adopted for the first time, the revised Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 12 “Incomes taxes” issued by the Hong Kong Institute of Certified Public Accountants.

SSAP 12 (revised) prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

In the absence of any specific transitional requirements in SSAP 12 (revised), the new accounting policy has been applied retrospectively, but the adoption of SSAP 12 (revised) has not had any material effect on the results for the current year or prior accounting periods.

2. Turnover

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and after eliminations of all significant intra-Group transactions during the year.

3. Segment information

Segment information is presented by way of two segment formats: (a) on a primary segment reporting basis, by business segment; and (b) on a secondary segment reporting basis, by geographical segment.

(a) Business segments

The following tables present revenue and results information for the Group’s business segments.

	Manufacture and sale of							
	Lubricants		Anti-corrosive coatings		Additives		Consolidated	
	2004 <i>HKS'000</i>	2003 <i>HKS'000</i>	2004 <i>HKS'000</i>	2003 <i>HKS'000</i>	2004 <i>HKS'000</i>	2003 <i>HKS'000</i>	2004 <i>HKS'000</i>	2003 <i>HKS'000</i>
Segment revenue:								
Sales to external customers	236,667	229,741	168,879	133,155	3,336	3,980	408,882	366,876
Segment results	47,116	64,939	43,026	42,346	865	923	91,007	108,208
Unallocated revenue							382	343
Unallocated expenses							(6,456)	(6,109)
Profit from operating activities							84,933	102,442
Finance costs							(310)	(197)
Profit before tax							84,623	102,245
Tax							(9,907)	(7,991)
Profit before minority interests							74,716	94,254
Minority interests							(7,916)	(9,825)
Net profit from ordinary activities attributable to shareholders							66,800	84,429

(b) Geographical segments

Over 90% of the Group’s revenue, results, assets and liabilities are derived from customers in the People’s Republic of China (the “PRC” or “China”) and accordingly, no further detailed analysis of the Group’s geographical segments is presented.

4. Profit from operating activities

The Group’s profit from operating activities is arrived at after charging/(crediting):

	2004 <i>HKS'000</i>	2003 <i>HKS'000</i>
Cost of inventories sold	297,783	239,969
Depreciation	3,500	3,034
Amortisation of other assets	346	79
Interest income	–	(144)
Net rental income	(274)	(180)

5. Finance costs

	2004 <i>HKS'000</i>	2003 <i>HKS'000</i>
Interest on bank loan repayable after five years	152	158
Interest on other loans	–	–
Wholly repayable within five years	50	–
Not wholly repayable within five years	81	–
Interest on finance leases	27	39
	<u>310</u>	<u>197</u>

6. Tax

	2004 <i>HKS'000</i>	2003 <i>HKS'000</i>
Current year provision:		
Hong Kong	–	–
Elsewhere in the PRC	9,907	7,991
Tax charge for the year	<u>9,907</u>	<u>7,991</u>

During the year, the increase in Hong Kong profits tax rate from 16% to 17.5% became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 30 June 2004. However, no provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong in respect of the year (2003: Nil).

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group	Hong Kong		The PRC		Total	
	2004 <i>HKS'000</i>	2004 %	2004 <i>HKS'000</i>	2004 %	2004 <i>HKS'000</i>	2004 %
Profit/(loss) before tax	(5,982)		90,605		84,623	
Tax at the statutory tax rate	(1,046)	17.5	29,900	33	28,854	34.1
Preferential statutory tax rate offered	–	–	(16,309)	(18)	(16,309)	(19.3)
Lower tax rate for tax relief granted	–	–	(3,684)	(4.1)	(3,684)	(4.3)
Income not subject to tax	(19)	0.3	–	–	(19)	(0.1)
Expenses not deductible for tax	937	(15.7)	–	–	937	1.1
Deferred tax assets in respect of tax losses not recognised	128	(2.1)	–	–	128	0.2
Tax charge at the Group’s effective tax rate	<u>–</u>	<u>–</u>	<u>9,907</u>	<u>10.9</u>	<u>9,907</u>	<u>11.7</u>

	Hong Kong		The PRC		Total	
	2003 <i>HKS'000</i>	2003 %	2003 <i>HKS'000</i>	2003 %	2003 <i>HKS'000</i>	2003 %
Profit/(loss) before tax	(3,998)		106,243		102,245	
Tax at the statutory tax rate	(640)	16.0	35,060	33.0	34,420	33.7
Preferential statutory tax rate offered	–	–	(19,124)	(18.0)	(19,124)	(18.7)
Lower tax rate for tax relief granted	–	–	(7,945)	(7.5)	(7,945)	(7.8)
Income not subject to tax	(156)	4.0	–	–	(156)	(0.2)
Expenses not deductible for tax	495	(12.0)	–	–	495	0.5
Deferred tax assets in respect of tax losses not recognised	301	(8.0)	–	–	301	0.3
Tax charge at the Group’s effective tax rate	<u>–</u>	<u>–</u>	<u>7,991</u>	<u>7.5</u>	<u>7,991</u>	<u>7.8</u>

Deferred tax has not been provided as the Group did not have any significant unprovided deferred tax liabilities in respect of the year (2003: Nil).

7. Dividend

	2004 <i>HKS'000</i>	2003 <i>HKS'000</i>
HK\$Nil (2003: Proposed final of HK\$0.11 cent per ordinary share)	<u>–</u>	<u>977</u>

8. Earning per share

The calculation of basic earnings per share is based on the Group’s net profit from ordinary activities attributable to shareholders for the year of HK\$66,800,000 (2003: HK\$84,429,000) and the weighted average of 945,678,689 (2003: 916,650,000) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year ended 30 June 2004 is based on the Group’s net profit from ordinary activities attributable to shareholders for the year of HK\$66,800,000 (2003: HK\$84,429,000). The weighted average number of ordinary shares used in the calculation is 945,678,689 (2003: 916,650,000) ordinary shares in issue during the year, as used in the basic earnings per share calculation; and the weighted average of 8,549,878 (2003: 11,244,611) ordinary shares assumed to have been issued at no consideration on the deemed exercise of the share options outstanding during the year.

The comparative weighted average number of shares in issue and basic and diluted earnings per share for the year ended 30 June 2003 have been adjusted to reflect the bonus issue of shares on the basis of one bonus share for every twenty shares held by shareholders on 20 November 2003.

BUSINESS REVIEW

During 2003 and 2004, the crude oil price repeatedly reached a new high. The global political tension was the remote cause of the sustained sharp increase in the crude oil prices which resulted in the cost increases in the Group’s raw materials such as base oil, solvents, resin, accessory ingredients. In view of the global demand in crude oil continuously grows in future and the turbulence of certain oil producers such as Iraq and Middle East regions, and the US dollar is anticipated to depreciate, the Directors expect that the crude oil price will remain high persistently in short term.

Lubricants

The business was entirely targeted at the domestic market in the PRC. The sustained demand in lubricants was in line with the steady growth of the PRC’s economy during the year. During the year, the turnover increase slightly by 3.0% approximately to HK\$236.7 million. Owing to the increase to the prices of raw materials, and it was impossible to shift all the burdens to the customers, the operating profit decreased by approximately HK\$17.8 million, representing a 27.4% decline as compared to last year. Looking forward, we expect that the economic environment will continue to be extremely challenging. Currently, the Company is conducting a comprehensive review of its products positioning, sales and logistics strategies, with a view to achieve a substantial improvement in the upcoming year.

Anti-Corrosive Coating

During the year, Ningbo new factory was partially put into operation, creating a favourable effect on our business development in the East China. Its actual performance was encouraging. Taking the advantage of development momentum of last year, a record high of approximately HK\$168.9 million in turnover was achieved in this year, representing an increase of 26.8% as compared with the corresponding period last year. The encouraging increase was mainly attributable to the Group secured a contract amounting to RMB30 million for the “Hangzhou Bay Bridge project” in 2003. However, the operating profit only recorded of approximately HK\$43.0 million, edging up 1.6% over the past year due to a dramatic rise in the prices of raw materials and the persistence of high prices as well as keen competition within the sector. The Group will strike a balance between increase in market share and improvement of operating effectiveness. When Ningbo factory is put into full production in future, it is expected to further enhance the Group’s output and quality of products, and to form a landmark for the development of anti-corrosive coating business.

Vinyl Acetate

The Group put efforts in ongoing diversification and searched new rooms for innovations in the chemical industry. The Directors have identified vinyl acetate to be the key development project. The Group implemented along the direction in the second quarter of 2004, and entered into a joint venture with Daging Gaoxingu Qinglian Petroleum and Chemical Co. Limited (“Qinglian”), a new partnership, in order to access into the potential vinyl acetate market for future development.

Qinglian entered into a joint venture agreement (“Joint Venture Agreement”) with Earlsmead Enterprises Limited (“Earlsmead”), the wholly-owned subsidiary of the Group, on 2 April 2004, to set up a subsidiary in Mudanjiang, namely Mudanjiang Dongbei Chemical Engineering Company Limited (“Mudanjiang Subsidiary”) which is mainly engaged in the manufacture and sale of vinyl acetate, for the diversification and expansion of the Group’s business.

Pursuant to the Joint Venture Agreement, Qinglian shall inject assets not less than RMB40.91 million, including but not limited to land and production facilities for the entitlement of 45% equity interest of the Mudanjiang Subsidiary. In addition, in accordance with the Joint Venture Agreement, the Company shall inject RMB50 million in cash for a 55% equity interest of the Mudanjiang Subsidiary through Earlsmead.

Mudanjiang vinyl acetate plant is expected to commence mass production in the fourth quarter in 2004 and the annual production capacity is expected to reach 15,000 tonnes. It is expected to bring profit to the Group in the upcoming year.

LIQUIDITY AND FINANCIAL RESOURCES

At 30 June 2004, the Group had total assets of approximately HK\$465.7 million (30 June 2003: HK\$367.0 million) which were financed by current liabilities of approximately HK\$65.3 million (30 June 2003: HK\$53.0 million), non-current liabilities of approximately HK\$3.9 million (30 June 2003: HK\$4.4 million), minority interests of approximately HK\$28.3 million (30 June 2003: HK\$20.4 million) and shareholders equity of approximately HK\$368.2 million (30 June 2003: HK\$289.2 million).

At 30 June 2004, the current assets of the Group amounted to approximately HK\$303.0 million (30 June 2003: HK\$236.0 million) comprising inventories of approximately HK\$64.7 million (30 June 2003: HK\$59.4 million), trade receivables of approximately HK\$129.2 million (30 June 2003: HK\$103.8 million), other receivables of approximately HK\$25.5 million (30 June 2003: HK\$15.4 million), cash and bank balances of approximately HK\$83.6 million (30 June 2003: HK\$57.4 million).

At 30 June 2004, the Group’s current ratio (current assets/current liabilities), quick ratio ((current assets – inventory)/current liabilities), gearing ratio (total debts/total assets) and debts to equity ratio (total debts/shareholders’ equity) of the Group were approximately 4.6 (30 June 2003: 4.4), 3.7 (30 June 2003: 3.3), 14.9% (30 June 2003: 15.6%) and 18.8% (30 June 2003: 19.9%), respectively. These changes reflected an improvement in the Group’s structure of assets and liabilities.

PROSPECTS

Looking ahead, the uncertainty in the Middle East affecting the crude oil prices remains volatile, resulting in the fluctuation of the Group’s operating cost. Moreover, the impact of the macro-economic austerity program implemented by the PRC government is unknown, therefore, the economic development in future is unpredictable. In the long run, a sustained growth is expected in the PRC’s economy, and the demand in the PRC will continuously expand. As such, the Group shall be well-positioned for the environment. To enhance the sales and strengthen the production equipments and capacities of every core business are also critical. Besides, management improvement and technical know-how strengthening shall not be in absence. Also, the management shall explore various development opportunities for the Group.

Apart from certain regulatory measures taken by the PRC government to resolve the overheated economy in the PRC, the upcoming rising interest rate and the persistent high prices of various raw materials are expected to constitute an uncertainty which will bring negative impact to the Group for this year.

DIVIDEND

No dividend have been paid or declared by the Company for the year ended 30 June 2004 (2003: HK\$0.11 cent).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 18 November 2004, Thursday to 24 November 2004, Wednesday, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the forthcoming annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company’s Branch Share Registrar in Hong Kong, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 17 November 2004, Wednesday.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the year.

CODE OF BEST PRACTICE

To comply with the Code of Best Practice as set out in Appendix 14 of the Listing Rules (the “Code of Best Practice”), the Company set up an Audit Committee on 8 April 2001, with written terms of reference, for the purpose of reviewing and providing supervision over the Group’s financial reporting process and internal control systems. The Audit Committee comprises three independent non-executive directors of the Company, namely, Mr. Ma Wing Yun Bryan, Mr. Meng Fanxi and Mr. Wong Kai Tat. The Group’s consolidated financial statements for the year have been reviewed by the Audit Committee, who are of the opinion that such statements comply with applicable accounting standards and requirements and that adequate disclosures have been made.

In the opinion of the Directors, the Company has complied with the Code of Best Practice throughout the year.

PUBLICATION OF DETAILED ANNUAL RESULTS ON THE STOCK EXCHANGE WEBSITE

A detailed announcement of the annual results of the Group for the year ended 30 June 2004 required by paragraphs 45(1) to 45(3) of Appendix 16 to the Rules Governing the Listing of Securities of the Stock Exchange in force prior to 31 March 2004 will be published on the website of the Stock Exchange in due course.

APPRECIATION

On behalf of the Company, I would like to extend my heart-felt gratitude to our staff, shareholders, investors, customers and business partners who have given continuous support to the Group.

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

Hong Kong, 18 October, 2004

As at the date of this announcement, the Board comprised of Ms. Chan Yuk Foebe, Mr. Chu Ki, Mr. Peng Zhanrong, Mr. Wang Hailou as Executive Directors and Mr. Ma Wing Yun Bryan, Mr. Meng Fanxi and Mr. Wong Kai Tat as Independent Non-executive Directors.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an annual general meeting of Daqing Petroleum and Chemical Group Limited (the “Company”) will be held at Victoria Room, 2/F, Mandarin Oriental, Hong Kong, 5 Connaught Road Central, Hong Kong on 24 November 2004, Wednesday at 3:30 p.m. for the purpose of considering and, if thought fit, passing the following resolutions:

ORDINARY RESOLUTIONS

- to receive and consider the audited consolidated financial statements and the reports of the directors and the auditors for the year ended 30 June 2004;
- (a) to re-elect the following persons as directors:
 - Mr. Meng Fanxi
 - Ms. Chan Yuk Foebe
 - Mr. Chu Ki
 - Mr. Peng Zhanrong
 - Mr. Wong Kai Tat
- (b) to authorise the board of directors to fix the directors’ remuneration;
- to re-appoint Messrs. RSM Nelson Wheeler as auditors of the Company for the ensuing year and to authorise the board of directors to fix their remuneration; and
- as special business, to consider and, if thought fit, pass with or without amendments, the following resolutions as Ordinary Resolutions and Special Resolution respectively:

ORDINARY RESOLUTIONS

- “THAT:
- (a) subject to paragraph (c) below, the exercise by the directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares of HK\$0.01 each in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) shall authorise the directors during the Relevant Period to make or grant offers, agreements and options which would or might require the exercise of such powers, after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the directors pursuant to the approval in paragraph (a), otherwise than pursuant to the following events (the “Relevant Events”):
 - a Rights Issue (as hereinafter defined); or
 - any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the articles of association of the Company; or
 - the exercise of any share option scheme of the Company; or
 - any adjustment of rights to subscribe for shares of the Company under options; or
 - a specific authority granted by the shareholders of the Company,shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue at the date of the passing of this resolution and the Relevant Events and the said approval shall be limited accordingly; and
- (d) for the purpose of this resolution:
 - “Relevant Period” means the period from the passing of this resolution until whichever is the earlier of:
 - the conclusion of the next annual general meeting of the Company;
 - the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable law to be held; or
 - the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders in general meeting; and
 - “Rights Issue” means an offer of shares open for a period fixed by the directors to holders of shares of the Company or any class thereof on the register of members on a fixed record date in proportion to their then holdings of such shares or class thereof (subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong).”;
- “THAT:
- (a) subject to paragraph (b) below, the exercise by the directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to purchase shares of HK\$0.01 each in the capital of the Company be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of the shares to be purchased pursuant to the approval in paragraph (a) above shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this resolution and the said approval shall be limited accordingly; and
- (c) for the purpose of this resolution, “Relevant Period” means the period from the passing of this resolution until whichever is the earlier of:
 - the conclusion of the next annual general meeting of the Company;
 - the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable law to be held; or
 - the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders in general meeting.”;
- “THAT the general mandate granted to the directors of the Company pursuant to resolutions nos. 4A and 4B as above and for the time being in force to exercise the powers of the Company to allot shares and to make or grant offers, agreements and options which might require the exercise of such powers referred to in resolution no. 4A be and is hereby extended by the total nominal amount of shares in the capital of the Company repurchased by the Company since the granting of such general mandate pursuant to the exercise by the directors of the Company of the powers of the Company to purchase such shares pursuant to resolution no. 4B, provided that such amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of the passing of this resolution.”;
- “THAT the existing scheme limit under the share option scheme adopted by a resolution of the shareholders of the Company on 18 November 2002 (“Share Option Scheme”) be refreshed so that the aggregate nominal amount of the share capital of the Company to be allotted and issued pursuant to the grant or exercise of the options under the Share Option Scheme (excluding options previously granted, outstanding, cancelled, lapsed or exercised under the Share Option Scheme) shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of the passing of this resolution (“Refreshed Scheme Limit”) and that the directors of the Company be and are hereby authorized, subject to compliance with the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time), to grant options under the Share Option Scheme up to the Refreshed Scheme Limit and to exercise all the powers of the Company to allot, issue and deal with shares of the Company pursuant to the exercise of such options.”; and

SPECIAL RESOLUTION

- “THAT the articles of association of the Company be and are hereby amended as follows:–
- Article 1(A)
- (i) deletion of the definition of “associates” and replacing with the following:
 - ““associate” the meaning attributed to it in the Listing Rules.”
- (ii) deletion of the words “a recognised clearing house within the meaning of section 2 of the Securities and Futures (Clearing Houses) Ordinance (Cap. 420 of the Laws of Hong Kong) or” in the definition of “clearing house”
- (iii) deletion of the definition of “holding company” and “subsidiary” and insertion of the following definition immediately after the definition of “Statutes”:
 - ““Subsidiary and Holding Company” the meanings attributed to them in the Listing Rules.”
- (iv) insertion of the following definition immediately after the definition of “HK\$”:
 - ““Listing Rules” shall mean the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.”

Article 84

By deleting the existing Article 84 in its entirety and replacing therewith the following new Articles 84(A) and 84(B):–

- “84. (A) Subject to paragraph (B) of this Article 84, no objection shall be raised to the qualification of any person exercising or purporting to exercise a vote or the admissibility of any vote except at the meeting or adjourned meeting at which the vote objected to is given or tendered, and every vote not disallowed at such meeting shall be valid for all purposes. Any such objection made in due time shall be referred to the Chairman, whose decision shall be final and conclusive.
- (B) At all times during the Relevant Period (but not otherwise), where any shareholder is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such shareholder (whether by way of proxy or, as the case may be, corporate representative) in contravention of such requirement or restriction shall not be counted.”

Article 107

By deleting paragraphs (D), (E), (G), (H), (I), (J) and (K) of the existing Article 107 in their entirety and replacing therewith the following new paragraphs respectively:

- “(D) A Director shall not vote or be counted in the quorum on any resolution of the Directors concerning his own appointment or the appointment of any of his associates as the holder of any office or place of profit with the Company or any other company in which the Company is interested (including the arrangement or variation of the terms thereof, or the termination thereof).
- (E) Where arrangements are under consideration concerning the appointment (including the arrangement, remuneration or variation of the terms thereof, or the termination thereof) of two or more Directors or any of the associate(s) of any such Directors to offices or places of profit with the Company or any other company in which the Company is interested, a separate resolution may be put in relation to each Director or, as the case may be, the associate(s) of such Director and in such case each of the Directors concerned shall be entitled to vote (and be counted in the quorum) in respect of each resolution except that concerning his own appointment or the appointment of any of his associates (or the arrangement or variation of the terms thereof, or the termination thereof) and (in the case of an office or place of profit with any such other company as aforesaid) where the other company is a company in which the Director and his associates in aggregate own five (5) per cent. or more of the issued shares of any class of the voting equity share capital of such company or of the voting rights of any class of shares of such company (other than shares which carry no voting rights at general meetings and no or nugatory dividend and return of capital rights).
- (G) If to the knowledge of a Director, he or any of his associates, is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company, he shall declare the nature of his or, as the case may be, his associate(s)’ interest at the meeting of the Directors at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest or that of his associate(s) then exists, or in any other case at the first meeting of the Directors after he knows that he or his associate(s) is or has become so interested. For the purposes of this Article, a general notice to the Directors by a Director to the effect that (a) he or his associates is a shareholder of a specified company or firm and is to be regarded as interested in any contract or arrangement which may after the date of the notice be made with that company or firm or (b) he or his associates is to be regarded as interested in any contract or arrangement which may after the date of the notice be made with a specified person who is connected with him or any of his associates, shall be deemed to be a sufficient declaration of interest under this Article in relation to any such contract or arrangement; provided that no such notice shall be effective unless either it is given at a meeting of the Directors or the Director takes reasonable steps to secure that it is brought up and read at the next meeting of the Directors after it is given.
- (H) A Director shall not vote (nor be counted in the quorum) on any resolution of the Directors approving any contract or arrangement or proposal in which he or his associates is to his knowledge materially interested, and if he shall do so his vote shall not be counted (nor is he counted in the quorum for that resolution), but this prohibition shall not apply to any of the following matters namely:
 - any contract or arrangement for the giving by the Company of any security or indemnity to the Director or his associates in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
 - any contract or arrangement for the giving by the Company of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries which the Director or his associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
 - any contract or arrangement concerning an offer of the shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or his associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
 - any contract or arrangement in which the Director or his associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their respective interest in shares or debentures or other securities of the Company;
 - any contract or arrangement concerning any other company in which the Director or his associates is/are interested only, whether directly or indirectly or as an officer or an executive or a shareholder or in which the Director or his associates is/are beneficially interested in shares of that company provided that, he and his associates, are not in aggregate beneficially interested in five (5) per cent. or more of the issued shares of any class of such company (or any third company through which his interest or that of any of his associates is derived) or of the voting rights;
 - any proposal or arrangement for the benefit of employees of the Company or its subsidiaries including the adoption, modification or operation of a pension fund or retirement, death or disability benefit scheme which relates both to Directors, associate(s) of Directors and employees of the Company or of any of its subsidiaries and does not give the Director or his associates any privilege or advantage and not generally accorded to the class of persons to whom such scheme or fund relates;
 - any proposal or arrangement concerning the benefit of employees of the Company or its subsidiaries including the adoption, modification or operation of any employees’ share scheme or any share incentive or share option scheme under which the Director or his associates may benefit; and
 - any contract, transaction or proposal concerning the purchase and/or maintenance of any insurance policy for the benefit of any Director, his associate(s), officer or employee pursuant to these Articles.
- (I) A company shall be deemed to be a company in which a Director and his associates own five (5) per cent. or more of any class of the voting equity share capital of such company or of the voting rights of any class of shares of such company if and so long as (but only if and so long as) he and his associates are (either directly or indirectly) the holder of or beneficially interested in five (5) per cent. or more of any class of the issued voting equity share capital of such company (or of any third company, other than the Company or any of its subsidiaries, through which his interest is derived) or of the voting rights of any class of shares of the company. For the purpose of this paragraph there shall be disregarded any shares held by a Director or any of his associate(s) as bare or custodian trustee and in which he or such associate(s) has/have no beneficial interest, any shares comprised in a trust in which the interest of the Director or any of his associates is in reversion or remainder if and so long as some other person is entitled to receive the income thereof, any shares comprised in an authorised unit trust scheme in which the Director or any of his associates is interested only as a unit holder, and shares which carry no voting right at general meetings and no or nugatory dividend and return of capital rights.
- (J) Where a company (other than a company which is a wholly owned subsidiary of the Company or a subsidiary or associated company of the Company in the voting equity capital of which neither the Director nor any of his associates has any interests) in which a Director and any of his associates hold five (5) per cent. or more of any class of the voting equity share capital of such company or of the voting rights of any class of shares available to shareholders of the company is materially interested in a transaction, then that Director shall also be deemed materially interested in such transaction.
- (K) If any question shall arise at any meeting of the Directors as to the materiality of the interest of a Director or any of his associates as to the entitlement of any Director to vote or be counted in the quorum and such question is not resolved by his voluntarily agreeing to abstain from voting or not to be counted in the quorum, such question (unless it relates to the Chairman) shall be referred to the Chairman and his ruling in relation to such Director shall be final and conclusive except in a case where the nature or extent of the interest of the Director concerned or his associates as known to such Director has not been fairly disclosed to the other Directors. If any question as aforesaid shall arise in respect of the Chairman such question shall be decided by a resolution of the Directors (for which purpose the Chairman shall not be counted in the quorum and shall not vote thereon) and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of the Chairman or his associates as known to him has not been fairly disclosed to the other Directors.”

Article 113

By inserting “and the period for lodgement of such notices shall commence no earlier than the day immediately after the dispatch of the notice of the general meeting and end no later than seven days before the date of such general meeting” after the last sentence of Article 113.”

By Order of the Board
Daqing Petroleum and Chemical Group Limited
Kwok Yuen Ying, Riki
Secretary

Hong Kong, 18 October 2004

Notes:

- The register of members of the Company will be closed from 18 November 2004, Thursday to 24 November 2004, Wednesday, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 17 November 2004, Wednesday.
- A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a member of the Company.
- The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power of attorney or other authority, must be lodged with the Company’s branch share registrar in Hong Kong, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time fixed for holding the meeting or at any adjournment thereof.
- A circular containing an explanatory statement regarding items (4A) to (4E) above will be sent to members of the Company together with the 2004 Annual Report.