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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Daqing Petroleum and Chemical Group Limited, you should at once hand this circular to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

**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**INVOLVING****THE ESTABLISHMENT OF THE JOINT VENTURE WITH
DAQING GAOXINQU QINGLIAN PETROLEUM
AND CHEMICAL CO. LIMITED IN THE PRC**

A letter from the Board of Directors of Daqing Petroleum and Chemical Group Limited is set out on pages 2 to 4 of this circular.

28 April 2004

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DEFINITIONS

In this circular, the following expressions have the meanings as set out below unless the context requires otherwise.

“Announcement”	The announcement of Daqing dated 6 April 2004
“Board”	Board of Directors of Daqing
“Capital Commitment”	Consideration whether in the form of cash or assets to be injected by Qinglian and Daqing , as the case may be, into the Joint Venture
“Confirmation Letter”	The letter dated 13 April 2004 between Daqing and Qinglian in relation to clarification and confirmation of the Capital Commitment of Daqing and Qinglian for the Joint Venture
“Daqing”	Daqing Petroleum and Chemical Group Limited
“Directors”	The directors of Daqing
“Earlsmead”	Earlsmead Enterprises Limited, a limited liability company incorporated under the laws of British Virgin Islands and is a wholly-owned subsidiary of Daqing
“Joint Venture”	A Sino-foreign equity joint venture to be established by the Qinglian and Daqing in accordance with the Law of the People’s Republic of China on Sino-foreign Joint Equity Enterprises
“Joint Venture Agreement”	The joint venture agreement entered into between Daqing and Qinglian on 2 April 2004, regarding the establishment of the Joint Venture
“Latest Practical Date”	23 April 2004, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	The People’s Republic of China
“Qinglian”	Daqing Gaoxinqu Qinglian Petroleum and Chemical Co. Limited, a limited liability company incorporated under the laws of PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Total Market Capitalisation”	The average closing price of the Daqing’s securities as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the date of the transaction

LETTER FROM THE BOARD



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)

Executive Directors:

Ms. Chan Yuk Foebe

Mr. Wang Hailou

Mr. Chu Ki

Mr. Peng Zhanrong

*Head office and principal place
of business:*

Unit 2303, 23rd Floor

Far East Finance Centre

16 Harcourt Road

Admiralty

Hong Kong

Independent Non-Executive Directors:

Mr. Ma Wing Yun Bryan

Mr. Meng Fanxi

28 April 2004

To the shareholders of Daqing

Dear Sir or Madam,

**DISCLOSEABLE TRANSACTION
INVOLVING
THE ESTABLISHMENT OF THE JOINT VENTURE WITH
DAQING GAOXINQU QINGLIAN PETROLEUM
AND CHEMICAL CO. LIMITED IN THE PRC**

1. INTRODUCTION

Reference is made to the Announcement under which the Board announced that, its wholly-owned subsidiary, Earlsmead, entered into the Joint Venture Agreement with Qinglian on 2 April 2004. Pursuant to the Joint Venture Agreement, the parties agreed to establish the Joint Venture in which Daqing will hold 55% and Qinglian will hold 45% of the equity interest of the Joint Venture, respectively.

The establishment of the Joint Venture will constitute a discloseable transaction under Rule 14.06 of the Listing Rules as the value of Daqing's Capital Commitment represents 5% or more, but less than 25% of Daqing's latest published audited total assets of Daqing and its Total Market Capitalisation.

Reference is also made to the announcement made by the Company dated 27 April 2004 whereby the Board clarified that the Capital Commitments of Daqing (through Earlsmead) and Qinglian referred to in the Announcement should be RMB50,000,000 (equivalent to approximately HK\$47,619,000) and RMB40,910,000 (equivalent to approximately RMB38,962,000) as opposed to HK\$50,000,000 (equivalent to approximately RMB52,500,000) and HK\$40,909,000 (equivalent to approximately RMB42,955,000) and that Earlsmead and

LETTER FROM THE BOARD

Qinglian entered into the Confirmation Letter in relation to clarification and confirmation of the Capital Commitments of Daqing and Qinglian and that save and except for the change in the Capital Commitments as set out above, all the terms and conditions of the Joint Venture Agreement remain the same.

Brief details of the Joint Venture will be included in Daqing's next published annual report in accordance with the Listing Rules.

2. THE ESTABLISHMENT OF THE JOINT VENTURE WITH DAQING GAOXINQU QINGLIAN PETROLEUM AND CHEMICAL CO. LIMITED IN THE PRC

2.1 The Joint Venture Agreement

Parties to the Joint Venture Agreement dated 2 April 2004

- Daqing Gaoxinqu Qinglian Petroleum and Chemical Co. Limited
- Earlsmead Enterprises Limited

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Qinglian and the ultimate beneficial owners of Qinglian (who are five individuals in the PRC) are third parties independent of Daqing and its connected persons (as defined under the Listing Rules).

Capital Commitment

Pursuant to the Joint Venture Agreement and the Confirmation Letter (in which the parties rectified and restated the correct amounts of their respective Capital Commitments), upon satisfaction on or before 30 June 2004 of the conditions precedent set out therein, inter alia, obtaining all relevant government approval, conducting due diligence on the assets to be contributed by Qinglian and obtaining a valuation report of the assets from an independent PRC accountant, the parties thereto agreed to establish a Joint Venture in the following manner:

1. Earlsmead will inject RMB50,000,000 (equivalent to approximately HK\$47,619,000) cash for 55% of the equity interest in the Joint Venture, HK\$1 million of which has been paid to Qinglian on 2 April 2004 and the balance will be payable upon the establishment of the Joint Venture; and
2. Qinglian will inject assets of not less than RMB40,910,000 (equivalent to approximately HK\$38,962,000), including, but not limited to, land and production facilities for 45% of the equity interest in the Joint Venture.

Under the Joint Venture Agreement, the Capital Commitment for Daqing and Qinglian in respect of the Joint Venture shall be RMB50,000,000 (equivalent to approximately HK\$47,619,000) and RMB40,910,000 (equivalent to approximately HK\$38,962,000) respectively.

The manner of Capital Commitment was arrived at after arm's length negotiations between the parties involved. The cash will be funded by Daqing from its internal resources. The land and production facilities contributed by Qinglian, which are located at Mudanjiang in the Heilongjiang province, and the capital contributed by Earlsmead will be employed by the Joint Venture for the establishment of a production facility for the production of vinyl acetate.

LETTER FROM THE BOARD

2.2 Discloseable Transaction

The establishment of the Joint Venture will constitute a discloseable transaction under Rule 14.06 of the Listing Rules as the value of Daqing's Capital Commitment represents 5% or more, but less than 25% of Daqing's latest published audited total assets of Daqing and its Total Market Capitalisation.

Brief details of the establishment of the Joint Venture will be included in Daqing's next published annual report in accordance with the Listing Rules.

2.3 Information on Daqing

Daqing is a limited liability company incorporated in the Cayman Islands, the shares of which are listed on the Main Board of the Stock Exchange. It is an investment holding company, while its subsidiaries are engaged in the businesses of manufacturing and sale of petroleum refined products and other supporting services such as administrative and marketing services.

2.4 Information on Qinglian

Qinglian is a limited liability company incorporated under the laws of the PRC. It engages in the business of production and sale of lubricants and other industrial-used oils.

2.5 Reason for the establishment of the joint venture

The Joint Venture will become a subsidiary of Daqing upon establishment.

The Directors consider that the establishment of the Joint Venture will enable Daqing to diversify its business by producing a type of chemical product, namely, vinyl acetate. The Directors expect that through the strategic alliance with Qinglian, Daqing will be able to commence the manufacturing and sale of vinyl acetate by utilising the production facilities injected by Qinglian and thereby increasing the revenue of Daqing. The Directors believe that the terms of the Joint Venture Agreement are fair and reasonable and in the interests of the shareholders as a whole.

2.6 Other information

Your attention is drawn to the general information set out in the following section of this circular.

Yours faithfully,
For and on behalf of the Board
Daqing Petroleum and Chemical Group Limited
Chan Yuk Foebe
Chairman
and Executive Director

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to Daqing. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular with regard to Daqing and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement herein misleading.

DISCLOSURE OF INTERESTS**1. Directors' interest**

As at the Latest Practicable Date, no Directors were interests in any shares, underlying shares and debentures of Daqing which had to be notified to Daqing and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests in which they were deemed or taken to have under such provisions of the SFO); nor which were required pursuant to section 352 of the SFO, to be entered in the register referred to therein; nor which were required to be notified to Daqing and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

2. Substantial shareholders' interest

As at the Latest Practicable Date, according to the register kept by Daqing pursuant to section 336 of SFO and so far as is known to, or can be ascertained after reasonable enquiry by the Directors, and save as disclosed in the paragraph headed "Disclosure of interests" in this appendix, the following persons (other than a Director or the chief executive of Daqing) had an interest or short position in the shares or underlying shares of Daqing which would fall to be disclosed to Daqing under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 10% or more of the voting shares of any members of the Group:

Name	Number of ordinary shares held	Percentage of the issued share capital of Daqing
Heng Tai Consumables Group Limited	175,560,000	18.83%

LITIGATION

As at the Latest Practicable Date, neither Daqing nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against Daqing or any of its subsidiaries.

SERVICE CONTRACTS

As at the date hereof, none of the Directors has entered, or is proposing to enter, into any service contract with Daqing or its subsidiaries which is not expiring or may not be terminated by Daqing within a year without payment of any compensation (other than statutory compensation).

MISCELLANEOUS

- (a) The secretary of Daqing is Kwok Yuen Ying Riki. He is an associate member of the Hong Kong Society of Accountants and Certified Public Accountants of Australia.
- (b) The registered office of Daqing is situated at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies and the head office is situated at Unit 2303, 23rd Floor, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong.
- (c) The share registrar of Daqing is Tengis Limited, Ground Floor, Bank of East Asia, Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (d) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.