

CHAIRMAN'S STATEMENT

On behalf of the board (the "Board") of directors (the "Directors") of Daqing Petroleum and Chemical Group Limited ("Daqing Pechem" or the "Company" and together with its subsidiaries, the "Group"), I am pleased to present the annual report of the Group for the year ended 30 June 2003. The Company's profit before tax for the year ended 30 June 2003 was HK\$102.2 million, representing an increase of 6.2% as compared with the previous financial year. The net profit was HK\$84.4 million, representing an increase of 10.9% over the previous financial year. Profit of the Company was primarily derived from the sale of lubricants and anti-corrosive coating.

The basic and diluted earnings per shares of the Company were HK9.7 cents and HK9.5 cents, respectively.

The Board are pleased to recommend the payment of a final dividend of HK0.11 cent per ordinary share for the year ended 30 June 2003 (2002: HK0.45 cent per ordinary share), subject to the approval of the shareholders at the forthcoming annual general meeting to be held on 20 November 2003.

The Board proposed a bonus issue of one new share of HK\$0.01 credited as fully paid for every 20 shares held by the shareholders whose names appear on the Register of Members on 20 November 2003. The necessary resolution will be proposed at the forthcoming annual general meeting on 20 November 2003. The share certificates of bonus shares will be despatched on or about 15 December 2003 if the resolution is passed at the annual general meeting.

BUSINESS REVIEW

The Company has formally become the "Overseas Window" of Daqing Municipal People's Government and has changed its name into "Daqing Petroleum and Chemical Group Limited" in December 2002. The Company has set up an "Enterprises Consultation Committee" and "Listing Consultation Committee" to assist Daqing enterprises in corporate restructuring with a view to enhancing efficiency and seeking overseas, Hong Kong and mainland listings. Several Daqing enterprises are under corporate restructuring and are expected to be listed in 2004.

While the global economy continued to experience turbulences without momentum for growth in 2002, the economy of the China still achieved a fast and healthy development, and registered a GDP growth rate of 8%. The robust demand for major petroleum and petrochemical products in the People's Republic of China (the "PRC" or "China") created tremendous market demand for the Group's products and room for its business expansion. However, in 2002, being the first year after China's accession to World Trade Organisation ("WTO"), the Group faced more fierce competition as the PRC market is now opened to the rest of the world. In addition, the price of crude oil, refined oil products and chemical products increased dramatically during the year. Combination of these factors and the severe effect of Severe Acute Respiratory Syndrome in 2003 quickly drove down the Company's profitability.

In response to the severely harsh business environment, the Group adjusted its operating strategy and reinforced its internal management. Thanks to the generous support from our shareholders, customers, suppliers and the joint efforts by our employees, we overcame these difficulties by reducing our products costs and enhancing our operation efficiency and continued to maintain a fair growth momentum.

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BUSINESS REVIEW (Cont'd)

LUBRICANTS

Lubricants for heavy machines

Being a designated lubricants provider for the oil fields of the China National Petroleum Corporation ("CNPC"), the Group obtained a RMB60 million contract from CNPC for the supply of lubricants for heavy machines in 2003.

Lubricants for automobiles

This year is the land-mark of achievement of the auto industry in the PRC. The number of motor vehicles sold was approximately 3.3 million, representing an increase of approximately 36% over the previous year. The Group plans to cooperate with the appointed automobile lubricant suppliers through joint ventures or mergers, with a view to capturing this sizeable market. The Group aims at becoming the second largest lubricant supplier of the PRC's ten leading automobile manufacturers, capturing 35%-40% of their demand. In November 2002, the Group entered into an agreement to acquire 80% stake in Shanghai Dazhong Premium Lubricant Product Co., Ltd. ("Dazhong Lubricant"), a major automobile lubricant supplier of Shanghai Dazhong Automobile Co., Ltd. ("Shanghai Dazhong"). The acquisition will be completed by the end of 2003 on the condition that Dazhong Lubricant achieves the Group's requirements. Dazhong Lubricant is mainly engaged in the production and sale of engine lubricant, break lubricant, anti-freeze fluid, grease and gearbox lubricant for motor vehicles. It is an appointed automobile lubricant supplier for Shanghai Dazhong that accounts for 10% of its demand. Dazhong Lubricant's products are superior in quality compared to similar products in the domestic market, as they are made in accordance with top international standard with machinery sourced from European manufacturers and technicians trained by senior engineering professionals from abroad. Its "New Century 2000" and "Passat" brands are among the top eight best lubricant brands in the PRC. By acquiring Dazhong Lubricant, the Group now has a combined distribution network comprising over 50 outlets. The Group will help to increase the production capacity of Dazhong Lubricant by improving the production process and operational efficiency, aiming at accounting for 30% of Shanghai Dazhong's lubricant demand in 2004 and increasing that share to 40% in 2005. The Group also expects to expand the European, US and Southern Asian market through Dazhong Lubricant. The Group is currently in discussion with other leading automobile manufacturers and their appointed automobile lubricant suppliers for cooperation.

BUSINESS REVIEW (Cont'd)

ANTI-CORROSIVE COATING

Anti-corrosive coating for drinking water pipes

The Group's product is the first of its type to have obtained the approval from the Ministry of Public Health of the PRC and has been used in various water supply systems of major cities and large scale projects including the "Dongjiang Water Project" and "Shenzhen East Water Supply Project" in the PRC. The Group plans to bid the Wuchang City Mo Pan Hill Reservoir – Harbin Diversion Water Project in Heilongjiang ("M-H Diversion Water Project"). The total investment of the whole project is approximately RMB5 billion and construction is expected to start in 2005.

The Group is in discussion with other provinces and major cities on upgrading of water transmission systems and the South-to-North Water Transmission Engineering Project.

Anti-corrosive coating for large scale infrastructure

In June 2003, the Group bade a RMB30 million contract of Hangzhou Bay Bridge Project Phase I. Hangzhou Bay Bridge is the main bridge crossover Hangzhou Bay in China. The length of the bridge is 36km long from Ningbo to Zhejiang. Hangzhou Bay bridge is the longest bridge in the world and the bridge will shorten the travelling distance from Ningbo to Shanghai by 120km. The total investment of the whole project is expected to be about RMB11.8 billion whereas the anti-corrosive portion will be around 10%. The Group is looking forward to bidding the remaining contracts of the project.

This year, the Group has established an anti-corrosive coating production line in Ningbo to support the Hangzhou Bay Bridge Project.

Anti-corrosive coating for use on board


The Group's anti-corrosive coating for use on board has been granted with China Classification Society certification in 2002. In November 2002, the Group entered into business co-operation and a joint venture agreement with Bohai Heavy Industry Huludao Shipyard Maintenance Company ("Bohai") for the construction of production lines for anti-corrosive coating. The new production lines will be built in Huludao City with a total investment of RMB20 million, in which the Group will take an effective interest of 63.5%. The annual capacity is expected to be about 15,000 tonnes, accounting for approximately 1% of the domestic market usage. The products will be mainly supplied to the shipyards in China including Bohai, Dalian Shipyard, Tianjin Shipyard and Qinhuangdao Shipyard. These four shipyards are consuming no less than 12,000 tonnes of anti-corrosive coating annually. Each shipyard is expanding their vessels production capacities, while Bohai is also expanding its annual vessel production capacity to 400,000 tonnes, representing a growth of 60%. Phase I of the project is expected to be completed by the end of 2003 with annual capacity of 1,500 tonnes.




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PROSPECTS



Looking forward to year 2003 and 2004, the global economy will begin to show signs of recovery. However, the prices of crude oil and refining chemical products are expected to remain at a relatively high level. Confronted with these factors, the Group will seek expansion only in a financially prudent manner, with emphasis on cost control and increase of productivity with a view to maintaining stable earnings growth through operational efficiency. The Group plans to acquire core business-related projects, such as refining chemical products production facilities, to control the cost of production. We are also committed to improving product quality through ongoing R&D investments and eyeing on projects with high investment return.



On behalf of Daqing Pechem, 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.



Wang Dan Hui
Chairman and Executive Director

16 October 2003