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**中國石化鎮海煉油化工股份有限公司**  
**SINOPEC ZHENHAI REFINING & CHEMICAL COMPANY LIMITED**

*(a joint stock limited company incorporated in the People's Republic of China)*

**CONNECTED TRANSACTION — SALES OF PARAXYLENE UNTIL 2005**

The Board announces that on 10 November 2003, the Company entered into the Agreement to sell paraxylene (“PX”) to Yizheng until 31 December 2005. Approximately 30,000 tonnes of PX is expected to be sold in 2003 under the Agreement. The volume of PX to be sold in 2004 and 2005 will be jointly determined by the Company and Yizheng and will not exceed 250,000 tonnes and 300,000 tonnes for each of 2004 and 2005, respectively. The price of the PX will be determined in accordance with the pricing formula in the Agreement which is based on the ICIS CFR N. E. Asia Spot Price and Contract Price. The Directors expect that the sales amount of PX to be sold by the Company to Yizheng under the Agreement will not exceed RMB240 million (HK\$226 million), RMB2 billion (HK\$1,887 million) and RMB2.4 billion (HK\$2,264 million) respectively for each of the three years ending 31 December 2005, representing 2.8%, 23.7% and 28.4% of the consolidated net tangible assets value of the Company as at 31 December 2002. The Agreement was entered into in the ordinary and usual course of business of the Company. The Board considers that the terms are fair and reasonable so far as the Shareholders as a whole are concerned.

Yizheng is held 42% by Sinopec Corp., which is also the holding company of the Company, and therefore Yizheng is a connected person of the Company under Chapter 14 of the Listing Rules. The sales under the Agreement constitute ongoing connected transactions for the Company under the Listing Rules. As the estimated aggregate sales amounts under the Agreement are expected to exceed 3% of the consolidated net tangible assets value of the Company as at 31 December 2002 and 30 June 2003, the sales under the Agreement are subject to disclosure (by way of announcement) and the Independent Shareholders’ approval requirements under Chapter 14 of the Listing Rules. Given the ongoing and recurring nature of the sales under the Agreement, the Directors consider it impracticable and unduly burdensome for the Company to comply strictly with such disclosure and the Independent Shareholders’ approval requirements on each occasion a transaction arises. The Company has applied to the Stock Exchange for a waiver for the three financial years ending 31 December 2005 from strict compliance with the disclosure and shareholders’ approval requirements in respect of the Ongoing Connected Transactions under the Listing Rules, conditional, inter alia, that the aggregate amount of the sales under the Agreement for the year ending 31 December 2003 shall not exceed 2 per cent. of the consolidated turnover of the Group in 2002 and for each of the two years ending 31 December 2005 shall not exceed 13 per cent. of the consolidated turnover of the Group in the preceding year.

An EGM will be held for the purpose of, inter alia, obtaining the approval from the Independent Shareholders for the Ongoing Connected Transactions and the Waiver Application including the Cap. Sinopec Corp. and its associates will abstain from voting at the EGM in respect of the resolutions to approve the Ongoing Connected Transactions.

## **PARTICULARS OF THE AGREEMENT**

Key terms of the Agreement are set out below:

Date: 10 November 2003

Vendor: The Company

Purchaser: Yizheng

Products to be sold: PX. The planned sales volume of PX to be sold in each month during the term of the Agreement will be the annual amount divided by the number of months during the relevant year. The actual sales volume of PX to be sold in each month will be determined by the Company and Yizheng in the preceding month.

<b>Year</b>	<b>Annual Amount</b>
2003	30,000 tonnes
2004	will not exceed 250,000 tonnes based on mutual agreement
2005	will not exceed 300,000 tonnes based on mutual agreement

Conditions: The Agreement shall take effect upon each of the Company and Yizheng having complied, in respect of entering into the Agreement, with the relevant requirements (including independent shareholders' approval) of the rules and regulations of the relevant stock exchanges in which the shares of the Company and Yizheng respectively are listed.

Pricing: The price of paraxylene will be determined according to a formula which is equal to the average of the CFR N.E. Asia Spot Prices and Contract Prices of PX for the first four weeks of the preceding month of the sale issued by ICIS, with the addition of applicable taxations. (such as import tariff and value-added tax) and application of relevant foreign exchange rate.

Delivery and payment: The Company will deliver PX to Yizheng at Ningbo Port on the delivery dates as set out in the sales contracts and should give delivery notices to Yizheng seven days before the scheduled delivery dates. Payment will be made within 15 calendar days after each delivery on board.

Quality inspection: Yizheng will inspect the product quality after receiving the products. If it determines that PX does not comply with the quality standard as stated in the Agreement, it will notify the Company which will then inspect the samples of the delivered products. Upon final inspection, the Company and Yizheng will determine the responsibility of each party.

Term: The Agreement will expire on 31 December 2005 but can be renewed if the Company and Yizheng agree to such extension prior to 30 September 2005.

## **REASONS FOR THE ONGOING CONNECTED TRANSACTIONS**

The Company began to build the PX unit with a designed annual production capacity of 450,000 tonnes and has begun trial processing in August 2003. On 16 October 2003, the Company entered into an agreement with Yizheng for the sale of 37,000 tonnes of PX produced by the Company during the trial processing from August to October 2003. The Company made an announcement for the sale of 37,000 tonnes of PX on 16 October 2003. The Company plans to adjust and further optimize its equipment and operating process in November 2003.

PX is raw material for the production of PTA, one of the principal raw materials for the production of polyester products. Yizheng is one of the largest PTA manufacturers in the PRC. The Agreement will enable the Company to secure a major customer for its new product PX when the Company commences production after optimizing its equipment and operating process in November 2003. The Company proposes to sell a further 30,000 tonnes of PX to Yizheng in 2003. At the end of 2003 and 2004, the Company will negotiate with Yizheng for the sales volume in 2004 and 2005, respectively, based on its planned throughput volume of crude oil in 2004 and 2005, respectively and the market conditions for PX. The sales volumes will not exceed 250,000 tonnes and 300,000 tonnes for 2004 and 2005, respectively. Should the Company produce PX in excess of 250,000 tonnes and 300,000 tonnes for 2004 and 2005, respectively, it may sell PX to other companies, including other affiliates of Sinopec Corp. The Company will comply with the Listing Rules if it sells PX to other affiliates of Sinopec Corp.

The prices for the sales of PX will be determined according to the price formula determined by the Company and Yizheng as set out in the Agreement. The price formula is based on ICIS CFR N.E. Asia Spot and Contract Prices from time to time. ICIS-LOR provides pricing information on the petrochemical and oil markets with reports published on more than 120 commodities. The Directors believe that ICIS CFR N. E. Asia Spot and Contract Prices for PX largely reflect the international market prices of PX in northeast Asia and the prices derived from the price formula reflect market prices of PX.

Taking into consideration the historical ICIS CFR N. E. Asia Spot and Contract Prices and the expected fluctuation of PX prices, the Directors are of the view that the prices of PX to be sold by the Company to Yizheng based on the pricing formula in the Agreement are unlikely to exceed RMB8,000 (equivalent to HK\$7,547) per tonne. This is equivalent to the average price calculated from the price formula in the Agreement based on the historical ICIS CFR N.E. Asia Spot and Contract Prices from January 2003 to September 2003, plus transport and other costs and a 35% allowance for upward price fluctuation. The 35% allowance for upward price fluctuation reflects the range of price fluctuation of PX during the nine months ended 30 September 2003. On the projection of this maximum price and the maximum sales volume

under the Agreement, the Company estimates that the amount of PX to be sold to Yizheng under the Agreement will not exceed RMB240 million (equivalent to HK\$226 million), RMB2.0 billion (equivalent to HK\$1,887 million) and RMB2.4 billion (equivalent to HK\$2,264 million) in 2003, 2004 and 2005, respectively, representing 1%, 9% and 11% of the consolidated turnover of the Group for the year ended 31 December 2002.

The estimated sales amount of RMB240 million for 2003 is based on the sales of 30,000 tonnes of PX under the Agreement and excludes 37,000 tonnes produced by the Company during trial processing and sold to Yizheng pursuant to the agreement entered into between the Company and Yizheng on 16 October 2003.

The Board (including the independent non-executive Directors) is of the view that the Ongoing Connected Transactions are entered into on normal commercial terms and the terms of the Agreement are fair and reasonable so far as the Shareholders as a whole are concerned.

## **WAIVER APPLICATION**

Yizheng is 42% held by Sinopec Corp., the holding company of the Company, and therefore is a connected person of the Company under Chapter 14 of the Listing Rules. The Agreement constitutes ongoing connected transactions for the Company under the Listing Rules. As the sales under the Agreement is expected to exceed 3% of the consolidated net tangible assets value of the Company as at 31 December 2002 and 30 June 2003, the Ongoing Connected Transactions are subject to the disclosure (by way of announcement) and the Independent Shareholders' approval requirements under Chapter 14 of the Listing Rules. Given the ongoing and recurring nature of the transactions under the Agreement, the Directors consider it impracticable and unduly burdensome for the Company to comply strictly with such disclosure and Independent Shareholders' approval requirements on each occasion a transaction arises.

Accordingly, the Company has applied to the Stock Exchange for a waiver from strict compliance with the disclosure and Independent Shareholders' approval requirements under the Listing Rules in respect of the Ongoing Connected Transactions for the three financial years ending 31 December 2005 subject to the following conditions:

1. the Ongoing Connected Transactions will be:
  - (i) entered into by the Group in the ordinary and usual course of its business;
  - (ii) conducted on normal commercial terms (which expression will be applied by reference to transactions of a similar nature and made by similar entities within the PRC) or (where there is no available comparison) on terms that are fair and reasonable so far as the Shareholders are concerned; and
  - (iii) entered into in accordance with the terms of the Agreement governing such Ongoing Connected Transactions
2. the aggregate amount of the sales under the Agreement for the year ending 31 December 2003 shall not exceed 2 per cent. of the consolidated turnover of the Group in 2002 and for each of the two years ending 31 December 2005 shall not exceed 13 per cent. of the consolidated turnover of the Group in the preceding year (the "Cap"). The Company has set the Cap as a percentage of the consolidated turnover of the Group, instead of absolute amounts, because of wide fluctuations in PX prices;

3. the independent non-executive Directors shall review the Ongoing Connected Transactions annually and confirm in the Company's corresponding annual report that the Ongoing Connected Transactions were conducted in the manner as stated in paragraphs 1 and 2 above;
4. the Company's auditors shall review the Ongoing Connected Transactions annually and shall confirm in a letter (the "Letter") to the Directors (a copy of which shall be provided to the Listing Division of the Stock Exchange) stating whether:
  - (i) the Ongoing Connected Transactions have received the approval of the Board;
  - (ii) the Ongoing Connected Transactions have been entered into in accordance with the Company's pricing policies as stated in the Company's financial statements;
  - (iii) the Ongoing Connected Transactions have been entered into in accordance with the terms of the Agreement; and
  - (iv) the Cap has not been exceeded.

Where for whatever reason, the auditors decline to accept the engagement or are unable to provide the Letter, the Directors shall notify the Listing Division of the Stock Exchange immediately.

5. details of the Ongoing Connected Transactions in each financial year shall be disclosed as required under the Rule 14.25(1)(A) to (D) of the Listing Rules in the annual report of the Company for that financial year together with a statement of the opinion of the independent non-executive Directors referred to in paragraphs 3 and 4 above; and
6. the Company shall undertake to the Stock Exchange that for so long as the shares of the Company are listed on the Stock Exchange, it will provide the auditors of the Company with sufficient access to its or its subsidiaries' relevant records as the auditors may consider necessary for the purpose of reviewing the Ongoing Connected Transactions.

The Waiver will expire on 31 December 2005. If the Cap is exceeded, or any of the terms of the Ongoing Connected Transactions as mentioned above are altered, or the Company enters into any new agreements for the sale of PX to any connected persons (as defined in the Listing Rules) in the future, the Company must comply with the provisions of Chapter 14 of the Listing Rules unless it applies for and obtains a separate waiver from the Stock Exchange.

## **GENERAL**

The Company is principally engaged in the production and sale of gasoline, kerosene, diesel, and other petrochemical (including PX). Yizheng and its subsidiaries are principally engaged in the production and sale of chemical fibre and chemical fibre raw materials.

Sinopec Corp. holds 1,800,000,000 State-owned legal person shares in the Company, representing 71.32% of the issued share capital of the Company. Sinopec Corp. also has a 42% interest in Yizheng. Accordingly, Yizheng is an associate (as defined in the Listing Rules) of a substantial shareholder of the Company and is therefore a connected person of the Company under the Listing Rules.

The Ongoing Connected Transactions and the Waiver Application including the Cap are subject to the approval of the Independent Shareholders at the EGM. The Independent Board Committee has been set up to advise the Independent Shareholders on the terms and conditions of the Agreement. The Company has appointed an independent financial adviser to the Independent Board Committee in this regard.

Ordinary resolutions to approve the Ongoing Connected Transactions and the Waiver Application including the Cap will be proposed at the Extraordinary General Meeting. **Sinopec Corp., being the controlling shareholder (as defined in the Listing Rules), and its associates (as defined under the Listing Rules) and any other connected persons (as defined under the Listing Rules) will abstain from voting in respect of the ordinary resolutions to be proposed at the EGM.**

The Agreement states that if any of the substantial shareholders of the Company and Yizheng becomes or is a connected person (as defined in the Listing Rules) of Sinopec Corp. or the terms of the Agreement have been changed, the Company and Yizheng will immediately notify Sinopec Corp.

A circular containing, inter alia, further information on the Ongoing Connected Transactions described herein, the recommendation of the Independent Board Committee, the advice of the independent financial adviser and a notice to convene the EGM will be dispatched to the Shareholders shortly. The notice of the EGM is also published in the newspapers on the same date of this announcement.

## **TERMS USED IN THIS ANNOUNCEMENT**

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“Agreement”	the conditional agreement dated 10 November 2003 and entered into between the Company and Yizheng in respect of the sale of PX by the Company after the trial processing period
“associates”	as defined under the Listing Rules
“Board”	the board of Directors
“Cap”	the maximum amount of PX to be sold to Yizheng as a percentage of the consolidated turnover of the Group, details of which are set out in the section headed “Waiver Application” in this announcement
“CFR”	Cost and freight (a trade term)
“Company”	Sinopec Zhenhai Refining & Chemical Company Limited (中國石化鎮海煉油化工股份有限公司), a joint stock limited company incorporated in the PRC whose H shares are listed on the Stock Exchange
“Directors”	director(s) of the Company, including independent non-executive directors

“EGM”	an extraordinary general meeting of the Company to be held to approve, inter alia, the Ongoing Connected Transactions
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“ICIS”	ICIS-LOR Group, an international organisation based in the United Kingdom which provides pricing information on the petrochemical and oil markets on a global basis. ICIS is a third party independent from the Company
“Independent Board Committee”	an independent committee of the Board comprising of four independent non-executive Directors
“Independent Shareholders”	shareholders of the Company excluding Sinopec Corp. and its associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“N.E. Asia”	northeast Asia
“Ongoing Connected Transactions”	the sale of PX by the Company to Yizheng pursuant to the Agreement
“PRC”	the People’s Republic of China
“PTA”	purified terephthalic acid
“PX”	paraxylene
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	the holder(s) of the Shares
“Shares”	share(s) of RMB1.00 each in the capital of the Company
“Sinopec Corp.”	China Petroleum & Chemical Corporation (中國石油化工股份有限公司), a joint stock limited company incorporated in the PRC whose H shares are listed on the Stock Exchange and listed A shares are traded on the Shanghai Stock Exchange
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	United States dollars, the lawful currency of the United States
“Waiver Application”	the application made to the Stock Exchange for a waiver from strict compliance with the Listing Rules in respect of the Ongoing Connected Transactions for the three years ending 31 December 2005.

“Yizheng”

Sinopec Yizheng Chemical Fibre Company Limited (中國石化儀征化纖股份有限公司), a joint stock limited company incorporated in the PRC whose H shares are listed on the Stock Exchange and listed A shares are traded on the Shanghai Stock Exchange

“%”

per cent

*Note:* Solely for convenience, this announcement contains translations of certain RMB amounts into HK\$ at the rate of RMB1.06 to HK\$1.00. It should not be construed that these translations are representations that RMB amounts could actually be converted into any HK\$ at the rates indicated or at all.

By Order of the Board  
**Su Dwen**  
*Company Secretary*

11 November 2003, Ningbo, the PRC



## NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the extraordinary general meeting of Sinopec Zhenhai Refining & Chemical Company Limited (the “Company”) will be held at the conference room on the 1st floor of Donghai Hotel at the Company’s premises at Zhenhai, Ningbo Municipality, Zhejiang Province, the People’s Republic of China on Saturday, 27 December 2003, at 10:30 am for the purpose of reviewing and, if appropriate, passing the resolutions set out below as ordinary resolutions:

1. To consider and approve the ongoing connected transactions pursuant to the sales agreement (“the agreement”) of paraxylene entered into between the Company and Yizheng and the transactions contemplated under the agreement, including the relevant waiver application and the cap set out thereunder;
2. To approve and authorise the executive directors of the Company, on behalf of the Company, sign and prepare all necessary documents and take all necessary actions in order to fulfil all the obligations contemplated under the agreement.

By Order of the Board  
**Su Dewen**  
*Company Secretary*

11 November 2003, Ningbo, the PRC

*Notes:*

1. Each shareholder entitled to attend and vote at the meeting mentioned above is entitled to appoint one or more proxies to attend and vote at the meeting on his/her behalf. A proxy need not be a shareholder of the Company. Shareholders or their proxies are entitled to one vote for each share held.
2. To be valid, the proxy form of a holder of H share of the Company together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority must be lodged at the Company’s share registrar, Hong Kong Registrars Limited, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, not less than 24 hours before the time for holding the meeting.
3. Shareholders or their proxies shall produce their identity documents when attending the meeting.
4. The register of members of the Company will be closed from Thursday, 27 November 2003 to Friday, 26 December 2003 (both days inclusive), during which period no transfer of shares will be effected.
5. Shareholders whose names appear in the register of members on Friday, 26 December 2003 are entitled to attend and vote at the meeting.
6. The Extraordinary General Meeting is not expected to take more than one day. The attending shareholders and proxies shall be responsible for their own travelling and accommodation expenses.
7. Holders of H share who intend to attend the meeting shall complete and lodge the reply slip and return the same to the Company or its Hong Kong share registrar on or before 6 December 2003. The reply slip may be delivered by hand, by post, or by fax at (86-574) 86456155/86446211.

Please also refer to the published version of this announcement in the South China Morning Post.