
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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 Sinopec Zhenhai Refining & Chemical Company Limited, you should at once hand this circular and the enclosed proxy form to the purchaser or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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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

Independent financial adviser to the Independent Board Committee



Goldbond Capital (Asia) Limited

A letter from the Independent Board Committee is set out on page 9 of this circular. A letter from Goldbond Capital to the Independent Board Committee is set out on pages 10 to 17 of this circular.

A notice convening an Extraordinary General Meeting of Sinopec Zhenhai Refining & Chemical Company Limited to be held at 10:30 a.m. on 27 December 2003 at 1st Floor of Donghai Hotel at the Company's premises at Zhenhai, Ningbo Municipality, Zhejiang Province, the People's Republic of China is set out on page 18 of this circular. A copy of the said notice together with the reply slip and proxy form have been despatched to you and are now enclosed again.

If you intend to attend the Extraordinary General Meeting, please complete and return the enclosed reply slip in accordance with the instructions printed thereon as soon as possible and in any event by 5:00 p.m. on 6 December 2003.

Whether or not you are able to attend the Extraordinary General Meeting, please complete and return the enclosed proxy form in accordance with the instructions printed thereon as soon as possible and in any event by 10:30 a.m. on 26 December 2003. Completion and delivery of the proxy form shall not preclude you from attending and voting at the Extraordinary General Meeting or any adjournment thereof should you so wish.

2 December 2003

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EXPECTED TIMETABLE

Deadline for returning the reply slips

for the Extraordinary General Meeting5:00 p.m. on 6 December 2003

Deadline for returning the proxy forms

for the Extraordinary General Meeting 10:30 a.m. on 26 December 2003

Extraordinary General Meeting 10:30 a.m. on 27 December 2003

DEFINITIONS

In this circular, unless the context requires otherwise, the following terms and expressions shall have the following meanings:—

“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 circular
“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
“Director(s)”	director(s) of the Company, including independent non-executive directors
“EGM” or “Extraordinary General Meeting”	an extraordinary general meeting of the Company to be held to approve, inter alia, the Ongoing Connected Transactions
“Goldbond Capital”	Goldbond Capital (Asia) Limited, appointed as the independent financial adviser to the Independent Board Committee
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“H Share(s)”	overseas listed foreign shares in the share capital of the Company, with a nominal value of RMB1.00 each, which are traded in Hong Kong dollars and listed on the Stock Exchange
“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 an independent third party not connected with the Company

DEFINITIONS

“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
“Latest Practicable Date”	28 November 2003, being the latest practicable date for ascertaining certain information contained herein
“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
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“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 (中国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
“Sinopec Group”	Sinopec and its subsidiaries
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supervisor(s)”	supervisor(s) of the Company

DEFINITIONS

“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

Unless otherwise specified, conversion of RMB into HK\$ is based on the exchange rate of HK\$1.00 = RMB1.06.

No representation is made that any amounts in RMB or HK\$ could have been or could be converted at the above rate or at any other rates or at all.

LETTER FROM THE CHAIRMAN



中國石化鎮海煉油化工有限公司 SINOPEC ZHENHAI REFINING & CHEMICAL COMPANY LIMITED

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

Executive Directors:—

Sun Weijun
Zhan Juping
Xu Liqiao
Sun Jianli
Zhao Jinxuan
Yu Renming

Registered Office:—

Zhenhai District
Ningbo Municipality
Zhejiang Province
The People's Republic of China
Postcode: 315207

Non-executive Directors:—

Wang Lisheng
Hu Weiqing

Independent Non-executive Directors:—

Sun Yongsen
Cen Kefa
Li Linghong
Qiu Yun

2 December 2003

To the Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION

INTRODUCTION

The Board has announced 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

LETTER FROM THE CHAIRMAN

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.

Yizheng is 42% held 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 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% of the consolidated turnover of the Group in 2002 and for each of the two years ending 31 December 2005 shall not exceed 13% of the consolidated turnover of the Group in the respective preceding year.

The purpose of this circular is to provide you with further information on the proposed connected transaction and to seek your approval of the Ongoing Connected Transactions and the transactions contemplated under the Agreement, including the Waiver Application and the Cap, by way of ordinary resolutions to be proposed at the EGM.

The Independent Board Committee has been set up to advise the Independent Shareholders on the terms of the Agreement. Goldbond Capital has been appointed as the independent financial adviser to the Independent Board Committee. The recommendation of the Independent Board Committee and the advice of Goldbond Capital are also included in this circular.

Notice of the Extraordinary General Meeting has been posted to the Independent Shareholders and is included in the circular. Ordinary resolutions to approve the Agreement will be proposed at the EGM.

Sinopec Corp. and its associates (as defined under the Listing Rules) will abstain from voting in respect of the ordinary resolutions to be proposed at the EGM.

LETTER FROM THE CHAIRMAN

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.

Year	Annual Amount
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.

LETTER FROM THE CHAIRMAN

- 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. Yizheng has the right not to make payment for products which do not comply with the quality standard. 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.

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.

REASONS FOR THE ONGOING CONNECTED TRANSACTIONS

The Company began to build the PX unit with a designed annual production capacity of 450,000 tonnes in 2002 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

LETTER FROM THE CHAIRMAN

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 raw material for the PX produced by the Company is naphtha, all of which is currently produced by the Company in its processing of crude oil.

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 in the ordinary and usual course of business 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

LETTER FROM THE CHAIRMAN

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 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% of the consolidated turnover of the Group in 2002 and for each of the two years ending 31 December 2005 shall not exceed 13% of the consolidated turnover of the Group in the preceding year. 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;

LETTER FROM THE CHAIRMAN

- (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, where applicable;
- (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 paragraph 3 above; and
- 6. the Company shall undertake to the Stock Exchange that for so long as the H Shares 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.

LETTER FROM THE CHAIRMAN

EGM

The Ongoing Connected Transactions and the transactions contemplated under the Agreement, including the Waiver Application and 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 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 transactions contemplated under the Agreement, including the Waiver Application and 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 in the Listing Rules) and any other connected persons (as defined in the Listing Rules) will abstain from voting in respect of the ordinary resolutions to be proposed at the EGM.**

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee which is set out on page 9 of this circular. The Independent Board Committee, having taken into account the advice of Goldbond Capital, considers that the terms of the Ongoing Connected Transactions and the transactions contemplated under the Agreement, including the Waiver Application and the Cap, are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of ordinary resolutions to be proposed at the EGM.

FURTHER INFORMATION

Your attention is also drawn to the additional information set out in the Appendix to this circular.

Yours faithfully,
By Order of the Board
Sun Weijun
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



中國石化鎮海煉油化工有限公司
SINOPEC ZHENHAI REFINING & CHEMICAL COMPANY LIMITED

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

2 December 2003

To the Independent Shareholders

Dear Sir or Madam,

We refer to the circular (the "Circular") dated 2 December 2003 despatched to the Shareholders of which this letter forms part. Unless the context requires otherwise, terms and expressions defined in the Circular shall have the same meanings in this letter.

We have been appointed to advise the Independent Shareholders on whether the terms of the Agreements are fair and reasonable so far as the Independent Shareholders are concerned. Goldbond Capital has been appointed to advise the Independent Board Committee in respect of the terms of the Ongoing Connected Transactions and the transactions contemplated under the Agreement, including the Waiver Application and the Cap.

We wish to draw your attention to the letter from the Chairman set out on pages 1 to 8 of the Circular and the letter from Goldbond Capital set out on pages 10 to 17 of the Circular.

Having considered the advice given by Goldbond Capital, we are of the opinion that the terms of the Ongoing Connected Transaction and the transactions contemplated under the Agreement, including the Waiver Application and the Cap, are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions at the EGM.

Yours faithfully,

For and on behalf of the Independent Board Committee

Sun Yongsen

Independent Non-executive Director

Cen Kefa

Independent Non-executive Director

Li Linghong

Independent Non-executive Director

Qiu Yun

Independent Non-executive Director

LETTER FROM GOLDBOND CAPITAL

Set out below is a letter from Goldbond Capital for the purpose of inclusion into this circular.



金榜融資(亞洲)有限公司
GOLDBOND CAPITAL (ASIA) LIMITED

39/F., Tower 1 Lippo Centre
89 Queensway
Hong Kong

2 December 2003

*To the Independent Board Committee of
Sinopec Zhenhai Refining & Chemical Company Limited*

Dear Sirs,

ONGOING CONNECTED TRANSACTIONS

Introduction

We refer to our engagement to advise the Independent Board Committee in respect of the terms of the Ongoing Connected Transactions, particulars of which are set out in a circular (the “Circular”) to the Shareholders dated 2 December 2003 and in which this letter is reproduced. Unless the context requires otherwise, terms used in this letter shall have the same meanings as given to them under the definitions section of the Circular.

The Board announced on 11 November 2003 that the Company entered into the Agreement on 10 November 2003 with Yizheng to sell PX until 2005. Yizheng is held as to 42 per cent. by Sinopec Corp., which is also the holding company of the Company, and is therefore an associate (as defined under the Listing Rules) of a substantial shareholder (as defined under the Listing Rules) of the Company. Pursuant to Chapter 14 of the Listing Rules, Yizheng is regarded as a connected person of the Company. Accordingly, the sales under the Agreement constitute ongoing connected transactions for the Company under the Listing Rules. In addition, pursuant to Chapter 14 of the Listing Rules, the Ongoing Connected Transactions are subject to the Shareholders’ approval. As such, an Extraordinary General Meeting 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., being the controlling shareholder (as defined under the Listing Rules) of the Company, and its associates (as defined under the Listing Rules) and any other connected person (as defined under the Listing Rules) will abstain from voting at the Extraordinary General Meeting in respect of the resolutions to approve the Ongoing Connected Transactions. The Circular containing, amongst other things, the information relating to the Ongoing Connected Transactions, the recommendation from the Independent Board Committee and this advice letter, are despatched to the Shareholders.

LETTER FROM GOLDBOND CAPITAL

Goldbond Capital is not connected with the Company, the Directors, Supervisors and substantial Shareholders of the Company or any of its subsidiaries or their respective associates, and therefore, is considered suitable to give independent advice to the Independent Board Committee. Apart from normal professional fees payable to Goldbond Capital in connection with this appointment, no arrangement exists whereby Goldbond Capital will receive any fees or benefits from the Company, the Directors, Supervisors and substantial Shareholders of the Company or any of its subsidiaries, or the associates of each of them.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular as provided by the Directors were true at the time they were made and continue to be true as at the date of the Circular. We have also relied on our discussion with the Directors regarding the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify relying on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Company, the Group, Yizheng, Sinopec Corp., and their respective associates nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the terms of the Ongoing Connected Transactions, we have considered the following principal factors and reasons:

(i) **Background of and reasons for the Ongoing Connected Transactions**

The Group is principally engaged in the production and sale of gasoline, kerosene, diesel, and other petrochemical (including PX). According to the Directors, the Group is one of the major suppliers of petroleum products in the PRC.

Sinopec Corp. is one of the largest petroleum and petrochemical companies, producers and distributors of gasoline, diesel, jet fuel and other major refined oil products in the PRC and Asia. Sinopec Corp. is the holding company of both the Company and Yizheng. According to the annual report of the Company and the annual report of Yizheng for the year ended 31 December 2002, the Group is one of the largest producers of petrochemical products and refinery in the PRC whilst Yizheng is one of the largest modernized manufacturing station of chemical fibre and chemical fibre raw materials in the PRC.

LETTER FROM GOLDBOND CAPITAL

PX is the 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. According to 2003年石化市場年度分析報告(2003 petrochemical market annual report) as compiled by 中國石化諮詢公司 (China Petrochemical Consulting Corporation), being a PRC research and consulting institution specialised in conducting research on petrochemical industry, the aggregate annual PTA production volume of the major PTA manufacturers (including Yizheng) in the PRC amounted to approximately 2.4 million tonnes in 2002. The research paper also points out that a number of existing PTA manufacturers target to enhance their PTA production capacity in the coming few years. As such, the Directors anticipate that the demand for PX will continue to increase in the upcoming few years. According to the same research paper, there were seven major PX manufacturers in the PRC in 2002 which together had an annual PX supply capacity of approximately 1.5 million tonnes, as compared to the actual consumption volume of PX in the PRC in 2002 of over 1.7 million tonnes. The resultant shortage of domestic supply of PX (amounting to over 200,000 tonnes) was entirely satisfied by the imports from overseas PX suppliers. We also note from the same research paper that the shortage of PX supply relative to PX demand in the PRC will continue to grow rapidly and reach up to a range of approximately 370,000 to 870,000 tonnes in 2005 (which are expected to be largely met by imports from overseas PX suppliers).

In light of the shortage of domestic PX supply in the PRC (relative to market demand as elaborated above), the Group had constructed a PX production unit with a designed annual production capacity of 450,000 tonnes in 2002. The trial processing of the PX production unit of the Group commenced in August 2003 and has ended in October 2003. Upon enquiry, we were advised of the historical background that the relevant construction was initiated by the Company and consented by 中國石化總公司 (China Petrochemical Corporation) and was duly approved by the PRC State Development Council in 1996. With a view to capturing the aforesaid business opportunity on PX in the PRC, we consider that there is a commercial rationale for the Group to open up a new PX production plant.

On 16 October 2003, the Board announced that the Company entered into an agreement to sell to Yizheng an amount of 37,000 tonnes PX produced by the Company during the trial processing. As the official and full-scale production of the Group's PX production unit is about to commence after optimizing its equipment and operating process in November 2003 with a view to improving the efficiency of the production of PX, we concur with the Directors' belief that the Ongoing Connected Transactions will enable the Group to secure a major customer for its new product PX, especially after taking into account that Yizheng is one of the largest PTA manufacturers in the PRC (and hence one of the largest PX consumers in the PRC). In this connection, the Ongoing Connected Transactions (which involve selling the Group's PX products to Yizheng) would help to enlarge the revenue base of the Group on a recurring basis. In addition, it is envisaged that the Ongoing Connected Transactions could better utilise the production capacity of the Group's PX production unit, thereby smoothing the Group's PX production at a stable and efficient pace.

(ii) Terms of the Ongoing Connected Transactions

Pursuant to the Agreement, the Company has agreed to sell to Yizheng and Yizheng has agreed to buy from the Company PX based on the pricing methodology as adopted by ICIS-LOR which provides pricing information on the petrochemical and oil markets with reports published on more than 120 commodities. ICIS-LOR price quotations are based on information gathered from a wide cross-section of the market, comprising consumers, producers, traders and distributors. Confirmed deals, verified by both buyer and seller, are sought to provide the foundation of price assessments in the course of ICIS-LOR price quotations.

The price for sales of PX 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 as issued by ICIS, with the addition of applicable taxations (such as import tariff rate of 4% at present and value-added tax rate of 17% at present) and application of exchange rate between RMB and US Dollar.

As advised by the Directors, although there is currently no unified pricing methodology yet for PX in the PRC market, ICIS-LOR price quotations are internationally recognized benchmark for the PX industry. We understand from the Directors that ICIS CFR N.E. Asia Spot Prices and Contract Prices for PX largely reflect the international market prices of PX around Northeastern Asia and hence is more relevant for the Group's pricing purpose. We concur with the Directors' view that the adoption of both Spot Prices and Contract Prices under the relevant pricing model can serve to gauge the price level of the Group's PX products on open, transparent and objective benchmarks for sale to Yizheng on an ongoing basis.

(iii) Cap amounts of the Ongoing Connected Transactions

The maximum amounts of PX to be sold to Yizheng for the three years ending 31 December 2005 (for 2003: 2% of the consolidated turnover of the Group of the preceding year; for 2004: 13% of the consolidated turnover of the Group of the preceding year; and for 2005: 13% of the consolidated turnover of the Group of the preceding year) are justified in the following paragraphs.

Under the Agreement, the Company has agreed to sell 30,000 tonnes of PX to Yizheng in 2003 which 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. At the end of each of 2003 and 2004, the Company will negotiate with Yizheng for the sales volume in 2004 and 2005 respectively, based on the Company's planned throughput volume of crude oil in 2004 and 2005 respectively. As mutually agreed between the Company and Yizheng, the sales volumes will not exceed 250,000 tonnes and 300,000 tonnes for 2004 and 2005 respectively. We were advised by the Directors that the determination of the estimated sales volume of PX

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were based upon internal production plan of the Company and the expected market demand. 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 the affiliates of Sinopec Corp., at the price as determined in accordance with the then market price from time to time.

With reference to the historical ICIS CFR N.E. Asia Spot Prices and Contract Prices for PX for the period from January 2003 to September 2003, which ranged from US\$464 per tonne to US\$845 per tonne and from US\$447.5 per tonne to US\$612.5 per tonne respectively, the Directors expect 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 Price and Contract Price from January 2003 to September 2003, plus (i) transportation and other costs and (ii) a 35 per cent. allowance for upward price fluctuation. Upon reviewing the historical pro forma selling prices of PX (as derived in accordance with the PX pricing formula set out in the Agreement) from January 2003 to September 2003, and having regard to the fact that the 35 per cent. allowance for upward price fluctuation actually approximates the market price volatility of PX during the recent nine months ended 30 September 2003 (being the percentage representing the difference between the highest monthly price and the lowest monthly price of PX as derived from the ICIS CFR N.E. Asia Spot Price and Contract Price from January 2003 to September 2003 divided by the lowest monthly derived price of PX), we consider that the expectation of the price ceiling for the sales of PX at RMB8,000 (equivalent to HK\$7,547) per tonne is fair and reasonable.

Based on the estimated sales volume and estimated selling price ceiling of PX as mentioned above, the Company anticipates that the value of PX to be sold to Yizheng under the Agreement will not exceed RMB240 million, RMB2.0 billion and RMB2.4 billion in 2003, 2004 and 2005 respectively, representing approximately 1 per cent., 9 per cent. and 11 per cent. of the consolidated turnover of the Group for the year ended 31 December 2002. Given the considerable price volatility of PX, the Company considers it more relevant to set the Cap as a percentage of the consolidated turnover of the Group, instead of absolute amounts. Having regard to (i) the PX pricing methodology of the Company; (ii) the agreed maximum sales volume of PX by the Company to Yizheng; (iii) the historical price volatility of PX; (iv) the basis of setting the Cap with reference to a relevant benchmarking parameter (instead of setting the Cap as absolute amounts); and (v) the fact that the Ongoing Connected Transactions are conditional upon, inter alia, annual review and re-approval as set out in the following paragraph headed “The Waiver Application and the conditions precedent” which is regarded as a mechanism to protect the interest of the Independent Shareholders, we consider that the Cap, which offer some flexibility (after taking into consideration of the PX price volatility

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from time to time), are justifiable for the purpose of accommodating the estimated sales volume of PX as agreed between the Company and Yizheng in the forthcoming years.

(iv) The Waiver Application and the conditions precedent

The transactions contemplated under the Agreement will constitute connected transactions under Chapter 14 of the Listing Rules and would be subject to the disclosure and shareholders' approval requirements under the Listing Rules. In the opinion of the Directors, the Ongoing Connected Transactions are entered into in the ordinary and usual course of business of the Group and on normal commercial terms. Given the ongoing and recurring nature of the Ongoing Connected Transactions, the Directors consider that strict compliance with the disclosure and shareholders' approval requirements in Chapter 14 of the Listing Rules would be impracticable and unduly burdensome, which would not be in the interests and benefit of the Company and the Shareholders as a whole. Application has been made to the Stock Exchange for a waiver from strict compliance with the disclosure and shareholder's approval as stipulated in Chapter 14 of the Listing Rules in connection with the Ongoing Connected Transactions for a period of three financial years ending 31 December 2005, subject to the following conditions:

- (1) the Ongoing Connected Transactions will be :
 - (a) entered into by the Group in the ordinary and usual course of its business;
 - (b) 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 Company and the Shareholders are concerned; and
 - (c) 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% 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 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;

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- (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:
- (a) the Ongoing Connected Transactions have received the approval of the Board;
 - (b) the Ongoing Connected Transactions have been entered into in accordance with the Company's pricing policies as stated in the Company's financial statements, where applicable;
 - (c) the Ongoing Connected Transactions have been entered into in accordance with the terms of the Agreement; and
 - (d) 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 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 paragraph 3 above; and
- (6) the Company shall undertake to the Stock Exchange that for so long as the H Shares 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 arrangements 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.

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Taking into account of the conditions precedent attached to the Ongoing Connected Transactions, in particular (i) the restriction by way of setting the Cap; and (ii) the ongoing review by the independent non-executive Directors and auditors of the Company on the terms of the Ongoing Connected Transactions, we consider that the Company has taken appropriate measures to govern the Company in carrying out the Ongoing Connected Transactions, thereby safeguarding the interests of the Shareholders thereunder.

RECOMMENDATION

Having considered the above factors, in particular, (i) the background of constructing a PX production unit and the reasons for carrying out the Ongoing Connected Transactions; (ii) the basis of determining the selling price of the Group's PX products; and (iii) the basis of setting the Cap, we consider that the terms of the Ongoing Connected Transactions and the transactions contemplated under the Agreement, including the Waiver Application and the Cap are fair and reasonable so far as the Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution in respect of the terms of the Ongoing Connected Transactions and the transactions contemplated under the Agreement, including the Waiver Application and the Cap, to be proposed at the Extraordinary General Meeting.

Yours faithfully,
For and on behalf of
Goldbond Capital (Asia) Limited
Alan Fung
Managing Director

NOTICE OF EXTRAORDINARY GENERAL MEETING



中國石化鎮海煉油化工有限公司 SINOPEC ZHENHAI REFINING & CHEMICAL COMPANY LIMITED

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

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 to, 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.

Responsibility Statement

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

Disclosure of Interests

(a) *Interests of Directors and Supervisors*

As at the Latest Practicable Date, neither the Directors nor the Supervisors of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or any interests and short positions recorded in the register required to be kept under section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

(b) *Interests of shareholders discloseable pursuant to the SFO*

Save as disclosed below, the Directors of the Company are not aware of any persons (other than a Director or Supervisor of the Company or his/her respective associate(s)) who, as at the Latest Practicable Date, had an interest or short position in the shares or underlying shares of the Company which was recorded in the register to be kept under section 336 of the SFO:

Name of Shareholder	Nature	Class of Shares	Capacity	Note	Number of shares/ underlying shares	% to entire issued capital	all issued H Shares
China Petrochemical Corporation	Long position	State-owned legal person shares	Corporate	<i>a</i>	1,800,000,000	71.32	N/A
BP p.l.c.	Long position	H Shares	Corporate	<i>b</i>	237,600,000	9.41	32.83
JP Morgan Chase & Co.	Long position	H Shares	Investment Manager/ Other	<i>c</i>	88,701,100	3.51	12.26
	Lending Pool	H Shares	Other	<i>c</i>	22,583,100	0.89	3.12
Cheah Cheng Hye	Long Position	H Shares	Individual	<i>d</i>	52,892,000	2.1	7.31

Notes:

- (a) China Petrochemical Corporation is the ultimate controlling shareholder of the Company, and is a State-authorised investment institution and a State-holding company. It has a 55.06 per cent equity interest in Sinopec Corp. which held the above 1,800,000,000 State-owned legal person shares in the Company.
- (b) ARCO Asia Pacific Investments Limited, which was a controlled corporation of BP p.l.c., had a direct holding in the above 237,600,000 H Shares.
- (c) The shares in which JP Morgan Chase & Co. was deemed to be interested were held via JF Asset Management Limited, J.P. Morgan Fleming Asset Management (UK) Limited, JP Morgan Chase Bank and J.P. Morgan Whitefriars Inc. respectively.
- (d) The shares in which Cheah Cheng Hye was deemed to be interested were held via Value Partners Limited of which 32.53 per cent equity interest was held by Cheah Cheng Hye.

(c) *Material Interests*

None of the Directors has any direct or indirect interest in any assets which have since 31 December 2002 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

None of the Directors, the Supervisors, general manager or other senior officers of the Company is materially interested in any contract or arrangement entered into by the Company subsisting at the date of this circular which is significant in relation to the business of the Group.

Service Contracts of the Directors and the Supervisors

Each of the Directors and the Supervisors has entered into a service contract with the Company for an initial term of 3 years commencing from 20 June 2003. No other service contracts exist or have been proposed between the Company or any of its subsidiaries and any of the Directors or Supervisors. None of the Directors or Supervisors has entered into any service contracts with the Company or any of its subsidiaries which may not be terminated by the employer within one year without payment other than statutory compensation.

Material Change

The Directors are not aware of any material adverse change in the financial or trading positions of the Group since 31 December 2002 (being the date to which the latest published audited financial statements of the Company were made up).

Litigation

The Company is not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors or the Company to be pending or threatened by or against the Company or any of its subsidiaries.

Expert

- (a) The following is the qualification of Goldbond Capital which has given its opinion or advice which is contained in this circular:

Name	Qualifications
Goldbond Capital	a licensed corporation under the transitional arrangement within the meaning of the SFO to carry out Type 1, 4, 6 and 9 regulated activities under the SFO

- (b) Goldbond Capital does not have any shareholding, direct or indirect, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (c) Goldbond Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they are included.
- (d) Goldbond Capital does not have any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2002, the date to which the latest published audited financial statements of the Company were made up.
- (e) The letter and recommendation given by Goldbond Capital are given as of the date of this circular for incorporation herein.

Miscellaneous

- (i) The company secretary of the Company is Su Dewen.
- (ii) The registered office and head office of the Company is Zhenhai District, Ningbo Municipality, Zhejiang Province, the PRC, Postcode: 315207.
- (iii) The place of business of the Company in Hong Kong is at 17th Floor, Prince's Building, 10 Chater Road, Central, Hong Kong.

- (iv) The share registrar of the Company is Hong Kong Registrars Limited, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

Documents Available for Inspection

Copies of the following documents are available for inspection at the offices of Johnson Stokes & Master at 16/F-19/F, Prince's Building, 10 Chater Road, Central, Hong Kong during normal business hours until 17 December 2003:—

- (i) the articles of association of the Company;
- (ii) the letter from the Independent Board Committee, the text of which is set out on page 9 of this circular;
- (iii) the letter from Goldbond Capital, the text of which is set out on pages 10 to 17 of this circular;
- (iv) the written consent of Goldbond Capital;
- (v) the existing service contracts with the Directors and the Supervisors, and
- (vi) the Agreement.