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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)

(Stock Code: 1128)

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS — SALE OF NAPHTHA

The Board announces that on 7 December 2004, the Company entered into the Agreement to sell naphtha to SECCO until 31 December 2007. The volume of naphtha to be sold in 2005 will be 900,000 tonnes plus or minus 5%, and in each of 2006 and 2007 will be 1,078,800 tonnes plus or minus 5%. The price of the naphtha will be determined in accordance with the pricing formula in the Agreement which is based on the international market prices published by Platts. The Directors expect that the sale amount of naphtha to be sold by the Company to SECCO under the Agreement will not exceed RMB5,500 million (HK\$5,189 million), RMB6,500 million (HK\$6,132million) and RMB6,500 million (HK\$6,132 million), respectively, for each of the three years ending 31 December 2007. The Agreement was entered into in the ordinary and usual course of business of the Company. An 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.

SECCO is held 30% by Sinopec Corp., 20% by SPC, and 50% by BP Chemicals. Sinopec Corp. is the holding company of the Company and SPC is a subsidiary of Sinopec Corp. SECCO is therefore an associate of a connected person of the Company under the Listing Rules. The sales under the Agreement constitute non-exempt Continuing Connected Transactions for the Company under the Listing Rules, and are subject to reporting, announcement, and the Independent Shareholders' approval requirements under the Listing Rules.

An EGM will be held for the purpose of, inter alia, obtaining the approval from the Independent Shareholders for the Continuing Connected Transactions including the Caps by way of poll. Sinopec Corp., BP p.l.c. and their respective associates will abstain from voting at the EGM in respect of the resolutions to approve the Continuing Connected Transactions.

PARTICULARS OF THE AGREEMENT

Key terms of the Agreement are set out below:

Date: 7 December 2004
Vendor: The Company
Purchaser: SECCO

Products to be sold: Naphtha. SECCO will provide forecasts of the purchase volume for each year, quarter and month with advanced notice. The actual sales volume to be sold each month will be determined by the Company and SECCO in the preceding month.

Year	Annual Amount					
2005	900,000	tonnes,	plus	or	minus	5%
	(ie: 855,000 tonnes to 945,000 tonnes)					
2006	1,078,800	tonnes,	plus	or	minus	5%
	(ie: 1,024,860 tonnes to 1,132,740 tonnes)					
2007	1,078,800	tonnes,	plus	or	minus	5%
	(ie: 1,024,860 tonnes to 1,132,740 tonnes)					

Conditions: The Agreement shall take effect upon (i) the approval by the board of SECCO; and (ii) the compliance of the Company with the relevant regulations and requirements (including shareholders' approval) of the Listing Rules.

Pricing: The price of naphtha will be determined according to a formula which is based on the average market prices of naphtha for the preceding month prior to the Company's issuance of invoices published by Platts, with the addition of applicable taxations (such as import tariff and value-added tax) and application of relevant foreign exchange rate. The Directors believe that the formulae price reflects the imported C&F prices of naphtha to Shanghai.

Delivery and payment: The Company will deliver the naphtha through its pipeline to SECCO's plant at Shanghai Chemical Industrial Zone in Shanghai. SECCO will pay a transportation fee of RMB70 per tonne of naphtha. The sale amounts and the transportation fees will be paid by SECCO to the Company within 15 days after the Company's issuance of invoices, which will be issued on 1st and 16th of each month.

Term: The Agreement will expire on 31 December 2007. Both parties may renew the agreement subject to the compliance of the Company with the relevant regulations and requirements (including shareholders' approval) of the Listing Rules in writing on or before September 2007.

REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS

The Company is principally engaged in the production and sale of gasoline, kerosene, diesel, and other petrochemical. Naphtha is one of the petrochemical products produced by the Company. For the year ended 31 December 2003 and six months ended 30 June 2004, the Company produced approximately 630,100 tonnes and 328,400 tonnes of naphtha respectively, and sold approximately 624,000 tonnes and 327,000 tonnes of naphtha. The Company's naphtha is currently sold to domestic PRC customers.

The Company currently has refining capacity of 16 million tonnes per year. It has commenced a project to gradually increase its refining capacity to 20 million tonnes per year by 2006. The Company's naphtha production is expected to increase as refining capacity increases.

SECCO is established in 2001 to engage in the production of ethylene and downstream petrochemical products. SECCO will commence operation of its ethylene production plant of 900,000 tonnes per year in Shanghai in early 2005. SECCO requires approximately 2,500,000 to 3,000,000 tonnes of naphtha each year for its operation.

The Agreement will enable the Company to secure a major customer for its naphtha and SECCO to secure its supply of naphtha. The Directors (save for members of the Independent Board Committee whose recommendations will be contained in a circular to be dispatched to the shareholders shortly) believe that the terms of the Agreement are fair and reasonable and in the interests of the Shareholders as a whole.

The prices for the sale of naphtha will be determined according to the price formula determined by the Company and SECCO as set out in the Agreement. The price formula is based on the average prices of naphtha for the preceding month prior to the Company's issuance of invoices published by Platts, an energy information provider. The Directors believe that the formulae prices reflect the imported C&F prices of naphtha to Shanghai.

BASIS OF THE CAPS

The Directors propose the Caps of RMB5,500 million, RMB6,500 million and RMB6,500 million in 2005, 2006 and 2007, respectively. The Caps are based on the following assumptions of the Company's sales volume and selling price of naphtha to SECCO.

Year	Maximum Sales Volume <i>(tonnes)</i> <i>(Note 1)</i>	Selling Price <i>(US\$ per barrel)</i> <i>(Note 2)</i>	Maximum Sales Amount <i>(RMB million)</i> <i>(Note 3)</i>
2005	945,000	65	5,422
2006	1,132,740	65	6,499
2007	1,132,740	65	6,499

Note 1: The maximum and minimum sales volume are the agreed amounts by both parties set out in the agreement. Maximum sales volume are: 945,000 tonnes in 2005, 1,132,740 tonnes in 2006 and 1,132,740 tonnes in 2007. Minimum sales volume are: 855,000 tonnes in 2005, 1,024,860 tonnes in 2006 and 1,024,860 tonnes in 2007.

Note 2: 1 tonne = 9 barrels
Assume US\$1 = RMB8.28

Note 3: Sales volume in tonnes x [US\$65 per barrel x 8.28 x 9 x (1 + value added tax) + RMB70 per tonne]. Value added tax is currently 17%.

Naphtha prices are closely correlated with crude oil prices. As crude oil prices fluctuate, so do naphtha prices. For the period from 1 January 2004 to 30 November 2004, the lowest and the highest naphtha prices were US\$31.83 per barrel and US\$51.3 per barrel respectively. For the same period, the lowest and the highest WTI crude oil prices were US\$32.41 per barrel and US\$56.42 per barrel respectively. Naphtha prices increased 34% from US\$36.98 per barrel on 1 January 2004 to US\$49.58 per barrel on 30 November 2004. In calculating the Caps, the Directors assumed the naphtha price of US\$65 per barrel for each of the three years ending 31 December 2007. This assumption takes into consideration the historical wide fluctuation of naphtha prices, and the increase of approximately 34% in naphtha prices from January 2004 to November 2004.

LISTING RULES IMPLICATIONS

SECCO is held 30% by Sinopec Corp., 20% by SPC, and 50% by BP Chemicals. Sinopec Corp. is the holding company of the Company and SPC is a subsidiary of Sinopec Corp. SECCO is therefore an associate of a connected person of the Company under the Listing Rules. As the amount of the Continuing Connected Transactions exceeds HK\$10 million and the relevant applicable ratios under Rule 14.07 of the Listing Rules exceed 2.5%, the sales under the Agreement constitute non-exempt Continuing Connected Transactions for the Company under the Listing Rules, and are subject to reporting, announcement, and the Independent Shareholders' approval requirements under the Listing Rules.

The Company will therefore seek the approval by the Independent Shareholders by poll of the Continuing Connected Transactions including the Caps for the three financial years ending 31 December 2007 subject to the following conditions:

- (1) The Continuing Connected Transactions will be:
 - (i) entered into by the Company in the ordinary and usual course of its business;
 - (ii) conducted on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available from independent third parties; and
 - (iii) entered into in accordance with the terms of the Agreement governing such Continuing Connected Transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole;
- (2) The aggregate amount of the sale under the Agreement for the three years ending 31 December 2007 shall not exceed RMB5,500 million, RMB6,500 million and RMB6,500 million, respectively (each being the "Cap");
- (3) The Company will comply with all other relevant requirements under the Listing Rules.

GENERAL

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., as a controller of the Company, is a connected person of the Company. BP p.l.c., holds 237,600,000 H shares of the Company, representing 9.41% of the issued share capital of the Company. Both Sinopec Corp. and BP p.l.c. have material interests in the Continuing Connected Transactions as they hold equity interests in SECCO.

The Continuing Connected Transactions including the Caps are subject to the approval of the Independent Shareholders at the EGM by way of poll. An 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 Agreement, the Continuing Connected Transactions and the Cap will be proposed at the EGM. **Sinopec Corp., BP p.l.c. and their associates 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.**

A circular containing, inter alia, further information on the Continuing 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.

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 7 December 2004 and entered into between the Company and SECCO in respect of the sale of naphtha by the Company.
“associates”	as defined under the Listing Rules
“BP Chemicals”	BP Chemicals Eastern China Investments Limited, an indirect wholly-owned subsidiary of BP p.l.c., and incorporated in the United Kingdom.
“Board”	the board of Directors
“Caps”	the maximum amount of naphtha to be sold to SECCO for the three years ending 31 December 2007, details of which are set out in the section headed “Listing Rules Implications” in this announcement
“C&F”	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
“Continuing Connected Transactions”	the sale of naphtha by the Company to SECCO pursuant to the Agreement
“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 Continuing Connected Transactions
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	an independent committee of the Board comprising four independent non-executive directors
“Independent Shareholders”	shareholders of the Company excluding Sinopec Corp. and BP p.l.c. and their associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China

“naphtha”	naphtha for the production of ethylene
“RMB”	Renminbi, the lawful currency of the PRC
“SECCO”	SECCO Chemical Fibre Company Limited (上海賽科石油化工有限公司), a limited liability company incorporated in Shanghai, 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
“SPC”	Sinopec Shanghai Petrochemical Company Limited (中國石化上海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 dollar
“%”	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 Dewen
Company Secretary

7 December 2004, Ningbo, the PRC

As at the date of this announcement, the executive directors of the Company are Mr. Sun Weijun, Mr. Zhan Juping, Mr. Xu Liqiao, Mr. Sun Jianli, Mr. Zhao Jinxuan and Mr. Yu Renming; the non-executive directors of the Company are Ms. Wang Lisheng and Mr. Hu Weiqing; and the independent non-executive directors of the Company are Mr. Sun Yongsun, Mr. Cen Kefa, Mr. Li Linghong and Ms. Qiu Yun.

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