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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 the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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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)

(Stock Code: 1128)

**NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS
SALE OF NAPHTHA**

Independent financial adviser to the Independent Board Committee and Independent Shareholders



博大資本國際有限公司

Partners Capital International Limited

A letter from the Independent Board Committee is set out on page 10 of this circular. A letter from Partners Capital to the Independent Board Committee and Independent Shareholders is set out on pages 11 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 18 February 2005 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 to 19 of this circular.

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 28 January 2005.

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 17 February 2005. 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.

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EXPECTED TIMETABLE

Deadline for returning the reply slips
for the Extraordinary General Meeting 5:00 p.m. on 28 January 2005

Deadline for returning the proxy forms
for the Extraordinary General Meeting 10:30 a.m. on 17 February 2005

Extraordinary General Meeting 10:30 a.m. on 18 February 2005

DEFINITIONS

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

“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. BP p.l.c. is an oil, gas and petrochemicals company
“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 circular
“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” or “Extraordinary General Meeting”	an extraordinary general meeting of the Company to be held to approve, inter alia, the Continuing Connected Transactions
“Group”	The Company and its subsidiaries
“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
“Latest Practicable Date”	20 December 2004, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“Partners Capital”	Partners Capital International Limited, a licensed corporation to carry out types 1 and 6 regulated activities under the SFO
“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 (上海赛科石油化工有限公司), a limited liability company incorporated in Shanghai, 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
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SPC”	Sinopec Shanghai Petrochemical Company Limited (中國石化上海石油化工有限公司), 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, the lawful currency of the United States
“%”	per cent

Note: Solely for convenience, this circular 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.



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)

(Stock Code: 1128)

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

24 December 2004

To the Shareholders

Dear Sir or Madam,

**NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS
SALE OF NAPHTHA**

INTRODUCTION

The Board announced 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 million¹), RMB6,500 million (HK\$6,132 million¹) and RMB6,500 million (HK\$6,132 million¹), 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

¹ The Caps are determined in RMB. The equivalent HK\$ amounts are presented solely for convenience.

LETTER FROM THE CHAIRMAN

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 and Independent Shareholders 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.

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

The purpose of this circular is (i) to provide you with further information on the Continuing Connected Transactions; (ii) to set out the opinions and recommendations of the Independent Board Committee and Partners Capital in relation to the entering into of the Continuing Connected Transactions; and (iii) to give you notice of the EGM at which the resolutions set out therein will be proposed. An EGM will be held on 18 February 2005 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.

Notice of the Extraordinary General Meeting is set out on pages 18 to 19 in the circular.

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)

LETTER FROM THE CHAIRMAN

- 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 formula 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 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 obtain its supply of naphtha. The Directors (including members of the Independent Board Committee whose letter of recommendations is set out on page 10 of this circular) believe that the terms of the Agreement are fair and reasonable and in the interests of the Shareholders as a whole.

LETTER FROM THE CHAIRMAN

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, with the addition of applicable taxations (such as import tariff and value-added tax) and application of relevant foreign exchange rate. Platts is the region's longest running oil daily report, an energy information provider. The Directors believe that the formula 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 Sino 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

LETTER FROM THE CHAIRMAN

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 to or from (as appropriate) 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 Partners Capital as the independent financial adviser to the Independent Board Committee and Independent Shareholders in this regard.

Ordinary resolutions to approve the Agreement, the Continuing Connected Transactions and the Caps 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.**

The procedures for demanding a poll are set out in Appendix II to this circular. The Company will announce the results of the poll in accordance with the Listing Rules following the EGM.

LETTER FROM THE CHAIRMAN

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee which is set out on page 10 of this circular. The Independent Board Committee, having taken into account the advice of Partners Capital, considers that the terms of the Continuing Connected Transactions, including the Caps, are fair and reasonable and the Continuing Connected Transactions, including the Caps, are in the interests of the Company and the Shareholders as a whole. 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 Appendices to this circular.

Yours faithfully,
By Order of the Board
Sun Weijun
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)

(Stock Code: 1128)

24 December 2004

To the Independent Shareholders

Dear Sir or Madam,

We refer to the circular (the “Circular”) dated 24 December 2004 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 Continuing Connected Transactions including the Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Partners Capital has been appointed to advise the Independent Board Committee and Independent Shareholders in respect of the terms of the Continuing Connected Transactions including the Caps.

We wish to draw your attention to the letter from the Chairman set out on pages 4 to 9 of the Circular and the letter from Partners Capital set out on pages 11 to 17 of the Circular.

Having considered the advice given by Partners Capital, we are of the opinion that the terms of the Agreement and the Continuing Connected Transactions (including the Caps) are fair and reasonable, and the Continuing Connected Transactions including the Caps are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed 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 PARTNERS CAPITAL

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



博大資本國際有限公司

Partners Capital International Limited

Partners Capital International Limited
Room 1305, 13th Floor
9 Queen's Road Central
Hong Kong

24 December 2004

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

Dear Sirs,

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS SALE OF NAPHTHA

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and Independent Shareholders in respect of the terms of the Agreement and the Continuing Connected Transactions (including the Caps), particulars of which are set out in a circular (the "Circular") to the Shareholders dated 24 December 2004 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.

As set out in the announcement of the Company dated 7 December 2004 (the "Announcement"), the Company entered into the Agreement to sell naphtha to SECCO until 31 December 2007. SECCO is held as to 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. As such, an EGM will be held for the purpose of obtaining the approval from the Independent Shareholders for the Agreement, the Continuing Connected Transactions and the Caps by way of poll. 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.

The Circular containing, amongst other things, the information relating to Continuing Connected Transactions, the recommendation from the Independent Board Committee and this advice letter, are despatched to the Shareholders.

Partners Capital International Limited is not connected with the directors, chief executive and substantial shareholders of the Company or any of their subsidiaries or their respective associates and therefore is considered suitable to give independent advice to the Independent Board Committee and Independent Shareholders. Apart from normal professional fees payable to us in connection with

LETTER FROM PARTNERS CAPITAL

this appointment, no arrangement exists whereby Partners Capital International Limited will receive any fees or benefits from the Company, the directors, chief executive or substantial shareholders of the Company or any of their subsidiaries or their respective associates.

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, Sinopec Corp., SECCO 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 Agreement and the Continuing Connected Transactions (including the Caps), we have considered the following principal factors and reasons:

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

The Company is principally engaged in the production and sale of gasoline, kerosene, diesel, and other petrochemical. According to the annual reports of the Company, we note that naphtha is one of the petrochemical products produced by the Company.

We understand from the management of the Company that the Company's naphtha is currently sold to domestic PRC customers. As set out in the letter from the Board contained in the Circular (the "Letter from the Board"), the volume of naphtha produced and sold by the Company are summarized as follows:

	For the year ended 31 December 2003 (tonnes)	For the six months ended 30 June 2004 (tonnes)
Naphtha produced by the Company	630,100	328,400
Naphtha sold by the Company	624,000	327,000

Given that the Company has a historical track record of producing and selling naphtha as one of its existing product line, we envisage the sale of naphtha to SECCO pursuant to the Agreement shall represent a natural step to broaden the customer base of the Company.

As set out in the Letter from the Board, the Company has commenced a project to increase its refining capacity to 20 million tonnes per year. Upon the completion of the project in 2006, the Company's naphtha production is expected to increase significantly. Taking into account of the

anticipated increase in the refining capacity of the Company which is able to result in additional outputs in naphtha along the whole spectrum of the Company's petroleum production line, we understand that the sale of naphtha to SECCO pursuant to the Agreement from 2005 to 2007 is in line with the Company's plan to expand its production capacity.

Upon further discussion with the management of the Company, we note that the total estimated production capacity of the Company's naphtha in 2005, 2006 and 2007 is not less than 945,000 tonnes, 1,132,740 tonnes and 1,132,740 tonnes per annum. We understand that the Continuing Connected Transactions may serve to smoothen the Company's naphtha production at a stable and efficient pace, thereby better utilising the new and additional refining capacity of the Company. It is also envisaged that the Continuing Connected Transactions may help to share the overhead burden of the Company's overall production and enlarge the revenue base of the Company on a recurring basis.

As set out in the Letter from the Board, 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 in Shanghai in early 2005. SECCO requires approximately 2,500,000 to 3,000,000 tonnes of naphtha each year for its operation. Pursuant to the Agreement, the volume of naphtha to be sold by the Company to SECCO in 2005 will be 900,000 tonnes, and in each of 2006 and 2007 will be 1,078,800 tonnes plus or minus 5%. In view of the volume of naphtha as required by SECCO pursuant to the Agreement, we concur with the Directors that the Agreement will enable the Company to secure a major customer for its naphtha.

(ii) *Key terms of the Continuing Connected Transactions*

• *Pricing*

The price of naphtha to be sold by the Company to SECCO will be determined according to a formula which is based on the average 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 formula price reflects the imported C&F prices of naphtha to Shanghai.

Based on our research, we note that Platts is a large energy information provider based in the United States, specializing in news, prices, data, analysis, analytical tools, geospatial systems, research and consultancy for the complete spectrum of the energy industry for more than three-quarters of a century.

As advised by the management of the Company, the price of naphtha as published by Platts serves to represent an internationally recognised benchmark for the naphtha industry. We further understand from the management of the Company that the price of naphtha as published by Platts largely reflects the international market price of naphtha around Asia Pacific region.

On the above basis, we consider that the adoption of the price of naphtha as published by Platts under the relevant pricing formula can serve to gauge the price level of the Company's naphtha on open, transparent and objective benchmark for sale to SECCO under the Continuing Connected Transactions.

LETTER FROM PARTNERS CAPITAL

Upon further enquiry, we are confirmed by the Company that based on the prevailing price level of naphtha as published by Platts, the pricing of the Company's naphtha offered to SECCO is (from the perspective of the Company as supplier) not less favourable than that offered by the Company to other third party customers of the Company.

- ***Delivery and payment***

The Company will deliver 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. Upon enquiry, we are confirmed by the Company that no transportation fee is charged by the Company to other third party customers of the Company as the present sales of naphtha to other third party customers of the Company has been conducted on FOB basis instead of C&F basis.

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. Upon enquiry, we are confirmed by the Company that such frequency of payment offered to SECCO is common for the Company's sales of other petroleum products.

- ***Limits of the Continuing Connected Transactions***

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 (tonnes)	Selling Price (US\$ per barrel)	Maximum Sales Amount (RMB million) (Note)
2005	945,000	65	5,422
2006	1,132,740	65	6,499
2007	1,132,740	65	6,499

Note: 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%.

- ***Maximum sales volume***

Pursuant to the Agreement, the Company agreed to sell to SECCO such volume of naphtha as summarized below:

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)

As set out in the Letter from the Board, 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.

Upon discussion with the management of the Company, we understand that the maximum volume of naphtha for sale to SECCO from 2005 to 2007 were determined with reference to (i) the expected demand from SECCO and (ii) the internal production plan and production capacity of the Company. We further understand that the expected demand from SECCO stems from the expected commencement of operation of SECCO's ethylene production plant in Shanghai in early 2005, pursuant to which SECCO shall require approximately 2,500,000 to 3,000,000 tonnes of naphtha each year for its operation. We also note that the total estimated production capacity of the Company's naphtha in 2005, 2006 and 2007 is not less than 945,000 tonnes, 1,132,740 tonnes and 1,132,740 tonnes per annum. On the above basis, we consider that there is a concrete basis in arriving at the volume of naphtha for sale by the Company to SECCO for the purpose of determining the Caps.

- ***Selling price adopted under the Caps***

As set out in the Letter from the Board, naphtha prices (as published by Platts) increased 34% from US\$36.98 per barrel on 1 January 2004 to US\$49.58 per barrel on 30 November 2004. For the same period from 1 January 2004 to 30 November 2004, the lowest and the highest naphtha prices (as published by Platts) were US\$31.83 per barrel and US\$51.3 per barrel. 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.

In arriving at the selling price ceiling of naphtha of US\$65 per barrel for the purpose of determining the Caps, we consider that the Directors has adopted a prudent approach to build in an allowance for upward price fluctuation (which approximates the historical market price volatility of naphtha of 34% during the recent period from 1 January 2004 to 30 November 2004) on top of the recent price level of naphtha of US\$49.58 per barrel on 30 November 2004.

- ***Maximum sales amount***

Based on the maximum volume of naphtha for sale to SECCO and the selling price of naphtha of US\$65 per barrel as adopted under the Caps, the Company anticipates that maximum sales amount of naphtha to be sold to SECCO under the Agreement will not exceed RMB5,500 million, RMB6,500 million and RMB6,500 million for each of the three years ending 31 December 2007 respectively, representing approximately 19%, 22% and 22% of the consolidated turnover of the Company for the year ended 31 December 2003.

Having regard to

- (i) the basis of determining the maximum sales volume of naphtha with reference to (a) the expected demand from SECCO and (b) the internal production plan and production capacity of the Company;
- (ii) the fact that the maximum sales volume of naphtha has been explicitly agreed and governed under the Agreement;
- (iii) the basis of determining the selling price ceiling of naphtha of US\$65 per barrel with reference to an objective historical market price volatility of naphtha; and
- (iv) the fact that the Continuing Connected Transactions are subject to certain conditions as set out in the following paragraph headed “The conditions” which is regarded as a mechanism to protect the interest of the Independent Shareholders,

we consider that the Caps, which offer some flexibility after allowing for market price volatility of naphtha, are acceptable for the purpose of accommodating the sales amount of naphtha under the Continuing Connected Transactions.

(iii) *The conditions*

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 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 to or from (as appropriate) independent third parties; and

LETTER FROM PARTNERS CAPITAL

- (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; and
- (3) The Company will comply with all other relevant requirements under the Listing Rules.

Taking into account of the conditions attached to the Continuing Connected Transactions, in particular (i) the restriction by way of setting the Caps; and (ii) the compliance with all other relevant requirements under the Listing Rules (which include the annual review and/or confirmation by the independent non-executive Directors and auditors of the Company on the actual execution of the Continuing Connected Transactions), we consider that the Company has taken appropriate measures to govern the Company in carrying out the Continuing Connected Transactions, thereby safeguarding the interests of the Shareholders thereunder. In particular, we note that the Continuing Connected Transactions are conditional upon being carried out by the Company in the ordinary and usual course of its business, on normal commercial terms, and in the interests of the Shareholders of the Company as a whole.

RECOMMENDATION

Having considered the above factors, in particular,

- (i) the background of and the reasons for carrying out the Continuing Connected Transactions;
- (ii) the determination of the selling price level of the Company's naphtha product on the basis of data published by an independent energy information provider;
- (iii) the basis of setting the Caps; and
- (iv) that the Continuing Connected Transactions are conditional upon being carried out by the Company in the ordinary and usual course of its business, on normal commercial terms, and in the interests of the Shareholders of the Company as a whole,

we consider that the terms of the Agreement and the Continuing Connected Transactions (including the Caps) are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions approving the Agreement and the Continuing Connected Transactions (including the Caps) to be proposed at the Extraordinary General Meeting.

Yours faithfully,
For and on behalf of
Partners Capital International Limited
Alan Fung **Harry Yu**
Managing Director *Director*



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)

(Stock Code: 1128)

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 18 February 2005 (Friday), at 10:30 a.m. for the purpose of reviewing and, if appropriate, passing the resolutions set out below as ordinary resolutions:

1. To consider and approve the sales agreement of naphtha entered into between the Company and SECCO Chemical Fibre Company Limited (“the Agreement”) and the Continuing Connected Transactions, including the relevant Caps;
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

24 December 2004, Ningbo, the PRC

Notes:

1. Eligibility for attending the extraordinary general meeting

Shareholders of the Company whose names appear on the register of members kept at Hong Kong Registrars Limited at the close of business on 28 January 2005 (Friday) are eligible to attend and vote at the extraordinary general meeting. Shareholder or his proxy is entitled to cast one vote for each share held.

In order to be eligible to attend and vote at the extraordinary general meeting of the Company to be held on 18 February 2005 (Friday), all transfers together with the relevant share certificates must be delivered to the Company’s H share registrar in Hong Kong — Hong Kong Registrars Limited, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, not later than 4:00 p.m. on 19 January 2005 (Wednesday).

NOTICE OF EXTRAORDINARY GENERAL MEETING

2. Proxy

- (1) A shareholder eligible to attend and vote at the extraordinary general meeting is entitled to appoint one or more proxies in writing to attend and vote at the extraordinary general meeting on his behalf. A proxy need not be a shareholder of the Company.
- (2) A shareholder should appoint his proxy in writing. The proxy form must be signed by the shareholder or the proxy authorized in writing, or if the proxy form is signed by another person authorized by the shareholder, any authorization documents of such an appointment must be notarized.
- (3) The proxy form of H share's shareholder together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority must be lodged at the Company's share registrar in Hong Kong not less than 24 hours before the time for holding the meeting to be valid.
- (4) A proxy may exercise the right to vote by raising his hand or by poll. However, if more than one proxies are appointed by a shareholder, such proxies shall only exercise the right to vote by poll.

3. Registration procedures for attending the extraordinary general meeting

- (1) A shareholder or his proxy shall produce proof of identity when attending the meeting.
- (2) Holders of H shares 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 28 January 2005 (Friday).
- (3) The reply slip may be delivered by hand, by post, or by fax.

4. Registration of share transfers

The register of members of the Company will be closed from 20 January 2005 (Thursday) to 18 February 2005 (Friday) (both days inclusive).

5. Vote on resolutions by way of polling

The resolutions of the extraordinary general meeting to be held on 18 February 2005 (Friday) will be passed by way of polling. For details of the procedures for demanding a poll, please refer to Appendix II to the circular of the Company dated 24 December 2004 (Friday).

6. Other businesses

- (1) It is expected that the extraordinary general meeting will not last for more than one day. Shareholders who attend shall bear their own travelling and accommodation expenses.
- (2) The fax number of the Company is (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 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 a notifiable interest 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
Sinopec Corp.	Long position	State-owned legal person shares	Corporate	a	1,800,000,000	71.32	N/A
BP p.l.c.	Long position	H Shares	Corporate	b	237,600,000	9.41	32.83
JP Morgan Chase & Co.	Long position	H Shares	Beneficial Owner/ Investment Manager/ Custodian	c	67,219,000	2.66	9.29
	Lending Pool	H Shares	N/A	c	12,439,000	0.49	1.72
FMR Corp	Long position	H Shares	Investment Manager		44,126,000	1.75	6.10

Notes:

- (a) Sinopec Corp held the above 1,800,000,000 State-owned legal person shares in the Company. 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% equity interest in Sinopec Corp.

- (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, JP Morgan Chase Bank, N.A., JF International Management Inc. and J.P. Morgan Whitefriars Inc. respectively.

(c) Material Interests

None of the Directors has any direct or indirect interest in any assets which have since 31 December 2003 (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 2003 (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 Partners Capital which has given its opinion or advice which is contained in this circular:

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

- (b) Partners 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) Partners 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) Partners 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 2003, the date to which the latest published audited financial statements of the Company were made up.
- (e) The letter and recommendation given by Partners 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 12 January 2005:

- (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 10 of this circular;
- (iii) the letter from Partners Capital, the text of which is set out on page 11 to 17 of this circular;
- (iv) the written consent of Partners Capital;
- (v) the existing service contracts with the Directors and the supervisors; and
- (vi) the Agreement.

According to the Articles of Association of the Company, a poll may be demanded by:

- (1) the chairman of the meeting;
- (2) at least two qualified shareholders or two proxies of qualified shareholders;
- (3) one or more qualified shareholders (including proxies), individually or in aggregate, representing 10% or more of all the voting shares at the meeting.

Unless a poll is requested, a declaration shall be made by the chairman of the meeting that a resolution has been passed by a show of hands. The request for a poll may be withdrawn by the person who requests the same.