

*The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



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)**

*Financial adviser to ZGCC*

**LEHMAN BROTHERS**

*Independent financial adviser to the Independent Board Committee of ZGCC*



**ANNOUNCEMENT**

The Independent Financial Adviser has confirmed that the one-off governmental compensation would not affect its recommendations as set out under the section headed “Letter from Rothschild” in the composite document dated 28 November 2005 in respect of the fairness and reasonableness of the Proposal and Merger Agreement so far as the Independent ZGCC Shareholders are concerned.

Reference is made to (i) the composite document of Sinopec Zhenhai Refining & Chemical Company Limited (“**ZGCC**” or the “**Company**”) dated 28 November 2005 (the “Composite Document”) regarding the proposed privatisation of the Company by Sinopec Corp. through Ningbo Yonglian by way of merger by absorption of the Company under Article 184 of the PRC Company Law at a cancellation price of HK\$10.60 per ZGCC H Share and amendment of ZGCC’s Articles of Association, and (ii) the announcement of the Company dated 27 December 2005 regarding the one-off governmental compensation of RMB1.12 billion received by ZGCC (the “**Announcement**”). Capitalised terms used in this announcement shall have the same meanings as defined in the Composite Document unless the context herein requires otherwise.

ZGCC received the payment of RMB1.12 billion as an one-off governmental compensation on 27 December 2005. The payment would be treated as extraordinary income and recorded in the total profits (profit before tax) of the Company for the 2005 fiscal year and is subject to enterprise income tax at a rate of 33%.

Rothschild, the independent financial adviser to the Independent Board Committee, has confirmed that the one-off governmental compensation as detailed in the Announcement would not affect its recommendations as set out under the section headed “Letter from Rothschild” in the Composite Document, namely (i) the terms of the Proposal and the Merger

Agreement are fair and reasonable so far as the Independent ZRCC Shareholders are concerned; and (ii) its advice to the Independent Board Committee to recommend the Independent ZRCC Shareholders to vote in favour of the Proposal and the resolution in relation to the Proposal at the Special General Meetings, would remain unchanged. The full text of the letter from Rothschild to the Independent Board Committee prepared for inclusion in this announcement is set out below.

The Special General Meetings will be held on 12 January 2006 as scheduled, the details of which are set out in the notices of the Special General Meetings dated 28 November 2005.

*The ZRCC Directors jointly and severally accept full responsibility for the accuracy of the information contained in this announcement and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statement in this announcement misleading.*

*As at the date of this announcement, the Executive Directors of the Company are Mr. Sun Weijun (Chairman), Mr. Zhan Juping (Deputy Chairman), Mr. Xu Liqiao, Mr. Sun Jianli 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 Yongsan, Mr. Cen Kefa, Mr. Li Linghong and Ms. Qiu Yun.*

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

30 December 2005, Ningbo, PRC

*Set out below is the full text of the letter from Rothschild to the Independent Board Committee prepared for inclusion in this announcement.*



30 December 2005

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

Dear Sirs,

**Proposed privatisation of  
Sinopec Zhenhai Refining & Chemical Company Limited  
("ZRCC" or the "Company")  
through Ningbo Yonglian Petrochemical Co., Ltd  
by way of merger by absorption of ZRCC  
under Article 184 of the PRC Company Law  
at the Cancellation Price of HK\$10.60 per ZRCC H Share (the "Proposal")**

We refer to our engagement to advise the Independent Board Committee with respect to the Proposal, details of which are contained in the composite document of ZRCC dated 28 November 2005 (the "Document"), of which our letter (the "Letter") forms a part. Unless otherwise stated, all terms used herein shall have the same meanings as those set out in the Document and the Letter in the Document under the section headed "Letter from Rothschild".

Subsequent to the issue of the Document, the Company had, on 27 December 2005, made an announcement regarding an one-off governmental compensation of RMB1.12 billion. In light of this, we are writing to confirm our opinion as set out in the Letter, using the same basis upon which our recommendation was arrived at in the Letter.

We consider that the compensation will not affect our opinion that the terms of the Proposal and the Merger Agreement are fair and reasonable so far as the Independent ZRCC Shareholders are concerned, on the basis of the following reasons:

1. The compensation granted by the Ministry of Finance of the PRC is one-off in nature and based on our discussion with the management of the Company, there is no assurance that this compensation will recur in the future. Hence, this compensation should be treated as an extraordinary income which does not have an impact on the normal operational environment of the Company.
2. The compensation of RMB1.12 billion is equivalent to an after-tax compensation of approximately RMB0.30 (equivalent to approximately HK\$0.29<sup>1</sup>) per ZRCC share based on ZRCC's tax rate of 33.0%. Accordingly, the unaudited NAV per ZRCC Share as at 30 June 2005 would be increased by approximately 6.2% from approximately RMB4.82 (equivalent to approximately HK\$4.55<sup>1</sup>) to RMB5.12 (equivalent to approximately HK\$4.84<sup>1</sup>). However, as ZRCC is not an asset-based company, we consider it more appropriate to evaluate the Company based on earnings.

If we were to deduct the after-tax compensation of HK\$0.29 per ZRCC Share from the Cancellation Price, the hypothetical adjusted cancellation price would be HK\$10.31. **This figure is for illustrative purposes only and for the sole purpose of performing the following analysis (there will not be a reduction in the Cancellation Price).** We have reworked our analysis made in the Letter using the hypothetical adjusted cancellation price of HK\$10.31 per ZRCC H Share and noted that the hypothetical adjusted cancellation price represents:

- a. A premium of approximately 1.1% over the closing price of HK\$10.20 per ZRCC H Share as quoted on the Hong Kong Stock Exchange as at the Latest Practicable Date;
  - b. A premium of approximately 9.1% over the closing price of HK\$9.45 per ZRCC H Share as quoted on the Hong Kong Stock Exchange on 2 November 2005 (being the last trading day of the ZRCC H Shares prior to the issue of the joint announcement by ZRCC and Sinopec Corp. dated 12 November 2005);
  - c. An implied PER based on ZRCC's 2004 earnings of approximately 10.5 times which is higher than the 3-year average of approximately 7.6 times and 1-year average of approximately 7.8 times and the median PER of the Hong Kong Stock Exchange listed comparable companies and the other Asian listed comparable companies of approximately 6.3 times and 8.3 times respectively; and
  - d. An implied EV/EBITDA multiple of approximately 5.4 times for the financial year ended 31 December 2004 which is higher than the median EV/EBITDA multiple of the Hong Kong Stock Exchange listed comparable companies of approximately 4.9 times and within the range of the other Asian listed comparable companies.
3. Although the premium of the hypothetical adjusted cancellation price is lower than the median paid in recent privatisation transactions as shown in Table 11 of the Letter, we consider that the hypothetical adjusted cancellation price to be fair and reasonable after taking into account the significant appreciation in the share price of ZRCC H Shares over the past three years and that the ZRCC H Shares have never traded at or above the hypothetical adjusted cancellation price.

Based on the above analysis, our recommendation as set out in the Letter remains unchanged. Accordingly, we advise the Independent Board Committee to recommend the Independent ZRCC Shareholders to vote in favour of the Proposal and the resolution in relation to the Proposal at the Special General Meetings.

Yours very truly,  
For and on behalf of  
**N M Rothschild & Sons (Hong Kong) Limited**  
**Kelvin Chau**  
*Director*

*1 For illustrative purposes, an exchange rate of HK\$1.00:RMB1.04 was used for prevailing numbers while an exchange rate of HK\$1.00:RMB1.06 was used for historical financial numbers*

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