SINOPEC ZHENHAI REFINING & CHEMICAL COMPANY LIMITED

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

INTERIM RESULTS ANNOUNCEMENT FOR THE YEAR OF 2002

The Board of Directors ("the Directors") of Sinopec Zhenhai Refining & Chemical Company Limited ("the Company") is pleased to present the interim results of the Company and its subsidiaries ("the Group") for the six months ended 30 June 2002. The interim financial report is unaudited.

INTERIM FINANCIAL REPORT PREPARED IN ACCORDANCE WITH IAS 34 "INTERIM FINANCIAL REPORTING"

This interim financial report is unaudited, but has been reviewed in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports", issued by the Hong Kong Society of Accountants, by KPMG, whose unmodified review report is included in the interim report to be sent to shareholders.

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)
(Amounts in thousands, except per share data)

	Note	Six-month period ended 30 June **2002** *RMB*	2001 *RMB*
Turnover		**9,887,594**	10,368,560
Less: Business taxes and surcharges		**(485,738)**	(447,768)
Net sales		**9,401,856**	9,920,792
Cost of sales		**(8,429,005)**	(9,136,594)
Gross profit		**972,851**	784,198
Other operating income		**3,860**	1,532
Selling, administrative and other operating expenses		**(349,464)**	(391,195)
Profit from operations		**627,247**	394,535
Net financing costs		**(30,917)**	(54,436)
Share of profits less (losses) from associates		**1,134**	(3,437)
Others, net		**(4,079)**	(6,219)
Profit from ordinary activities before taxation	*3*	**593,385**	330,443
Income tax expense	*4*	**(140,972)**	(36,575)
Profit attributable to shareholders	*2*	**452,413**	293,868
Dividends	*5*	**88,332**	88,332
Earnings per share	*6*		
– Basic		**RMB 0.18**	RMB 0.12
– Diluted		**RMB 0.18**	RMB 0.11

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1. PRINCIPAL ACTIVITIES AND BASIS OF PREPARATION

The Group is principally engaged in the production and sale of petroleum products, intermediate petrochemical products as well as urea and other petrochemical products. China Petroleum & Chemical Corporation ("Sinopec Corp") is the immediate parent company of the Group.

The interim financial report has been prepared in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" adopted by the International Accounting Standards Board ("IASB").

The financial information relating to the financial year ended 31 December 2001 included in the interim financial report does not constitute the Company's annual financial statements for that financial year but is derived from those financial statements. The annual financial statements for the year ended 31 December 2001 are available from the Company's registered office. The Company's former independent auditors, Arthur Andersen & Co, have expressed an unqualified opinion on those financial statements in their report dated 29 March 2002.

The accounting policies have been consistently applied by the Group and are consistent with those adopted in the 2001 annual financial statements, except for as described in note 8, land use rights are carried at historical cost effective 1 January 2002. The effect of this change resulted in a decrease in the shareholders' equity as of 1 January 2002.

The 2001 annual financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the IASB. IFRS include IAS and interpretations.

2. SEGMENT REPORTING

The Group conducts the majority of its business activities in two areas, refining and chemicals. The refining segment is principally engaged in the production and sale of petroleum, intermediate petrochemical and other petrochemical products. Gasoline, diesel and jet fuel are three major products of the segment. The chemical segment is principally engaged in the production and sale of urea. An analysis by business segment is as follows:

	Six-month period ended 30 June 2002			
	Refining	**Chemicals**	**Elimination**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Net sales	**9,262,768**	**303,453**	**(164,365)**	**9,401,856**
Cost of sales	**(8,352,718)**	**(240,652)**	**164,365**	**(8,429,005)**
Gross profit	**910,050**	**62,801**	**–**	**972,851**
Other operating income				**3,860**
Selling, administrative and other operating expenses				**(349,464)**
Profit from operations				**627,247**
Net financing costs				**(30,917)**
Share of profits less (losses) from associates				**1,134**
Others, net				**(4,079)**
Income tax expense				**(140,972)**
Profit attributable to shareholders				**452,413**

	Six-month period ended 30 June 2001			
	Refining	Chemicals	Elimination	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net sales	9,848,898	244,979	(173,085)	9,920,792
Cost of sales	(9,066,641)	(243,038)	173,085	(9,136,594)
Gross profit	782,257	1,941	–	784,198
Other operating income				1,532
Selling, administrative and other operating expenses				(391,195)
Profit from operations				394,535
Net financing costs				(54,436)
Share of profits less (losses) from associates				(3,437)
Others, net				(6,219)
Income tax expense				(36,575)
Profit attributable to shareholders				293,868

In view of the fact that the Group operates mainly in the PRC, no geographical segmental information is presented.

3. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

	Six-month period ended 30 June	
	2002	2001
	RMB'000	*RMB'000*
Interest and other borrowing costs	**40,054**	78,020
Less: Amount capitalised as construction in progress	**(10,425)**	(231)
Interest expense, net	**29,629**	77,789
Cost of inventories	**8,431,097**	9,140,497
Depreciation and amortisation	**338,386**	416,512
Net loss on disposals of property, plant and equipment	**9,955**	27,504
Provision for diminution in value of long-term investments	**–**	10,000
Staff reduction expenses	**–**	39,109
Net gain on disposals of long-term investments	**–**	(929)
Investment income	**(2,721)**	(2,889)
Interest income	**(2,825)**	(27,150)

4. INCOME TAX EXPENSE

	Six-month period ended 30 June	
	2002	2001
	RMB'000	*RMB'000*
Provision for PRC enterprise income tax ("EIT")		
– the Group	**132,360**	69,017
– associates	**3,169**	458
Deferred taxation	**5,443**	(32,900)
	140,972	36,575

Individual companies within the Group are generally subject to EIT at 33% on taxable income determined according to the PRC tax laws. Pursuant to the relevant tax regulations, the Company is eligible to certain EIT preferential treatments because of its recycling of certain wasted materials. The amount of the reduced EIT was RMB 43,077,000 (2001: RMB 69,697,000).

Deferred taxation is provided under the balance sheet liability method in respect of significant temporary differences arising from differences between the carrying amount of assets and liabilities for financial reporting purposes and the amount used for income tax purposes. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the deferred tax asset can be utilised.

The Group was not subject to Hong Kong Profits tax as the Group did not earn any profit assessable to Hong Kong Profits tax.

5. DIVIDENDS

Dividends attributable to the period:

	Six-month period ended 30 June	
	2002	2001
	RMB'000	*RMB'000*
Interim dividend proposed after the balance sheet date of RMB 0.04 per share (2001: RMB 0.025 per share)	**100,950**	63,093

The interim dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

Dividends attributable to the previous financial year, and approved during the period:

	Six-month period ended 30 June	
	2002	2001
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved during the period, of RMB 0.035 per share (2001: RMB 0.035 per share)	**88,332**	88,332

6. EARNINGS PER SHARE

(i) Basic

The calculation of basic earnings per share was based on the profit attributable to shareholders of approximately RMB 452,413,000 for the six-month period ended 30 June 2002 (2001: RMB 293,868,000) and on the 2,523,754,468 shares (2001: 2,523,754,468 shares) in issue during the period.

(ii) Diluted

The calculation of diluted earnings per share was based on the adjusted profit attributable to shareholders of approximately RMB 452,462,000 for the six-month period ended 30 June 2002 (2001: RMB 327,819,000) on the assumption that all convertible bonds were converted on 1 January 2002 and on the weighted average number of approximately 2,525,357,000 shares (2001: 2,952,500,000 shares) deemed to have been in issue during the period.

7. CHANGE IN ACCOUNTING ESTIMATES

The Company took a comprehensive review of the expected useful lives of certain plant, machinery and equipment at the beginning of 2002 which has taken into consideration the depreciation method currently adopted by the domestic petrochemical industry. The Company has determined to revise the depreciation period of these fixed assets. In this connection, the depreciation period of the main manufacturing facilities has been revised from between 8 and 10 years to between 12 and 14 years with effect from 1 January 2002.

The change had the effect of a reduction in depreciation expense by approximately RMB 77 million and an increase of profit attributable to shareholders by approximately RMB 52 million for the six-month period ended 30 June 2002. The change is expected to decrease the depreciation expense by approximately RMB 154 million and increase the profit attributable to shareholders by approximately RMB 103 million for each of the subsequent years until the assets are fully depreciated or disposed of.

8. RESERVES

Effective from 1 January 2002, land use rights which are included in lease prepayments are carried at historical cost. Accordingly, the surplus on the revaluation of land use rights net of deferred tax asset was reversed to shareholders' equity at 1 January 2002. The effect of this change did not have a material impact on the Group's financial condition and results of operations in the periods prior to the change. As such, certain comparative figures have been reclassified to conform with the current period's presentation.

No transfers were made to the statutory surplus reserve, the statutory public welfare fund or the discretionary surplus reserve from profit attributable to shareholders for the six-month period ended 30 June 2002 (2001: Nil).

9. COMPARATIVE FIGURES

Certain comparative figures as at 31 December 2001 and for the six-month period ended 30 June 2001 have been reclassified to conform with the current period's presentation.

DIVIDENDS

The Directors have declared an interim dividend of RMB 0.04 per share, or a total of RMB 100.95 million for the year ending 31 December 2002. The dividend will be paid on 28 October 2002 to shareholders whose names appear on the Company's register of members on 18 September 2002. Dividends payable to Sinopec Corp, the Company's immediate parent company, will be paid in

RMB, while dividends payable to holders of H shares will be paid in Hong Kong dollars at an exchange rate of RMB 1.0611 for HK$1, being the average of the basic rates of RMB for Hong Kong dollars published by the People's Bank of China in the calendar week immediately before the date of the declaration of dividend (23 August 2002). Accordingly, each H share of the Company is entitled to an interim dividend of HK$0.037.

The register of members of the Company will be closed from 14 September 2002 to 18 September 2002 (both days inclusive), during which period no transfer of shares will be effected. In order to qualify for the 2002 interim dividend, holders of H shares must lodge their transfers together with all relevant share certificates to the Company's H share registrar, Hong Kong Registrars Limited at 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4 p.m. on 13 September 2002.

REVIEW OF OPERATIONS FOR THE FIRST HALF OF 2002

During the first half of 2002, the Company seized the market opportunities arising from the gradual recovery of the global economy and the steady growth of the PRC economy, and continued to capitalise on the advantage of its operation scale and advanced technology to process a total of 5.91 million tonnes of feedstock oil (including general trade crude oil of 5.69 million tonnes), representing an increase of 13 per cent from that of the same period last year. Profit attributable to shareholders of the Company rose by 53.95 per cent to RMB 452.4 million. The growth rate in earnings was higher than that of the throughput volume of feedstock oil. The Company continued to be a leading player in the domestic refining companies in terms of earnings. Earnings per share were RMB 0.18, which were approximately at the same level of that of the full year of 2001 and were the highest in record for the interim period since the Company's listing.

The Company maximised its overall efficiency and fine-tuned the scheme of purchasing and processing of the crude oil. In the first half of 2002, the throughput volume of low-cost sour and inferior crude oil was 3,366,900 tonnes, which was 32.27 per cent more than that of the same period of the previous year and accounted for 56.97 per cent of the total throughput volume of the first half of 2002. The Company's average price of processed feedstock oil for the first half of 2002 was RMB 1,364.21 per tonne equivalent to US$22.23 per barrel ("$/b") excluding import expenses, which was 16.79 per cent lower than RMB 1,639.38 per tonne of the same period last year, and was below the average FOB price of 23.33 $/b for Brent crude oil in the Singapore market during the same period.

The Company fully utilised its crude oil processing capacity through optimising its facilities. In the first half of 2002, the composite commercial yield increased by 0.52 percentage point year on year to 93.80 per cent, equivalent to an increase of 30,000 tonnes of products. Light oil yield also increased by 1.32 percentage points to 72.85 per cent for the period under review. As a result, the added value of products was further enhanced. The diesel to gasoline ratio was 2.82 times, representing an increase of 0.51 times from that of the same period last year, and product mix was adjusted in order to better satisfy domestic demand. At the same time, the chemical fertiliser plant returned to black in the first half of 2002, due to the recovery of domestic demand for fertiliser and the implementation of management and technical measures to reduce raw material cost.

In the first half of 2002, the Company's product sales volume increased by 14.74 per cent to 5,317,800 tonnes compared with that of the same period of 2001. The sales volume of petroleum products with relatively high added value, including diesel, chemical light oil, jet fuel and liquefied petroleum gas ("LPG"), increased by 668,500 tonnes, while that of fuel oil decreased by 157,000 tonnes. Since March 2002, the operating environment of domestic refineries has gradually improved. The Company seized the opportunity and made timely adjustment to increase its throughput volume and sales volume, resulting in an increase of 15 per cent in throughput volume for the second quarter when compared with that of the first quarter. The operating results during the second quarter therefore rose substantially from those of the first quarter.

The Company reduced its selling, administrative and financial expenses for the interim period by 1.83 per cent year on year through tightening its cost control. In addition, due to a lower average fixed cost resulting from an increased throughput volume, the unit refining cash operating cost and the unit complete expenses decreased by 0.38 per cent and 11.06 per cent to RMB 84.72 per tonne and to RMB 143.62 per tonne respectively, and continued to maintain advanced levels in the country.

By the end of June 2002, the Company's 1.8 million tonnes per annum ("tpa") paraffin hydrodesulfurisation unit, the 3 million tpa diesel hydro refining unit and the 70,000 tpa sulphur recovery unit have completed construction. The Company's processing capacity of sour crude oil increased by 2 million tpa to 10 million tpa, with the hydro treating capacity accounting for 73 per cent of the primary processing capacity. The Company further enhanced its technology edge, and established favourable conditions for the optimal integration of the production processes and resources for oil refining and petrochemical processing in the future.

After a year of preparation, in June 2002, the Company changed its three-tier management system of "corporate-production plant-workshop" to a two-tier system of "corporate-operating department", and thereby flattened the management structures. The reduction in management hierarchy and innovation in management mechanism will help increase operational efficiency and lower management cost.

PROSPECTS FOR THE SECOND HALF OF 2002

Although there are uncertainties in the domestic and overseas markets in the second half of 2002, the operating environment of oil refining companies will be better than that of the same period last year. Signs of promising outlook for the industry could be traced from the fact that the global economy is close to recovery and China's economy continues to grow. In addition, the new petroleum product pricing mechanism, which pegs domestic product oil prices against those in the markets of Singapore, Rotterdam and New York, will drive refining profits back to their normal level. Taking account of these factors, the Company is confident in achieving the performance growth target for the full year.

On the basis of safety, stability and long production cycle, the Company plans to process 5.6 million tonnes of general trade crude oil in the second half of 2002. The Company believes that it will achieve the target feedstock throughput volume for the year. Also, the Company will attempt to enhance its facility utilisation rate through expansion of its third-party processing business. The Company strives to achieve 11.8 million tonnes in feedstock throughput volume for the year. In addition, the Company will go all out to achieve cost-effectiveness and to turn its chemical fertiliser operation which reported loss for the previous year, to profit-making for the full year.

The Company will capitalise on the new production arrangement after the commencement of operation of new facilities and the advantage of the integration of oil refining and petrochemical production. It will enhance the throughput volume of sour and inferior crude oil, and adopt new techniques to provide cheaper feedstock for its catalytic unit and chemical fertiliser plant, in order to further reduce production costs and improve its processing capability. The Company will further optimise its product mix by increasing diesel output, enhancing the diesel to gasoline ratio, and raising the output of high value added products, including LPG, BTX, propylene and solvent oil, to enhance profitability.

The Company will strictly implement the business strategies that focus on satisfying domestic demand. While securing volume order for staple products such as gasoline, diesel and jet fuel, the Company will intensify the marketing capabilities of products sold through its own distribution channels and market expansion, in order to increase output and revenue. At the same time, the Company will exercise stringent control over production cost and expenses to maintain its unit complete expenses and unit refining cash operating cost at a leading level within the domestic oil refining industry.

The Company believes the future of the PRC's refining and chemical industry is full of bright prospects. In the second half of 2002, the Company plans to invest over RMB 1 billion in fixed assets. Much of these investments will be applied to the second phase of the 8 million tpa refining capacity expansion project, paraxylene project, polypropylene project and the chemical fertiliser conversion project – "replacing oil by coal as source of energy". The fixed asset investments for the entire year are projected to be RMB 1.6 billion.

In response to the PRC's accession to WTO, the Company will step up and fine-tune the reorganisation of its management structure and operation process, in order to optimise the effect of enhanced efficiency and streamlined structure of a flattened management hierarchy, and to actively, but in a prudent manner, continue with the adjustments of employment structure and diversion of staff to outside of the Company's standard payroll. Simultaneously, during the year the Company will strive to implement the Enterprise Resource Planning system, and to start preparing for the establishment of the Health, Safety and Environment management system. All this is aimed at enhancing the management quality and further strengthening the Company's competitiveness in the international markets.

EXTERNAL COLLABORATION PROJECT

The Company intends to establish a joint-venture company with BP Global Investment Ltd for the sale of LPG. Upon the establishment of the joint-venture company, the Company plans to sell all of the LPG produced by the Company to the joint-venture company. The initial investment of the joint-venture company is US$25 million, with a registered capital of US$10 million. The Company and BP Global Investment Ltd will each hold 50 per cent interests of the joint-venture company. At present, the establishment of the joint-venture company is awaiting the approval by the relevant department of the State.

STAFF HOUSING SUBSIDY PLAN

According to the relevant regulations of the PRC, the allocation of welfare staff quarters has been terminated. The Company is formulating a plan to allow the qualified employees to be compensated in the form of monetary housing subsidies. The financial impact of such plan will be reflected in the financial statements of the relevant year when such plan is finalised.

LOANS TO THIRD PARTY AND OVERDUE TIME DEPOSIT

The Company did not have any loans to third party or any overdue time deposit as at 30 June 2002.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the period ended 30 June 2002, neither the Company nor its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

APPOINTMENT OF AUDITOR

Pursuant to the approval of the annual general meeting held on 7 June 2002, KPMG was appointed as the Company's auditors for the financial year ending 31 December 2002. The term is one year to the conclusion of the next annual general meeting.

CODE OF BEST PRACTICE

During the six months ended 30 June 2002, the Company has not formed an independent Audit Committee. However, the Company's organisational structure has a Supervisory Committee, which carries out functions similar to those of an independent Audit Committee.

Save for the aforesaid, the Directors are not aware of any information which reasonably indicates that the Company has not complied with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("HKSE Listing Rules") during the first half of 2002.

OTHER DISCLOSURE ITEMS

There has been no material change from the information disclosed in accordance with the requirements under paragraphs 46 and 32 of Appendix 16 to HKSE Listing Rules to the information contained in the 2001 Annual Report. A detailed interim result announcement of the Company containing all the information required by paragraphs 46(1) to 46(6) inclusive of Appendix 16 to the HKSE Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited at an appropriate time.

By Order of the Board
Sun Weijun
Chairman

23 August 2002, Ningbo, China

"Please also refer to the published version of this announcement in SCMP".