SINOPEC ZHENHAI REFINING & CHEMICAL COMPANY LIMITED

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

(Stock Code: 1128)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2004

SUMMARY

- The feedstock throughput amounted to 8,109,800 tonnes, representing a rise of 30.11% when compared with the same period of last year.
- Unit complete expense amounted to RMB124.62 per tonne, representing a fall of 18.21% when compared with the same period of last year.
- Profit attributable to shareholders amounted to RMB1.277 billion, representing an increase of 143.44% from that of the same period of last year.

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-month period ended 30 June 2004. 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 to the Directors is included in the interim financial report to be distributed to shareholders.

Consolidated Income Statement

for the six-month period ended 30 June 2004 *(unaudited)*

(Amounts expressed in thousands, except per share data)

		Six-month period ended 30 June	
		2004	2003
	Note	***RMB'000***	*RMB'000*
Turnover		**19,412,997**	13,407,666
Less: Business taxes and surcharges		**(832,872)**	(469,497)
Net sales		**18,580,125**	12,938,169
Cost of sales		**(16,527,987)**	(11,901,566)
Gross profit		**2,052,138**	1,036,603
Other operating income		**37,833**	24,202
Selling and administrative expenses		**(221,604)**	(237,448)
Other operating expenses		**(41,319)**	(16,292)
Net loss on disposal of property, plant and equipment		**(4,546)**	(13,292)
Profit from operations		**1,822,502**	793,773
Net financing costs		**(42,309)**	(36,699)
Share of profits less (losses) from associates and jointly controlled entity		**20,982**	(8,288)
Profit from ordinary activities before taxation	3	**1,801,175**	748,786
Income tax expense	4	**(524,575)**	(224,379)
Profit attributable to shareholders	2	**1,276,600**	524,407
Dividends attributable to the period:			
Interim dividend declared after the balance sheet date	5(a)	**227,138**	126,188
Basic earnings per share	6	**RMB0.51**	RMB0.21

Consolidated Balance Sheet as at 30 June 2004 *(unaudited)*

	Note	**As at 30 June 2004** ***RMB'000***	As at 31 December 2003 *RMB'000*
Non-current assets			
Property, plant and equipment		**8,110,846**	8,527,919
Construction in progress		**967,447**	584,400
Lease prepayments		**41,400**	41,867
Interests in associates		**214,525**	215,167
Interest in jointly controlled entity		**9,756**	8,178
Other investments		**129,233**	143,800
Deferred tax assets		**131,374**	123,435
Total non-current assets		**9,604,581**	9,644,766
Current assets			
Inventories		**1,853,922**	1,609,258
Trade receivables — third parties	7	**281,710**	267,787
Other receivables, deposits and prepayments		**542,450**	376,350
Amounts due from associates and jointly controlled entity		**47,287**	11,560
Amounts due from parent companies and fellow subsidiaries		**607,309**	519,225
Deposits with banks		**106,512**	31,121
Cash and cash equivalents		**557,451**	1,028,518
Total current assets		**3,996,641**	3,843,819
Current liabilities			
Bank loans		**402,400**	884,200
Trade payables — third parties	8	**491,087**	1,057,410
Accruals and other payables		**658,036**	690,385
Amount due to jointly controlled entity		**3,730**	—
Amounts due to parent companies and fellow subsidiaries		**358,125**	259,165
Income tax payable		**306,689**	166,441
Other taxes payable		**449,599**	390,964
Dividends payable		**875**	875
Total current liabilities		**2,670,541**	3,449,440
Net current assets		**1,326,100**	394,379

Total assets less current liabilities		**10,930,681**	10,039,145
Non-current liabilities			
Bank loans		**650,000**	810,000
Net assets		**10,280,681**	9,229,145
Shareholders' equity			
Share capital		**2,523,755**	2,523,755
Reserves	9	**4,956,749**	4,954,675
Retained earnings		**2,800,177**	1,750,715
		10,280,681	9,229,145

Approved and authorised for issue by the Directors on 20 August 2004.

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 (including gasoline, diesel, kerosene, naphtha, liquefied petroleum gas, solvent oil and fuel oil), intermediate petrochemical products, asphalt, urea and other petrochemical products (including paraxylene and polypropylene). Gasoline, diesel and kerosene are three major products of the Group. China Petroleum & Chemical Corporation ("Sinopec Corp") is the immediate parent company and China Petrochemical Corporation is the ultimate parent company.

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 34 "Interim Financial Reporting" adopted by the International Accounting Standards Board.

The financial information relating to the financial year ended 31 December 2003 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 2003 are available from the Company's registered office. The Company's independent auditors have expressed an unqualified opinion on those financial statements in their report dated 16 April 2004.

The accounting policies have been consistently applied by the Group and are consistent with those adopted in the 2003 annual financial statements.

The 2003 annual financial statements have been prepared in accordance with International Financial Reporting Standards.

2. Segment reporting

Segment information is presented in respect of the Group's business and geographic segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

(a) *Business segments*

The Group conducts the majority of its business activities in two areas, refining and chemicals. An analysis of business segment is as follows:

	Six-month period ended 30 June 2004			
	Refining	**Chemicals**	**Elimination**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Net sales	**18,354,962**	**517,885**	**(292,722)**	**18,580,125**
Cost of sales	**(16,457,761)**	**(362,948)**	**292,722**	**(16,527,987)**
Gross profit	**1,897,201**	**154,937**	**—**	**2,052,138**
Other operating income				**37,833**
Selling and administrative expenses				**(221,604)**
Other operating expenses				**(41,319)**
Net loss on disposal of property, plant and equipment				**(4,546)**
Profit from operations				**1,822,502**
Net financing costs				**(42,309)**
Share of profits less (losses) from associates and jointly controlled entity				**20,982**
Profit from ordinary activities before taxation				**1,801,175**
Income tax expense				**(524,575)**
Profit attributable to shareholders				**1,276,600**

	Six-month period ended 30 June 2003			
	Refining	Chemicals	Elimination	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net sales	12,855,238	326,675	(243,744)	12,938,169
Cost of sales	(11,888,886)	(256,424)	243,744	(11,901,566)
Gross profit	966,352	70,251	—	1,036,603
Other operating income				24,202
Selling and administrative expenses				(237,448)
Other operating expenses				(16,292)
Net loss on disposal of property, plant and equipment				(13,292)
Profit from operations				793,773
Net financing costs				(36,699)
Share of profits less (losses) from associates and jointly controlled entity				(8,288)
Profit from ordinary activities before taxation				748,786
Income tax expense				(224,379)
Profit attributable to shareholders				524,407

The above segment information is presented in respect of the Group's business segments. The format of which is based on the Group's management and internal reporting structure.

Inter-segment transfer pricing is based on cost plus an appropriate margin, as specified by Sinopec Corp's policy.

The Group conducts the majority of its business activities in two areas, refining and chemicals. The specific products of each segment are as follows:

(i) The refining segment is principally engaged in the production and sale of petroleum products, intermediate petrochemical products and other petrochemical products. Gasoline, diesel and kerosene are three major products of the segment.

(ii) The chemical segment is principally engaged in the production and sale of urea.

(b) *Geographical segments*

In presenting information on the basis of geographical segments, segment net sales is based on the geographical location of customers.

	Six-month period ended 30 June	
	2004	2003
	RMB'000	*RMB'000*
Net sales:		
— Domestic sales in Mainland China	**18,580,125**	11,319,035
— Export sales to other countries or regions	**—**	1,619,134
	18,580,125	12,938,169

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	
	2004	2003
	RMB'000	*RMB'000*
Interest expense on		
— Bank borrowings (wholly repayable within five years)	**40,171**	48,110
— Convertible bonds	**—**	72
Less: Amount capitalised as projects in progress	**(2,254)**	(15,268)
Interest expense, net	**37,917**	32,914
Cost of inventories	**16,007,280**	11,563,227
Depreciation and amortisation	**501,535**	373,344
Provision for impairment of associates	**—**	10,000
Dividend income from other investments	**(5,461)**	(2,758)
Interest income	**(6,281)**	(3,638)

4. Income tax expense

	Six-month period ended 30 June	
	2004	2003
	RMB'000	*RMB'000*
Current tax expense		
— Current period	**525,735**	219,235
— Under provision in respect of prior years	**477**	5,079
	526,212	224,314
Deferred taxation	**(7,939)**	(2,606)
Share of associates' and jointly controlled entity's income tax	**6,302**	2,671
Total income tax expense in consolidated income statement	**524,575**	224,379

Individual companies within the Group are mainly subject to Enterprise Income Tax ("EIT") at 33% on taxable income determined according to the PRC tax laws.

Pursuant to the document "Cai Shui Zi [1994] No. 1" issued by the Ministry of Finance ("MOF") and State Administration of Taxation of China ("SAT") on 29 March 1994, the Group is eligible for certain EIT preferential treatments because of its recycling of certain waste materials. The amount of EIT refund was RMB71,747,000 (2003: RMB9,833,000).

Pursuant to the document "Cai Shui Zi [1999] No. 290" issued by the MOF and SAT on 8 December 1999, the Group is eligible for certain EIT preferential treatments because of its purchase of certain domestic equipment for technical improvements. The amount of EIT refund was RMB nil (2003: RMB24,113,000).

The Group did not carry on business overseas and in Hong Kong and therefore does not incur overseas and Hong Kong Profits Tax.

5. Dividends

(a) Dividends attributable to the period:

	Six-month period ended 30 June	
	2004	2003
	RMB'000	*RMB'000*
Interim dividend declared after the balance sheet date of RMB0.09 per share (2003: RMB0.05 per share)	**227,138**	126,188

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

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

	Six-month period ended 30 June	
	2004	2003
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved during the period, of RMB0.09 per share (2003: RMB0.08 per share)	**227,138**	201,900

6. Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders of RMB1,276,600,000 for the six-month period ended 30 June 2004 (2003: RMB524,407,000) and the weighted average number of ordinary shares of 2,523,754,468 (2003: 2,523,754,468) in issue during the period.

7. Trade receivables — third parties

	As at 30 June 2004	As at 31 December 2003
	RMB'000	*RMB'000*
Bills receivable	**153,018**	177,095
Accounts receivable	**129,561**	91,956
	282,579	269,051
Less: Allowance for doubtful accounts	**(869)**	(1,264)
	281,710	267,787

The ageing analysis of trade receivables — third parties (before allowance for doubtful account) is as follows:

	As at 30 June 2004	As at 31 December 2003
	RMB'000	*RMB'000*
Invoice date:		
Within one year	**281,700**	267,557
Between one and two years	**14**	329
Between two and three years	**—**	—
Over three years	**865**	1,165
	282,579	269,051

Sales are generally on a cash basis. Subject to negotiation, credit is generally only available to major customers with well-established trading records

8. Trade payables — third parties

The maturity analysis of trade payables — third parties is as follows:

	As at 30 June 2004 *RMB'000*	As at 31 December 2003 *RMB'000*
Due within 1 month or on demand	**280,667**	896,817
Due after 1 month and within 6 months	**210,420**	160,593
	491,087	1,057,410

9. Reserves

No transfers were made to the statutory surplus reserve, the statutory public welfare fund nor the discretionary surplus reserve from profit attributable to shareholders for the six-month period ended 30 June 2004 (2003: RMB nil).

DIVIDENDS

The Directors have declared an interim dividend of Renminbi ("RMB") 0.09 per share, or a total of RMB227.14 million for the year ending 31 December 2004. The dividend will be paid on 20 October 2004 to shareholders whose names appear on the Company's register of members on 17 September 2004. Dividends payable to China Petroleum & Chemical Corporation ("Sinopec Corp"), the Company's controlling shareholder, 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 RMB1.0615 for HK$1.00, 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 on 20 August 2004. Accordingly, each H share in the Company is entitled to an interim dividend of HK$0.084.

REGISTER FOR THE TRANSFER OF SHARES

The register of members of the Company will be closed from 13 September 2004 to 17 September 2004 (both days inclusive) during which period no transfer of shares will be effected. In order to qualify for the 2004 interim dividend, holders of H shares of the Company must lodge their transfers together with all relevant share certificates to the Company's H share registrar, Hong Kong Registrars Limited, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4 p.m. on 10 September 2004.

REVIEW OF OPERATIONS FOR THE FIRST HALF OF 2004

In the first half of 2004, China's gross domestic product ("GDP") increased by 9.7% when compared with that of the same period of the previous year. There was a strong demand for petroleum products. Capitalising on the substantial growth in demand for petroleum products, the Company fully utilised its advantages in economies of scale, product quality, cost-effectiveness and an enlarged product range resulting from the commissioning of new facilities, thereby overcoming production and management difficulties brought about by high oil prices. The total throughput of feedstock (including third-party processing) reached 8,109,800 tonnes, representing a rise of 30.11% when compared with the same period of last year. Net sales reached RMB18.58 billion or an increase of 43.61% when compared with the same period of the previous year. Profit attributable to shareholders has exceeded the previous year's full year figure, and amounted to RMB1,277 million, an increase of 143.44% from that of the same period of last year. The overall results represented a great leap forward.

The Company challenged the limit of its production capacity by realising a utilization rate of its facilities at 101.37% in the first half of the year, and maximised the effect of economies of scale. Third-party crude oil processing volume reached 699,300 tonnes, representing an increase of 63.38% when compared with that of the same period of last year. The Company thus managed to achieve higher cost-effectiveness through effectively taking advantage of the international and domestic markets. The price difference between the high sour content crude oil and low sour content crude oil was widened at times of high oil prices. The Company utilised its facility and technological strength to raise the throughput volume of sour crude oil to 4,872,200 tonnes in the first half of the year, representing an increase of 43.19% when compared with that of the same period of last year. Having effectively offset the impact brought about from substantial upsurge in transportation cost, the Company managed to maintain its average price of processed crude oil at a level in line with the average dated price of Brent crude oil.

The Company not only significantly enhanced its product volume, but also experienced breakthroughs in high-end product development. Total output of the Company's products amounted to 7,699,400 tonnes in the first half of the year, with the output of diesel ranking first in the mainland market. Gasoline and kerosene both ranked second in the domestic market with the output of high-standard gasoline (above 93#) rose to 72.14% of the total output of gasoline, representing an increase of 13.88 percentage points when compared with that of the same period of last year. The Company also succeeded in producing automobile low sulphur diesel for the PRC cities and 98# high-standard clean gasoline, which is equivalent to European standard III. The Company completed the supply of all the special asphalt for the construction of Shanghai Formula One (F1) racing circuit, with its "Dong Hai" brand asphalt now being listed as an approved brand for F1 racing circuit by the Federation Internationale de L'automobile (FIA).

The four sets of new facilities, namely, the continuous catalytic reforming facility, PX, PP and the circulating fluidized-bed ("CFB") boiler were the main driving force for cost-efficiency enhancement during the first half of the year. The output of aromatics increased as a result of the inauguration of the continuous catalytic reforming facility and increase of throughput. The PP facilities became fully operational in January soon after completion of its installation. In April, the Company completed 450,000 tonnes per annum ("tpa") PX trouble-shooting facility, and technological upgrading of the1,800,000 tpa heavy oil catalytic unit, enabling the PX and PP facilities to achieve their planned utilisation rate ahead of schedule. The Company achieved PX and PP output volumes of 161,000 tonnes and 66,300 tonnes respectively, which together accounted for 2.95% of total output and their total net sales amounted for 7.40% of the total net sales in the first half of the year; allowing the Company to capture the opportunities brought along by the boom of chemical products to boost its profit contribution. In response to market recovery and the lower production cost, the Company produced 300,000 tonnes of urea in the first half of the year, realising a profit before tax of RMB54,340,900, representing an increase of 163.68% over that of the same period of last year.

The Company continues to strengthen its cost control and has intensified the integration of refining and chemical operations, while enhancing the integration of oil refining and the chemical fertiliser production processes and resources to reduce operating costs. It had also explored potential business opportunities arising from public utility projects such as water, electricity, steam and compression air. In light of regional shortage in electricity supply, the Company had finetuned the operation of the CFB boiler to enable it to have excess supply of electricity to regional power network after satisfying internal demand. The Company further enhanced cost-effectiveness by endeavouring to lower selling and administrative expenses and net financing costs. The unit complete expense was RMB124.62 per tonne in the first half of the year, a decrease of 18.21% when compared with that of the same period of last year.

The Company has been actively implementing sustainable development strategies by integrating the Health, Safety and Environment ("HSE") management system with ISO quality management, while raising the staff's environmental protection awareness. In the first half of this year, the Company has passed the State's General Bureau of Environmental Protection's evaluation and assessment, and it has been announced the Company will be one of the nine enterprises, which are the first batch to be named as "National Environmentally Friendly Enterprises".

PROSPECTS FOR THE SECOND HALF OF 2004

The Chinese government has been insisting on incorporating scientific development strategy into the State's economic development. The macro-economic austerity measures have produced initial results in the first half of the year, with the national economy maintaining steady growth. As the energy industry is closely related to the State's well being and the people's livelihood, the oil refining industry is expected to grow in tandem with the national economy in the longer run as the domestic consumption structure being upgraded, with household owned automobile and rapid increase in fuel demand. In the second half of the year, the demand for petroleum products in the domestic market is forecasted to remain vigorous, with refining enterprises facing enormous market opportunities and plentiful room for expansion. The Company plans to process 7,800,000 tonnes of crude oil in the hope that the processing volume could reach 15,900,000 tonnes for the full year, or an increase of 16.65% when compared with the same period of last year.

The greatest opportunity being presented to the Company in the second half of the year is the rapid growth in market demand while the biggest pressure on the Company being international crude oil prices remaining at a high level. On one hand, the Company will closely track changes in crude oil and petroleum product prices in the international market to capture opportunities while minimising risks. On the other hand, the Company is making great efforts to strengthen its internal management to mitigate the pressure brought about by high oil prices in order to maintain its profitability.

First, the Company will strive to finetune its production planning at a high utilization rate. Under the principle of ensuring safety in the production processes, the Company endeavours to upgrade raw materials, facilities and public utilities under a long-period of maximum utilisation. It will seriously implement cost-effectiveness measures to stringently control cost and expenses. It also attempts to fully explore its internal capability to increase light oil yield and comprehensive commodity rate and to reduce energy and material consumption in a bid to achieve progress in every technical and economic indicators.

Second, the Company will capture market opportunities afforded by high market demands. While making great efforts to increase output, the Company has taken a step forward in keeping abreast of market demands and adjusting its product structure by increasing the output of high value-added products, such as PX and PP in particular, to maximize economic efficiency.

Third, the Company will optimise resource allocation for crude oil, enhance the throughput volume of sour crude oil, catch the opportune timing for purchasing crude oil, adjust its inventory at appropriate timing and control crude oil processing cost. Besides, all means are sought to counter operating pressure brought about by high crude oil prices.

Fourth, the Company is investing for expansion. It has embarked on its 20 million tpa refining capacity expansion project at an estimated capital expenditure of over RMB800 million in the second half of the year mainly for the upgrading and capacity expansion of the 3 million tpa atmospheric and vacuum distillation unit, the construction of a new 1 million tpa delayed coking unit and the building of the Zhenhai — Caojing naphtha pipeline. The upgrading of berths 2# and 3# will provide the Company with a 250,000-tonne multi-functional oil berth. This will increase the overall handling capacity of its self-operated port from 30 million tpa to 40 million tpa. At the same time, the Company is planning to complete the construction of an aromatics disproportionate sector for the production of PX at the end of the year to raise the annual PX production capacity from 450,000 tpa to 650,000 tpa (550,000 tpa of PX, 100,000 tpa of orthoxylene (“OX”)).

Meanwhile, the Company will raise its standard of corporate governance according to the law and regulations as well as the newly revised listing rules of The Stock Exchange of Hong Kong Limited. It will continue to perfect its systems of internal control, adopt standardised management practices and minimise operating risks. It will also actively and steadfastly forge ahead with its reforms and staff diversion and continue to strengthen its core businesses to raise its competitiveness.

TRUST DEPOSIT AND OVERDUE TIME DEPOSIT

The Company did not have any trust deposit or any overdue time deposit as at 30 June 2004.

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

During the period ended 30 June 2004, neither the Company nor its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities.

APPOINTMENT OF AUDITORS

Pursuant to the approval of the annual general meeting held on 18 June 2004, KPMG was appointed as the Company’s auditors for the year of 2004. The term is one year to the conclusion of the next annual general meeting.

REVIEW OF THE INTERIM FINANCIAL REPORT

KPMG conducted their review on the interim financial report and the review was conducted in accordance with the Statement of Auditing Standards 700 “Engagements to review interim financial reports” issued by the Hong Kong Society of Accountants. The financial information contained in this interim financial report was unaudited.

AMENDMENT OF THE ARTICLES OF ASSOCIATION

The amendments of the Articles of Association were approved in the 2003 annual general meeting of the Company held on 18 June 2004. The contents of the amendments were set out in the circular dispatched to the shareholders in relation thereto on 30 April 2004 and were also published in the announcements on Hong Kong newspapers, South China Morning Post and Wen Wei Po, on 21 June 2004.

The above-mentioned amendments of the Articles of Association were approved by the companies examination and approval authority appointed by the State Council on 30 July 2004.

CODE OF BEST PRACTICE

The Directors are not aware of any information which would reasonably indicate that the Company has not complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the first half of 2004.

OTHER DISCLOSURE ITEMS

There has been no material change to the information disclosed in accordance with the requirements under paragraph 46 of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited from the information disclosed in the 2003 annual report.

As the date of this announcement, the Board of Directors comprises 12 Directors, including:
Executive Directors: Mr Sun Weijun, Mr Zhan Juping, Mr Xu Liqiao, Mr Sun Jianli, Mr Zhao Jinxuan and Mr Yu Renming
Non-executive Directors: Ms Wang Lisheng and Mr Hu Weiqing
Independent Non-executive Directors: Mr Sun Yongsen, Mr Cen Kefa, Mr Li Linghong and Ms Qiu Yun

By Order of the Board
Sun Weijun
Chairman

20 August 2004, Ningbo, the PRC

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