

With the trust and support from Shareholders, Sinopec Zhenhai Refining & Chemical Company Ltd. continued to develop and made substantial progress in the year of 2000...



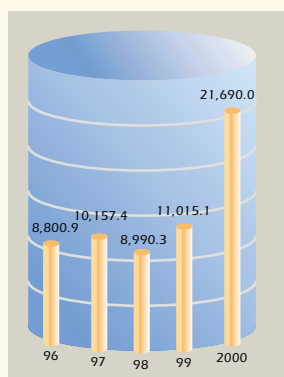
With the trust and support from shareholders, Sinopec Zhenhai Refining & Chemical Company Limited ("the Company") continued to develop and made substantial progress in the year of 2000. The feedstock throughput volume reached 10.74 million tonnes, 38.25 per cent increase over that of 1999, making the Company the first refining enterprise with a throughput volume exceeding 10 million tonnes per annum in the PRC, and indicating the Company's advancement in technology, management and operation efficiency.

Benefited from the increase in throughput volume and average product prices, the Company's turnover reached RMB 21.69 billion, which was 96.91 per cent higher than that of 1999. However, due to substantial upsurge in the cost of crude oil in 2000, the Company's profit after tax decreased by 25.25 per cent, when compared with that of 1999, to RMB421 million. Despite this, the Company remained in a leading position in the domestic refining industry in terms of profitability. The board of directors recommended a final dividend of RMB0.035 per share in respect of the year ended 31st December, 2000. Together with an interim dividend of RMB 0.015 per share, total dividends for the year will amount to RMB0.05 per share.

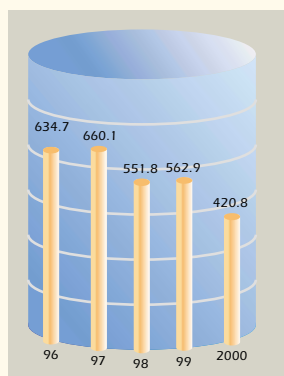
The price of crude oil in the international market increased significantly in 2000 and had at one point reached its record high in a decade. The prices of petroleum products in the domestic market were not adjusted in tandem with that of the crude oil prices from January to April of 2000, the Company thus incurred an operating loss during this period. In the second half of the year, the operating environment had a favorable turn with prices of petroleum products in the domestic market corresponded with those in the international market. The Company's profit after taxation, therefore, increased by 75% over that of the first half of the year.

In the year of 2000, the Company's 12 million tonnes per annum ("tpa") processing capacity had been fully utilized, the Company processed more than 4 million tonnes of relatively

Turnover
RMB million



Net Profit
RMB million



low-priced sour crude oil, which was twice as that of 1999, and thus successfully controlled the cost of crude oil. Benefited from the increase in throughput volume, further upgrading of production and management, fine-tuning and better utilization of facilities, the unit processing cost was controlled at RMB 94.51 per tonne, dropped by RMB 26.82 per tonne or 22.10 per cent from that of 1999.

The Company's products sales volume in 2000 was 9.99 million tonnes, 38.57 per cent more than that of 1999. The output of main petroleum products ranked among the highest in the petrochemical industry of the PRC, with the output of diesel, gasoline and jet fuel ranked the first, the second and the second in the PRC respectively. In 2000, the Company produced 3.7 million tonnes of diesel, with the proportion of diesel to gasoline rose to 2.2. It also produced 1.06 million tonnes of kerosene, making the Company a production base of over 1 million tonnes of kerosene in the PRC.

The section from Zhenhai to Xiaoshan of a petroleum pipeline invested and developed by the Company had been completed and became operational in November 2000. The pipeline has since been used to supply petroleum products to Hangzhou Xiaoshan airport. Being the sole petroleum supplier to the pipeline, the Company is expected to command a dominant market position as the pipeline continues to extend.

In the year 2001, China's GDP is expected to maintain a steady growth under the State Government's policy of expanding domestic demand which would lead to an increase in domestic consumption of petroleum products. The State Government will continue to suspend the import of gasoline and diesel, and will escalate the curbing of smuggling and will strengthen the enforcement of customs duties. In addition, the new petroleum product pricing mechanism, allows the product price in the domestic market to adjust in tandem with the international market. The high-grade domestic clean gasoline will gradually enjoy higher prices. The aforementioned factors are expected to generate a more favorable environment for refining enterprises.

The throughput volume of the Company will continue to elevate in 2001. It is anticipated that the throughput volume will reach 12 million tonnes, a 11.73 per cent increase over that of 2000.



Crude oil price in international market is expected to have significant fluctuation within high level. The Company will control the cost of crude oil through upgrading its production, increased processing of high sulphur content crude oil, purchasing crude oil at lower prices, and volume transportation of crude oil with larger tanker. In reacting to market changes, the Company will adjust its product mix, including uplifting the output of clean fuel to meet the country's increasing requirement for environmental protection, raising the output of such high-value-added products as jet fuel, LPG and aromatics, and increasing the output of high-grade paving asphalt and fuel oil to substitute for imported products.

In 2001, the Company plans to implement a reorganization of management structure and operation process to enhance its fundamental competitiveness. The reorganization will mainly involve streamlining of administrative structure, division of production facilities into sections for integrated control to streamline production process, developing Production Management Information Integrated System based on CIMS ("Computer Integrated Manufacture System"), to improve the labor productivity through enhancing efficiency and downsizing its workforce.

From 2001 onward, the Company will enter into a new phase of rapid development and aims to achieve three main objectives in five years. The Company aims to raise its comprehensive crude oil processing capacity to over 16 million tpa, which would make the Company the largest refinery, and a major sour crude oil processing base and an entrepot of crude oil in the PRC. The Company strives to become an important base for the production of clean fuel and export of petroleum products through increasing the proportion of clean fuel output to meet the need for higher quality petroleum products in domestic and overseas markets. It also aims to broaden its product range, and realizing the integration in oil refining and petrochemical product manufacturing through development of chemical projects such as paraxylene ("PX") production, and strives to develop into a world class refining and petrochemical enterprise.

The Company would still assiduously seek to transform and elevate the traditional industry with high and informational technology so as to make itself full of life and vigor when stepping into the new economy era. We believe that a leading Chinese refining enterprise growing with time and tracking the world's advanced level was sure to give rich repayment to the investors.

In the end, on behalf of the board, I wish to take this opportunity to thank every shareholder giving strong backing to the Company in last year.

Sun Weijun
Chairman

12th April, 2001, Ningbo, the PRC



The feedstock throughput volume reached over 10 million tonnes on 3rd December, 2000, making the Company the first refining enterprise with a throughput volume exceeding 10 million tonnes per annum in the PRC.