I am pleased to report that for the year of 2001... the Company's profit after taxation increased by 10.27 per cent...

I am pleased to report that for the year of 2001, the Company rode out the rigorous and complicated market conditions and overcame the challenges of the discrepancy between international prices of petroleum products and crude oil that lasted for several months. The Company's profit after taxation increased by 10.27 per cent and ranked the highest among domestic refining enterprises despite a mild decline in the Company's turnover. The satisfying results achieved by the Company in the first year of the new century prove that the Company has the strong ability to withstand risk and to sustain its profitability.

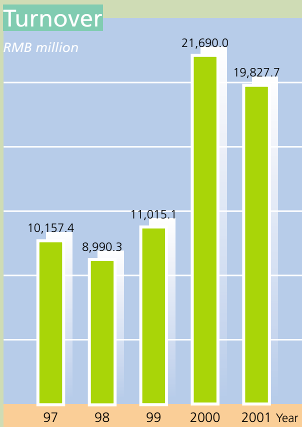
The board of directors recommended a final dividend of RMB0.035 per share for the year ended 31st December, 2001. Together with an interim dividend of RMB0.025 per share, the total dividends for the year will amount to RMB0.06 per share.

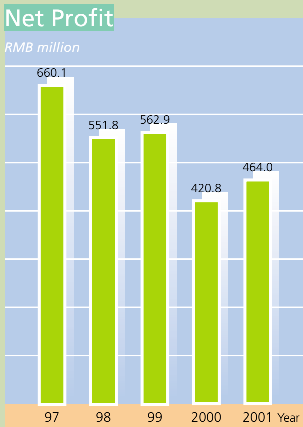
The Company has taken a market-driven approach to organize its production and made timely adjustment to the throughput volume and product mix in accordance with the change in the domestic market demand for petroleum products. The feedstock throughput volume reached 10.73 million tonnes. Despite the facility overhaul in 2001, the throughput volume during the year maintained at the same level of that of the previous year, and continued to be the highest throughput volume in the domestic industry in 2001. The Company's total sales volume in 2001 was 9.83 million tonnes, leading among domestic refineries. During the year, the output of diesel, gasoline and jet fuel ranked the first, the third and the third highest in the PRC respectively. In 2001, the Company produced 4.25 million tonnes of diesel, with the diesel to gasoline ratio stood at 2.55.

The Company has made tremendous effort in optimizing its production under a relatively lower utilization rate with various economic and technical statistics demonstrated significant improvement in the Company's operation. The light oil yield increased by 2.7 percentage points from that of the previous year, with wastage during processing and comprehensive energy consumption declined from those of 2000. The Company's unit refining cash operating cost was RMB81.77 per tonne (about US$1.35 per barrel), which was lower than the average level of the domestic refining industry and reached the average level of the refineries in the Asia Pacific region.

The Company continued to fully capitalize on the advantage of its proximity to a deep sea port and its facilities to capture the opportunities derived from changing market environment, to increasing its processing of imported feedstock oil, particularly sour crude oil. In 2001, the Company processed 9,107,100 tonnes of imported crude oil, which accounted for 85 per cent of its total processing volume. Among the processed imported crude oil, 5.43 million tonnes were sour crude oil, which accounted for 50.6 per cent of the total processing volume and represented an increase of 13.6 percentage points from that of the previous year. The Company's average CIF price of imported feedstock oil was US$24.87 per barrel, and basically at the same level of the average FOB price of BRENT crude oil in the Singapore market during the year.

In 2001, the Company's total investment in fixed assets was RMB1,070 million, including: the completion of upgrading the Berth No. 6 and Berth No. 7, which enhanced the handling capacity of the jetty from 20 million tpa to 25 million tpa; the construction and commencement of the operation of three new crude oil tanks, each with a capacity of 100,000 cubic meters, which increased the Company's crude oil storage capacity to 1.29 million cubic meters and helped mitigate the impact of fluctuation in international crude oil prices; the completion of the upgrading of delayed coking unit and other units, which raised the Company's comprehensive processing capacity to over 14 million tpa since May 2001, making the Company the largest refining enterprise in the PRC.





For 2002, in light of the uncertainties during the world economic recovery, domestic consumption of petroleum products is expected to rise as a result of the continued growth in the national economy under the State's strategy to continue expanding domestic demand. In addition, the refineries in the PRC will benefit from the new petroleum product pricing mechanism, which links domestic product oil prices to those in the Singapore, Rotterdam and New York markets.

Following China's accession to WTO, the anticipated immense changes in economic interaction will pose both opportunities and challenges to the oil refining industry. On the one hand, the domestic refining industry has to withstand the challenges brought forth by the incoming foreign products and capital. On the other hand, China Petroleum & Chemical Corporation's ("Sinopec") overall market dominance continues to expand. Sinopec is implementing a series of business strategies, including giving priority to the development of coastal refineries with comprehensive integrated advantages, to meet the challenges of China's accession to WTO. The measures are expected to bring to the Company new opportunities for further development.

The throughput volume of the Company is forecast to increase, in the year 2002, to 11.3 million tonnes, up by 5.31 per cent from that of 2001. The Company will strive to enhance its facility utilization through rationalization of its operation structure, and optimizing its flexibility in operating in the domestic and international markets, in order to further capitalize on the advantage of its operation scale and technological strength.

In 2002, the Company will actively pursue the following measures to achieve cost-effectiveness. First, the Company will fine-tune its feedstock mix and the procurement of crude oil to raise overall efficiency. Second, the Company will intensify integration in the production flow and resources of its oil refining and urea plant to lower operating cost. Third, the Company will explore the potential in the engineering works of resources and energy utilities for water, electricity, gas and compression air to further reduce energy and materials consumption. Fourth, the Company will adjust its product mix, enhance its diesel to gasoline ratio, increase the output of high value-added products, upgrade its products to strive to develop new markets. The Company will also expand sales of modified asphalt to substitute for imported products.

The Company will commence its reorganization of management structure and business operation flow in 2002 as follows: 1) to simplify management organization via streamlining the Company's corporate structure and reducing management levels, and to further reduce its workforce; 2) to implement Enterprise Resource Planning ("ERP") to enhance quality management of the Company's core businesses and operation efficiency through application of advanced information technology; 3) to adopt the Health, Safety and Environment ("HSE") management system and to adopt quality management measures complying with the ISO9000 – 2000 version to enhance the overall management quality of the Company, which is the largest oil refining base in the PRC.

In 2002, the Company's planned fixed asset investments will be over RMB1.5 billion. The investments will focus on increasing the capacity of the refining unit for new standard diesel and high quality gasoline, enhancing its capacity in clean production. The Company will also apply funds to the construction of the paraxylene ("PX") and polypropylene ("PP") projects, which are in their planning stage. Meanwhile, the Company will continue to fine-tune its development plan for the next few years in an attempt to increase the throughput volume in accordance with the increase of the processing capacity. The Company will also further lower its total investment, intensify integration between its refining and chemical plants, and better utilize its stock and assets to increase its return on investment.

Since its listing, the Company has made tremendous effort in fulfilling its commitments to shareholders and continued to achieve the position as the market leader under the volatile market conditions. Looking ahead, the Company is confident in enhancing its competitiveness amid challenges. Leveraging the advantage of Sinopec's vertical integration, the Company is well poised to strengthen its performance and continues to move forward by keeping track of the world's advanced technical level.

On behalf of the board, I wish to take this opportunity to express our heartfelt thanks to shareholders for their support to the Company in the past year.

Sun Weijun
Chairman

29th March, 2002, Ningbo, the PRC

Sinopec Zhenhai Refining & Chemical Company Limited

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