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.

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

The notes on pages 6 to 13 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET ***(unaudited)***
(Amounts in thousands)

	Note	As at 30 June 2002 RMB	As at 31 December 2001 RMB (note 1)
Non-current assets			
Property, plant and equipment	9	**6,123,224**	5,717,052
Construction in progress		**922,545**	1,021,295
Lease prepayments		**32,019**	21,197
Other assets		**23,077**	28,946
Investments in associates		**243,405**	265,204
Other long-term investments		**159,308**	158,948
Other long-term receivables		**86,187**	100,452
Deferred tax assets		**85,818**	91,261
Total non-current assets		**7,675,583**	7,404,355
Current assets			
Inventories		**1,624,954**	1,362,385
Trade receivables	7	**243,752**	158,162
Amounts due from associates		**28,596**	2,270
Amounts due from parent companies and fellow subsidiaries		**520,812**	572,500
Other receivables, deposits and prepayments		**252,440**	126,496
Deposits with banks		**48,801**	–
Cash and cash equivalents		**681,908**	443,195
Total current assets		**3,401,263**	2,665,008

The notes on pages 6 to 13 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET *(unaudited)*

(Continued)
(Amounts in thousands)

	Note	As at 30 June 2002 RMB	As at 31 December 2001 RMB (note 1)
Current liabilities			
Short-term bank loans		**165,542**	62,416
Current portion of long-term bank loans		**418,910**	202,157
Current portion of convertible bonds		**–**	1,018
Trade payables	8	**595,862**	358,031
Accruals and other payables		**700,183**	590,375
Amounts due to parent companies and fellow subsidiaries		**206,561**	115,570
Income tax payable		**108,974**	62,026
Dividends payable		**108,875**	45,875
Total current liabilities		**2,304,907**	1,437,468
Net current assets		**1,096,356**	1,227,540
Total assets less current liabilities		**8,771,939**	8,631,895
Non-current liabilities			
Long-term bank loans, net of current portion		**750,000**	965,000
Other non-current liabilities		**–**	10,256
Convertible bonds, net of current portion		**4,876**	4,803
Total non-current liabilities		**754,876**	980,059
Net assets		**8,017,063**	7,651,836
Shareholders' equity			
Share capital		**2,523,755**	2,523,755
Reserves	10	**4,476,897**	4,475,751
Retained earnings		**1,016,411**	652,330
		8,017,063	7,651,836

Approved and authorised for issue by the Board of Directors on 23 August 2002

SUN WEI JUN
Chairman

ZHU ZENG QING
Financial Controller
(authorised by the Board of Directors)

The notes on pages 6 to 13 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY *(unaudited)*

(Amounts in thousands)

	Share capital *RMB*	Reserves *RMB*	Retained earnings *RMB*	Total *RMB*
As at 1 January 2002, as previously reported	2,523,755	4,609,751	632,677	7,766,183
Adjustment to land use rights *(note 10)*	–	(134,000)	19,653	(114,347)
As at 1 January 2002, as reclassified	2,523,755	4,475,751	652,330	7,651,836
Profit attributable to shareholders	–	–	452,413	452,413
Dividends *(note 5)*	–	–	(88,332)	(88,332)
Others	–	1,146	–	1,146
As at 30 June 2002	2,523,755	4,476,897	1,016,411	8,017,063
As at 1 January 2001	2,523,755	4,492,421	434,586	7,450,762
Profit attributable to shareholders	–	–	293,868	293,868
Dividends *(note 5)*	–	–	(88,332)	(88,332)
Others	–	447	–	447
As at 30 June 2001	2,523,755	4,492,868	640,122	7,656,745

The notes on pages 6 to 13 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT ***(unaudited)***
(Amounts in thousands)

	Six-month period ended 30 June	
	2002	2001
	RMB	*RMB*
Net cash generated from/(used in) operating activities	**890,512**	(556,639)
Net cash used in investing activities	**(690,708)**	(507,161)
Net cash generated from financing activities	**38,909**	47,270
Net increase/(decrease) in cash and cash equivalents	**238,713**	(1,016,530)
Cash and cash equivalents at 1 January	**443,195**	2,077,996
Cash and cash equivalents at 30 June	**681,908**	1,061,466

The notes on pages 6 to 13 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1 PRINCIPAL ACTIVITIES AND BASIS OF PREPARATION

Sinopec Zhenhai Refining & Chemical Company Limited ("the Company") and its subsidiaries ("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.

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports", issued by the Hong Kong Society of Accountants. KPMG's independent review report to the Board of Directors is included on page 14.

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 10 that 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 only 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 weighted average number of 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 TRADE RECEIVABLES

	As at 30 June 2002 RMB'000	As at 31 December 2001 RMB'000
Accounts receivable	**69,101**	34,409
Bills receivable	**179,938**	129,040
	249,039	163,449
Less: Allowance for doubtful debts	**(5,287)**	(5,287)
	243,752	158,162

The ageing analysis of accounts and bills receivable is as follows:

	As at 30 June 2002 RMB'000	As at 31 December 2001 RMB'000
Invoice date:		
Within one year	**242,975**	157,554
Between one and two years	**169**	–
Between two and three years	**1,587**	1,632
Over three years	**4,308**	4,263
	249,039	163,449

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

8 TRADE PAYABLES

The ageing analysis of trade payables is as follows:

	As at 30 June 2002 RMB'000	As at 31 December 2001 RMB'000
Due within 1 month or on demand	**530,214**	324,632
Due after 1 month but within 6 months	**65,648**	33,399
	595,862	358,031

9 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.

10 RESERVES

Effective 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 nor the discretionary surplus reserve from profit attributable to shareholders for the six-month period ended 30 June 2002 (2001: Nil).

11 RELATED PARTY TRANSACTIONS

Substantially all transactions undertaken by the Group have been effected with such counterparties and on such terms as determined by the Group's immediate parent company, Sinopec Corp, and other relevant PRC authorities. Sinopec Corp negotiates and agrees with suppliers the terms of State-allocated crude oil on a group basis, which is then allocated among the companies under its control, including the Group, on a discretionary basis.

(a) Major transactions between the Group with Sinopec Corp or China Petrochemical Corporation ("CPC"), the Group's ultimate parent company, are as follows:

		Six-month period ended 30 June	
	Note	**2002** **_RMB'000_**	2001 *RMB'000*
Research and development expenses	*(i)*	**17,520**	17,520
Research and development subventions income	*(i)*	**1,953**	3,450
Insurance premiums	*(ii)*	**20,256**	19,196
Subsidy income	*(iii)*	**9,230**	6,739

(i) The Company pays Sinopec Corp for research and development expenditures in accordance with the provisions in an agreement between the Company and Sinopec Corp. Also, the Company undertakes certain research and development projects for Sinopec Corp.

(ii) Pursuant to administrative measures issued by Sinopec Corp, the Group maintains insurance coverage with a subsidiary of CPC, which covers the Group's buildings, machinery, equipment and inventories. The insurance premium is calculated based on certain percentage of the carrying value of the Group's assets covered.

(iii) Subsidy received from CPC can only be utilised to enhance the Group's security and safety measures and to conduct specified researches.

(b) Major transactions between the Group with other companies under Sinopec Corp or CPC are as follows:

	Six-month period ended 30 June	
	2002	2001
	RMB'000	*RMB'000*
Sales of products	**7,508,286**	7,924,499
Purchases		
– Import of crude oil through a related company	**2,135,780**	4,200,428
– Purchase of crude oil through a related company	**875,573**	–
– Others	**–**	8,000
Service fee in relation to import of crude oil	**12,815**	25,203
Construction fee	**129,817**	150,690

(c) Major transactions between the Group with its associates are as follows:

	Six-month period ended 30 June	
	2002	2001
	RMB'000	*RMB'000*
Sales of products	**177,850**	21,884

(d) Amount due from/(to) related parties:

	As at 30 June 2002 RMB'000	As at 31 December 2001 RMB'000
(i) Balance of settlement account with a related company	**252,843**	20,488

The balance of the settlement account with a related company mainly represents the proceeds from sales of certain petroleum products made to a sales subsidiary of Sinopec Corp.

(ii) Balances of amounts due from/(to) parent companies, fellow subsidiaries and associates have been disclosed on the face of the consolidated balance sheet.

The directors of the Company are of the opinion that the above transactions were conducted in the ordinary course of business and on normal commercial terms.

12 CAPITAL COMMITMENTS

Capital commitments relate primarily to construction of buildings, plant, machinery and equipment to support the Company's expansion plan. Capital commitments outstanding at 30 June 2002 not provided for in this interim report were as follows:

	As at 30 June 2002 RMB'000	As at 31 December 2001 RMB'000
Authorised and contracted for	**606,735**	716,320
Authorised but not contracted for	**398,154**	6,136
	1,004,889	722,456

13 CONTINGENT LIABILITIES

At 30 June 2002, the Group provided bank loan guarantee amounting to RMB 130,000,000 (2001: RMB 110,000,000) to an associate of the Group.

At 30 June 2002, the Group discounted undue commercial notes receivable amounting to RMB 100,000,000 (2001: RMB 200,000,000) .

14 SUBSEQUENT EVENT

After the balance sheet date the directors proposed an interim dividend. Further details are disclosed in note 5.

15 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.

Independent Review Report to the Board of Directors of Sinopec Zhenhai Refining & Chemical Company Limited

INTRODUCTION

We have been instructed by the Company to review the interim financial report set out on pages 1 to 13.

DIRECTORS' RESPONSIBILITIES

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" adopted by the International Accounting Standards Board. The interim financial report is the responsibility of, and has been approved by, the directors.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six-month period ended 30 June 2002.

KPMG
Certified Public Accountants
Hong Kong, China

23 August 2002

DIVIDENDS

The Directors have declared an interim dividend of Renminbi ("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$1.00, 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 (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. Interim 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 same 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 compared with the same period of last 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 operation made profit 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 expenses, administrative expenses and net financing costs for the interim period by 1.83 per cent compared with the same period of last 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 World Trade Organisation ("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.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2002, Sinopec Corp held 1,800,000,000 State-owned legal person shares in the Company, representing 71.3 per cent of the issued share capital of the Company.

BP p.l.c. held 237,600,000 H shares in the Company through its subsidiary ARCO Asia Pacific Investment Limited, representing 9.4 per cent of the issued share capital of the Company.

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.

INTERESTS OF DIRECTORS AND SUPERVISORS

As at 30 June 2002, neither the Directors nor the supervisors of the Company had any interests in the equity or debt securities of the Company and its associated companies.

As at 30 June 2002, neither the Directors nor the supervisors nor their respective spouses or children under 18 had exercised or been granted any right to subscribe the equity or debt securities of the Company.

APPOINTMENT OF AUDITORS

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.

REVIEW OF THE INTERIM FINANCIAL REPORT

KPMG was engaged to review the interim financial report and the review was conducted in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants. The interim financial report was unaudited.

CODE OF BEST PRACTICE

During the first half of 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 of the Company 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 during the first half of 2002.

By Order of the Board
Sun Weijun
Chairman

23 August 2002, Ningbo, China

MANAGEMENT DISCUSSION AND ANALYSIS

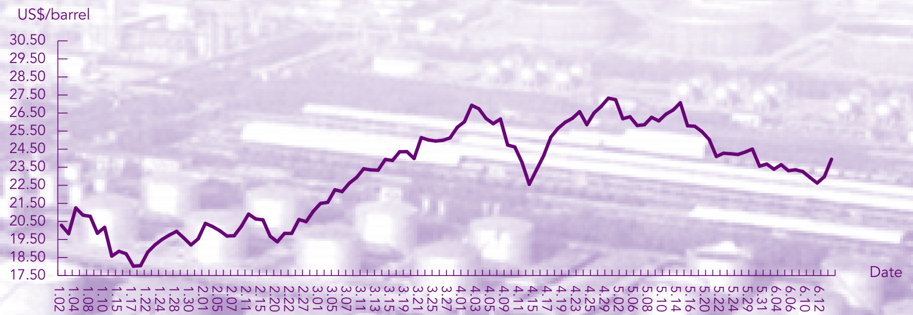
Operating Environment

In the first half of 2002, the PRC economy maintained steady growth. The PRC gross domestic product ("GDP") increased by 7.8 per cent compared with that of the same period last year. The total consumption of petroleum products (gasoline, diesel and kerosene) in the PRC was 58.52 million tonnes, which was 2.7 per cent higher than that of the same period of 2001.

In the first half of 2002, the global economy gradually recovered, and the prices of petroleum oil in the international market began to rise after reaching rock bottom. The average prices of BRENT crude oil, gasoline and diesel in the Singapore market during the six-month period were 23.33 $/b, 26.91 $/b and 25.83 $/b, respectively, increasing by 4.63 $/b, 4.49 $/b and 5.79 $/b, respectively, from those of last December. However, the international market prices of the aforesaid products fell by 12.16 per cent, 12.26 per cent and 10.34 per cent, respectively, from those of the same period last year.

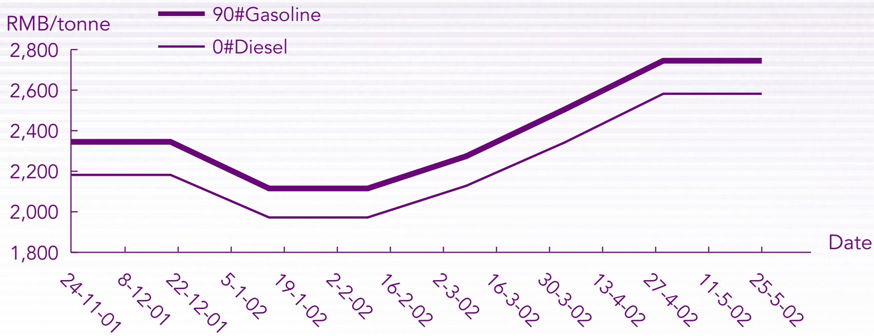
According to the domestic pricing mechanism for petroleum products, which pegs domestic prices against those in the three markets (Singapore, Rotterdam and New York), domestic prices of gasoline and diesel were adjusted to lower levels in January, followed by three major adjustments in March, April, and May, all of which substantially raised the price level. Since then, the operating environment of domestic refineries has gradually improved. The Company's refining margin in the first half of the year was 4.15 $/b, slightly lower than that of the same period of 2001, but better than the price of 3.93 $/b for the entire previous year.

Chart 1: Price movement of BRENT Crude oil in the Singapore market in the first half of 2002



Source of Information: Platts

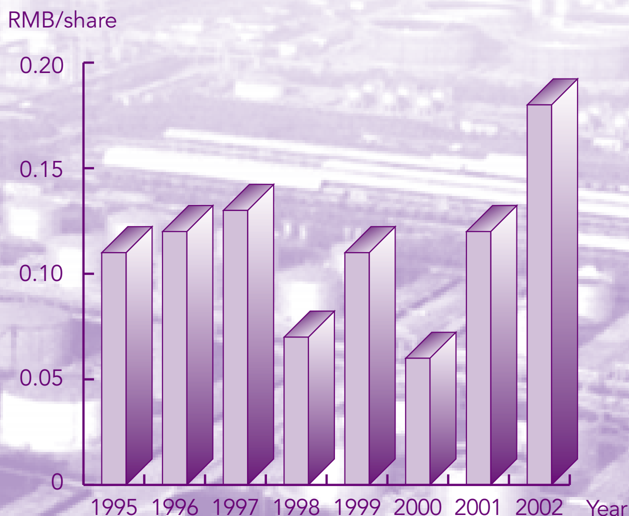
Chart 2: The movement of the Company's ex-factory prices of gasoline and diesel (including tax) in the first half of 2002



Analysis of Operating Results

Compared with the same period of 2001, the Company benefited from increased throughput volume and tightened operating cost. As a result, the Company's profit attributable to shareholders in the first half of 2002 was RMB 452.4 million, 53.95 per cent more than that of the same period of 2001, and interim earnings per share were RMB 0.18, which was the highest for the same period since the Company became listed.

Chart 3: interim earnings per share since the Company became listed



Net sales

In the first half of 2002, product sales volume of the Company reached 5,317,800 tonnes, representing a 14.74 per cent increase from that of the same period last year. Market demand was strong, and the sales volume of high value-added products has achieved a relatively greater growth rate. As compared with the first half of 2001, the sales volume of diesel, chemical light oil, LPG and jet fuel increased by 396,000 tonnes, 177,500 tonnes, 52,000 tonnes, and 43,000 tonnes respectively, while the sales volume of gasoline and commodity fuel oil decreased by 17,000 tonnes and 157,000 tonnes respectively. Among the staple products, net sales of gasoline and diesel accounted for 60.54 per cent of the total net sales.

Compared with the same period of 2001, prices of petroleum oil in the international market declined, resulting in corresponding adjustment to the prices of petroleum oil in the domestic market. In the first half of 2002, the average prices of gasoline and diesel was RMB 1,757.33 per tonne and RMB 1,808.13 per tonne respectively, representing decreases of 25.87 per cent and 15.29 per cent from those of the same period last year. The average price (excluding consumption tax) of the Company's total products was RMB 1,747.21 per tonne, which was 17.72 per cent lower than that of the same period of 2001. As a result of the rate of decrease in product prices is greater than the rate of increase of sales volume, the Company's net sales for the first half of 2002 dropped by 5.23 per cent to RMB 9,402 million.

Table 1: Sales volume, average selling price and net sales

	2002 first half	2001 first half	% change (+/-)
Sales volume *('000 tonnes)*	**5,317.8**	4,634.6	+14.74
Average selling price *(RMB/tonne)*	**1,747.21**	2,123.52	-17.72
Net sales *(RMB'000)*	**9,401,856**	9,920,792	-5.23
Including: Net sales of subsidiaries *(RMB'000)*	**110,852**	79,094	+40.15

Cost of sales

In the first half of 2002, the cost of raw materials decreased by 8.90 per cent compared with the same period of 2001, as a result of a decline in international crude oil price when compared with last year's same period and low-cost crude oil in stock at the beginning of 2002.

Cost of direct labour increased by RMB 5.67 million compared with the same period of last year.

The major factors for the fluctuation in manufacturing overheads included: an increase of approximately RMB 33.27 million in power and fuel expenses due to a rise in throughput volume; an increase of approximately RMB 41.07 million in the repairs and maintenance expenditure; and a net decrease of approximately RMB 56.35 million in depreciation expenses of the Company owing to the adjustment to the applicable depreciation periods and additional depreciation charges on machinery and equipment acquired or completed since the second half of 2001. Taking account of other factors as well, the manufacturing overheads increased by RMB 19.15 million compared with the same period last year.

Concluding from the above factors, the total cost of sales decreased by 7.74 per cent compared with that of the same period last year.

Table 2: Cost of sales *(RMB'000)*

	2002 first half	2001 first half	% change (+/-)
Raw material	**7,494,882**	8,227,290	-8.90
Direct labour	**34,186**	28,520	+19.87
Manufacturing overheads	**899,937**	880,784	+2.17
Total	**8,429,005**	9,136,594	-7.74

Selling expenses, administrative expenses and net financing costs

In the first half of 2002, the total selling expenses, administrative expenses and net financing costs decreased by 1.83 per cent year on year to RMB 372.17 million owing to tightened expenses control.

The selling expenses were basically in line with that of the same period of 2001.

The administrative expenses increased by 7.35 per cent compared with the same period of 2001, mainly due to an increase of RMB 9.1 million in premium for medical insurance, which has been implemented since the second half of last year.

The net financing costs decreased by RMB 23.52 million compared with the same period of 2001 due to reduced interest expenses following the redemption of convertible bonds in December 2001.

Table 3: Selling expenses, administrative expenses and net financing costs *(RMB'000)*

	2002 first half	2001 first half	% change (+/-)
Selling expenses	**103,117**	102,847	+0.26
Administrative expenses	**238,131**	221,825	+7.35
Net financing costs	**30,917**	54,436	-43.20
Total	**372,165**	379,108	-1.83

Unit refining cash operating cost and unit complete expenses

Despite an increase of RMB 41.8 million in repairs and maintenance expenditure, the lower average fixed cost attributable to increased throughput volume has resulted in a 0.38 per cent decrease in the unit refining cash operating cost on last year's same period to RMB 84.72 per tonne (equivalent to 1.40 $/b). Moreover, owing to the decline in depreciation expenses and net financing costs, the unit complete expenses reduced by 11.06 per cent to RMB 143.62 per tonne, (equivalent to 2.38 $/b). The unit refining cash operating cost and the unit complete expenses of the Company maintained at leading levels within the domestic oil refining industry.

Table 4: Unit refining cash operating cost and unit complete expenses *(RMB/tonne)*

	2002 first half	2001 first half	% change (+/-)
Unit refining cash operating cost	**84.72**	85.04	-0.38
Unit complete expenses	**143.62**	161.48	-11.06

Note: the unit refining cash operating cost is the current cash paid expenses, after excluding the net financing costs and the depreciation and amortisation expenses from the unit complete expenses.

Profit before taxation and profit attributable to shareholders

In the first half of 2002, the profit before taxation of the Company increased by 79.57 per cent compared with the same period of last year. The subsidiaries of the Company no longer enjoy the preferential income tax policy promulgated by the local government. The Company received a tax refund of RMB 43.077 million during the first half of 2002 for the recycling of three kinds of waste materials according to the relevant national policy. The refund received during the current period decreased by RMB 26.62 million compared with the same period of last year. The profit attributable to shareholders therefore only increased by 53.95 per cent compared with that of the same period of 2001.

Table 5: Profit before taxation and profit attributable to shareholders *(RMB'000)*

	2002 first half	2001 first half	% change (+/-)
Profit before taxation	**593,385**	330,443	+79.57
Income tax expense	**(140,972)**	(36,575)	+285.43
Profit attributable to shareholders	**452,413**	293,868	+53.95