

Interim Financial Report

The Board of Directors ("the Directors") of Sinopec Zhenhai Refining & Chemical Company Limited is pleased to present the interim results of the Company and its subsidiaries for the six-month period ended 30 June 2003. The interim financial report is unaudited.

Consolidated Income Statement

For the six-month period ended 30 June 2003 (unaudited)

(Amounts expressed in thousands, except per share data)

	Note	Six-month period ended 30 June	
		2003	2002
		RMB	RMB
Turnover		13,407,666	9,887,594
Less: Business taxes and surcharges		(469,497)	(485,738)
Net sales		12,938,169	9,401,856
Cost of sales		(11,901,566)	(8,543,962)
Gross profit		1,036,603	857,894
Other operating income		24,202	18,591
Selling and administrative expenses		(237,448)	(231,546)
Other operating expenses		(16,292)	(11,816)
Net loss on disposal of property, plant and equipment		(13,292)	(9,955)
Profit from operations		793,773	623,168
Net financing costs		(36,699)	(30,917)
Share of profits less (losses) from associates		(8,288)	1,134
Profit from ordinary activities before taxation	3	748,786	593,385
Income tax expense	4	(224,379)	(140,972)
Profit attributable to shareholders	2	524,407	452,413
Dividends attributable to the period:			
Interim dividend declared after the balance sheet date	5(a)	126,188	100,950
Earnings per share			
- Basic	6(a)	RMB 0.21	RMB 0.18
- Diluted	6(b)	RMB 0.21	RMB 0.18

The notes on pages 7 to 13 form part of this interim financial report.



Consolidated Balance Sheet

As at 30 June 2003 (unaudited)

(Amounts expressed in thousands)

	Note	As at 30 June 2003 RMB	As at 31 December 2002 RMB
Non-current assets			
Property, plant and equipment	7	6,732,996	6,227,075
Construction in progress		2,038,117	1,604,961
Lease prepayments		40,888	41,560
Interests in associates		218,895	241,479
Other investments		145,476	145,776
Deferred tax assets		109,574	106,968
Total non-current assets		9,285,946	8,367,819
Current assets			
Inventories		1,485,462	1,237,310
Trade receivables - third parties	8	246,084	378,966
Other receivables, deposits and prepayments		281,559	398,578
Amounts due from associates		12,380	12,817
Amounts due from parent companies and fellow subsidiaries	9	777,837	526,753
Deposits with banks		31,121	30,000
Cash and cash equivalents		432,967	725,355
Total current assets		3,267,410	3,309,779

The notes on pages 7 to 13 form part of this interim financial report.

Consolidated Balance Sheet *(continued)***As at 30 June 2003 (unaudited)***(Amounts expressed in thousands)*

	Note	As at 30 June 2003 <i>RMB</i>	As at 31 December 2002 <i>RMB</i>
Current liabilities			
Bank loans		734,200	396,800
Current portion of convertible bonds		4,801	4,801
Trade payables - third parties	10	815,526	457,890
Accruals and other payables		569,036	549,981
Amounts due to associates		7,222	5,012
Amounts due to parent companies and fellow subsidiaries	11	252,847	207,617
Income tax payable		148,612	198,724
Other taxes payable		174,690	378,592
Dividends payable		144,875	875
Total current liabilities		<u>2,851,809</u>	<u>2,200,292</u>
Net current assets		<u>415,601</u>	<u>1,109,487</u>
Total assets less current liabilities		<u>9,701,547</u>	<u>9,477,306</u>
Non-current liabilities			
Bank loans		<u>930,000</u>	<u>1,030,000</u>
Net assets		<u>8,771,547</u>	<u>8,447,306</u>
Shareholders' equity			
Share capital		2,523,755	2,523,755
Reserves	12	4,683,983	4,682,249
Retained earnings		1,563,809	1,241,302
		<u>8,771,547</u>	<u>8,447,306</u>

Approved and authorised for issue by the Board of Directors on 22 August 2003.

Sun Wei Jun
Chairman

Zhu Zeng Qing
Chief Accountant
(authorised by the Board of Directors)

The notes on pages 7 to 13 form part of this interim financial report.

Condensed Consolidated Statement of Changes in Shareholders' Equity

For the six-month period ended 30 June 2003 (*unaudited*)

(Amounts expressed in thousands)

	Share capital	Reserves	Retained earnings	Total
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
As at 1 January 2002	2,523,755	4,475,751	652,330	7,651,836
Profit attributable to shareholders	—	—	452,413	452,413
Dividends (<i>note 5</i>)	—	—	(88,332)	(88,332)
Others	—	1,146	—	1,146
As at 30 June 2002	<u>2,523,755</u>	<u>4,476,897</u>	<u>1,016,411</u>	<u>8,017,063</u>
As at 1 January 2003	2,523,755	4,682,249	1,241,302	8,447,306
Profit attributable to shareholders	—	—	524,407	524,407
Dividends (<i>note 5</i>)	—	—	(201,900)	(201,900)
Others	—	1,734	—	1,734
As at 30 June 2003	<u>2,523,755</u>	<u>4,683,983</u>	<u>1,563,809</u>	<u>8,771,547</u>

The notes on pages 7 to 13 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six-month period ended 30 June 2003 (unaudited)

(Amounts expressed in thousands)

	Six-month period ended 30 June	
	2003	2002
	RMB	RMB
Net cash generated from operating activities	852,591	890,512
Net cash used in investing activities	(1,276,697)	(690,708)
Net cash generated from financing activities	131,718	38,909
Net (decrease)/increase in cash and cash equivalents	(292,388)	238,713
Cash and cash equivalents at 1 January	725,355	443,195
Cash and cash equivalents at 30 June	432,967	681,908

The notes on pages 7 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 (collectively “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. 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 (“Sinopec Group Company”) is the ultimate parent company.

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 2002 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 2002 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 17 April 2003.

The accounting policies have been consistently applied by the Group and are consistent with those adopted in the 2002 annual financial statements.

The 2002 annual financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

2. Segment reporting

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 2003			Total
	Refining	Chemicals	Elimination	
	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				(8,288)
Profit from ordinary activities before taxation				748,786
Income tax expense				(224,379)
Profit attributable to shareholders				524,407

2. Segment reporting (continued)

	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	(8,467,675)	(240,652)	164,365	(8,543,962)
Gross profit	<u>795,093</u>	<u>62,801</u>	<u>—</u>	857,894
Other operating income				18,591
Selling and administrative expenses				(231,546)
Other operating expenses				(11,816)
Net loss on disposal of property, plant and equipment				<u>(9,955)</u>
Profit from operations				623,168
Net financing costs				(30,917)
Share of profits less (losses) from associates				<u>1,134</u>
Profit from ordinary activities before taxation				593,385
Income tax expense				<u>(140,972)</u>
Profit attributable to shareholders				<u>452,413</u>

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:

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

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	
	2003	2002
	RMB'000	RMB'000
Interest expense on		
- Bank borrowings wholly repayable within five years	48,110	39,982
- Convertible bonds	72	72
Less: Amount capitalised as projects in progress	<u>(15,268)</u>	<u>(10,425)</u>
Interest expense, net	32,914	29,629
Cost of inventories	11,563,227	8,351,320
Depreciation and amortisation	373,344	338,386
Provision for impairment of associates	10,000	—
Dividend income from other investments	(2,758)	(2,721)
Interest income	<u>(3,638)</u>	<u>(2,825)</u>

4. Income tax expense

	Six-month period ended 30 June	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax expense		
- Current period	219,235	132,360
- Under provision in respect of prior years	5,079	—
	<u>224,314</u>	<u>132,360</u>
Deferred taxation	(2,606)	5,443
Share of associates' income tax	2,671	3,169
	<u>224,379</u>	<u>140,972</u>

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 to certain EIT preferential treatments because of its recycling of certain wasted materials. The amount of EIT refund was RMB9,833,000 (2002: RMB43,077,000).

Pursuant to the document "Cai Shui Zi 1999 No. 290" issued by the MOF and SAT on 8 December 1999, the Group is eligible to certain EIT preferential treatments because of its purchase of certain domestic equipment for technical improvement. The amount of EIT refund was RMB24,113,000 (2002: Nil).

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	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Interim dividend declared after the balance sheet date of RMB0.05 per share (2002: RMB0.04 per share)	<u>126,188</u>	<u>100,950</u>

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	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Final dividend in respect of the previous financial year, approved during the period, of RMB0.08 per share (2002: RMB0.035 per share)	<u>201,900</u>	<u>88,332</u>

6. Earnings per share**(a) Basic earnings per share**

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders of RMB524,407,000 for the six-month period ended 30 June 2003 (2002: RMB452,413,000) and the weighted average number of ordinary shares of 2,523,754,468 (2002: 2,523,754,468) in issue during the period.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the adjusted profit attributable to ordinary shareholders of RMB524,455,000 for the six-month period ended 30 June 2003 (2002: RMB452,462,000) and the weighted average number of ordinary shares of 2,525,357,000 (2002: 2,525,357,000) after adjusting for the effects of all dilutive potential ordinary shares.

7. Property, plant and equipment

The acquisitions and disposals of items of property, plant and equipment during the six-month period ended 30 June 2003 are as follows:

	Six-month period ended 30 June	
	2003	2002
	RMB'000	RMB'000
Costs of acquisitions and transfer from construction in progress	899,654	748,715
Disposals (net carrying amount)	21,061	10,024

8. Trade receivables - third parties

	As at 30 June 2003	As at 31 December 2002
	RMB'000	RMB'000
Bills receivable	161,895	292,488
Accounts receivable	84,887	90,275
	246,782	382,763
Less: Allowance for doubtful accounts	(698)	(3,797)
	246,084	378,966

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

	As at 30 June 2003	As at 31 December 2002
	RMB'000	RMB'000
Invoice date:		
Within one year	245,769	378,966
Between one and two years	308	—
Between two and three years	—	—
Over three years	705	3,797
	246,782	382,763

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

**9. Amounts due from parent companies and fellow subsidiaries**

	As at 30 June 2003	As at 31 December 2002
	<i>RMB'000</i>	<i>RMB'000</i>
Trade balances	718,313	419,997
Non-trade balances	59,524	106,756
	777,837	526,753

All the trade and non-trade balances aged less than one year.

10. Trade payables - third parties

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

	As at 30 June 2003	As at 31 December 2002
	<i>RMB'000</i>	<i>RMB'000</i>
Due within 1 month or on demand	722,302	343,073
Due after 1 month and within 6 months	93,224	114,817
	815,526	457,890

11. Amounts due to parent companies and fellow subsidiaries

	Note	As at 30 June 2003	As at 31 December 2002
		<i>RMB'000</i>	<i>RMB'000</i>
Trade balances	(a)	191,327	127,324
Non-trade balances		61,520	80,293
		252,847	207,617

(a) *The maturity analysis of the trade balances included in the amounts due to parent companies and fellow subsidiaries is as follows:*

	As at 30 June 2003	As at 31 December 2002
	<i>RMB'000</i>	<i>RMB'000</i>
Due within 1 month or on demand	98,743	52,517
Due after 1 month and within 6 months	92,584	74,807
	191,327	127,324

12. 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 2003 (2002: Nil).

13. Related party transactions

Most of the transactions undertaken by the Group during the six-month period ended 30 June 2003 have been effected with such counterparties and on such terms as have been determined by the Company's immediate parent company, Sinopec Corp, and other relevant PRC authorities. Sinopec Corp negotiates and agrees the terms of crude oil supply with suppliers on a group basis, which is then allocated among its subsidiaries, including the Group, on a discretionary basis.

(a) Major transactions between the Group with Sinopec Corp or Sinopec Group Company are as follows:

	Note	Six-month period ended 30 June	
		2003	2002
		RMB'000	RMB'000
Research and development expenses	(i)	17,520	17,520
Research and development subventions received	(i)	1,750	1,953
Insurance premiums	(ii)	21,021	20,256
Safety insurance fund received	(iii)	9,697	9,230

(i) The Group pays Sinopec Corp for research and development expenditures in accordance with the provisions in an agreement between the Group and Sinopec Corp. Also, the Group 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 Sinopec Group Company, which cover 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) Safety insurance fund received from Sinopec Group Company 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 the related companies under Sinopec Corp or Sinopec Group Company are as follows:

	Six-month period ended 30 June	
	2003	2002
	RMB'000	RMB'000
Sales of products	9,754,491	7,508,286
Import of crude oil through a related company	2,180,623	2,135,780
Purchase of crude oil	1,180,528	875,573
Import of equipment through a related company and the related service charges	516,328	43,684
Construction fee	168,731	86,133
Service fee charges in relation to import and export of crude oil	17,980	12,815
Subcontracting fee income	35,665	—
Interest income	414	—
Interest expense	95	—

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

	Six-month period ended 30 June	
	2003	2002
	RMB'000	RMB'000
Sales of products	123,163	177,850

13. Related party transactions (continued)

(d) Settlement account with a related company:

	As at 30 June 2003	As at 31 December 2002
	<i>RMB'000</i>	<i>RMB'000</i>
Balance of settlement account	67,581	419,112

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.

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

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business and on normal commercial terms or in accordance with the terms of agreements governing such transactions.

14. Capital commitments

Capital commitments relate primarily to construction of buildings, plant, machinery and purchase of equipment. The Group had capital commitments outstanding at 30 June 2003 not provided for in the interim financial report as follows:

	As at 30 June 2003	As at 31 December 2002
	<i>RMB'000</i>	<i>RMB'000</i>
Authorised and contracted for	340,854	559,299
Authorised but not contracted for	418,921	37,249
	759,775	596,548

15. Contingent liabilities

(a) At 30 June 2003, the Group provided bank loan guarantees totalling RMB110,000,000 (31 December 2002: RMB130,000,000) to an associate of the Group.

(b) At 30 June 2003, the Group discounted undue bills receivable totalling RMB Nil (31 December 2002: RMB80,030,000).

16. Subsequent events

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

17. Comparative figures

The presentation and classification of certain cost and expense items in the consolidated income statement for the six-month period ended 30 June 2002 have been changed to conform with the current period's presentation and classification.