Sinopec Zhenhai Refining & Chemical Company Limited

Interim Report 2004

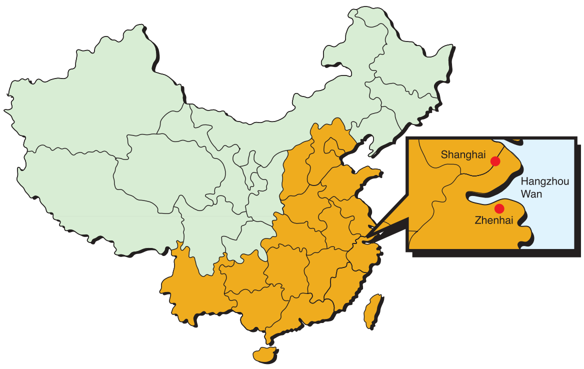
Contents

This interim report includes "forward-looking statements". All statements, other than statements of historical facts, that address activities, events or developments that the Company expects or anticipates will or may occur in the future (including but not limited to projections, targets, estimates and business plans) are forward-looking statements. The Company's actual results or developments may differ materially from those indicated by these forward-looking statements as a result of various factors and uncertainties. The Company makes the forward-looking statements referred to herein as at 20 August 2004 and undertakes no obligation to update these statements.

This interim report is published in both English and Chinese languages. The Chinese version shall prevail.

Introduction

Sinopec Zhenhai Refining & Chemical Company Limited (the "Company") became listed on The Stock Exchange of Hong Kong Limited on 2 December 1994. (stock code: 1128)



The Company is principally engaged in the production and sale of petroleum products (including gasoline, diesel, kerosene, naphtha, liquefied petroleum gas ("LPG"), solvent oil, fuel oil), intermediate petrochemical products, asphalt, urea and petrochemical products, such as, paraxylene ("PX"), polypropylene ("PP").

The Company is the largest oil refinery in China with a scale of operation up to international standards. It is also one of the 10 largest refineries in the Asia Pacific region. At present, the Company has a comprehensive processing capacity of 16 million tonnes per annum ("tpa") and a processing capacity of sour crude oil of 12 million tpa. Hydro-treating capacity surpasses 14 million tpa, which is above the international average. The Company is also the largest processing base of imported crude oil and sour crude oil, as well as, the largest export base for petroleum products. Moreover, the Company is expanding into the chemical sector, with the commissioning of its newly-built petrochemical facilities, including a 450,000 tpa PX unit and a 200,000 tpa PP unit. According to the magazine *Fortune China*, the Company ranked 12th on the list of China's top 100 listed companies in 2003.

The Company is one of the most competitive refineries in Asia Pacific. It possesses fully equipped facilities, a high intensified processing capacity, and claims an outstanding competitive advantage in the integration of refining and chemical businesses. Besides, the Company owns prestigious brand names and enjoys an excellent reputation. It is also highly competitive in respect of cost control, product quality, processing technology, environmental protection, human resources, etc. Moreover, the application of advanced information technology and the streamlined organisational structure have also raised the Company's corporate management standards. The Company's net cash revenue and returns on assets are among the highest in the Asia Pacific region, while the unit-refining cash operating cost and the unit complete expense are lower than the average levels in the region.

Located in the Yangtze River Delta, which is the most developed economic region of China led by Shanghai, the Company benefits from a market with enormous consumption power and geographical coverage. At Beilun Harbour, Ningbo, the Company owns a port with a handling capacity of 30 million tpa. With an advantageous geographical location and favourable market conditions, the Company enjoys great development prospects.

The Company follows the philosophy of "harmonious development, sharing the future", and is committed to achieving maximum cost-effectiveness and sustainable development. It is endeavouring to develop itself into a "world-class, high-tech and integrated" refining-and-chemical enterprise with international competitiveness and will continue to create greater value and returns for shareholders.

The Board of 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 2004. The interim financial report is unaudited.

Consolidated Income Statement

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

(Amounts expressed in thousands, except per share data)

	Note	Six-month period ended 30 June 2004	2003
		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

The notes on pages 7 to 17 form part of this interim financial report.

Consolidated Balance Sheet

As at 30 June 2004 *(unaudited)*

	Note	**As at 30 June 2004**	As at 31 December 2003
		RMB'000	*RMB'000*
Non-current assets			
Property, plant and equipment	*7*	**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	*8*	**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	*9*	**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

The notes on pages 7 to 17 form part of this interim financial report.

Consolidated Balance Sheet *(continued)*

As at 30 June 2004 *(unaudited)*

	Note	As at 30 June 2004	As at 31 December 2003
		RMB'000	*RMB'000*
Current liabilities			
Bank loans		402,400	884,200
Trade payables — third parties	10	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	11	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	12	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 Board of Directors on 20 August 2004.

Sun Wei Jun
Chairman

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

The notes on pages 7 to 17 form part of this interim financial report.

Condensed Consolidated Statement of Changes in Shareholders' Equity

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

	Share capital	Reserves	Retained earnings	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
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 *(note 5)*	—	—	(201,900)	(201,900)
Others	—	1,734	—	1,734
As at 30 June 2003	2,523,755	4,683,983	1,563,809	8,771,547
As at 1 January 2004	**2,523,755**	**4,954,675**	**1,750,715**	**9,229,145**
Profit attributable to shareholders	—	—	**1,276,600**	**1,276,600**
Dividends *(note 5)*	—	—	**(227,138)**	**(227,138)**
Others	—	**2,074**	—	**2,074**
As at 30 June 2004	**2,523,755**	**4,956,749**	**2,800,177**	**10,280,681**

The notes on pages 7 to 17 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

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

	Six-month period ended 30 June	
	2004	2003
	RMB'000	*RMB'000*
Net cash generated from operating activities	**1,167,433**	852,591
Net cash used in investing activities	**(730,340)**	(1,276,697)
Net cash (used in)/generated from financing activities	**(908,160)**	131,718
Net decrease in cash and cash equivalents	**(471,067)**	(292,388)
Cash and cash equivalents at 1 January	**1,028,518**	725,355
Cash and cash equivalents at 30 June	**557,451**	432,967

The notes on pages 7 to 17 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 (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 ("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 18.

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

2. Segment reporting *(continued)*

(a) Business segments (continued)

	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.

2. Segment reporting *(continued)*

(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.

5. Dividends *(continued)*

(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. Property, plant and equipment

The acquisitions and disposals of items of property, plant and equipment during the six-month period ended 30 June 2004 are as follows:

	Six-month period ended 30 June	
	2004	2003
	RMB'000	*RMB'000*
Costs of acquisitions and transfer from construction in progress	**89,172**	899,654
Disposals (net carrying amount)	**5,177**	21,061

8. 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 accounts) 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.

9. Amounts due from parent companies and fellow subsidiaries

	As at 30 June 2004	As at 31 December 2003
	RMB'000	*RMB'000*
Trade balances	375,178	402,586
Non-trade balances	232,131	116,639
	607,309	519,225

All the 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 2004	As at 31 December 2003
	RMB'000	*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

11. Amounts due to parent companies and fellow subsidiaries

	Note	As at 30 June 2004	As at 31 December 2003
		RMB'000	*RMB'000*
Trade balances	*(a)*	217,647	81,228
Non-trade balances		140,478	177,937
		358,125	259,165

(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 2004	As at 31 December 2003
	RMB'000	*RMB'000*
Due within 1 month or on demand	213,098	81,228
Due after 1 month and within 6 months	4,549	—
	217,647	81,228

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 2004 (2003: RMB nil).

13. Related party transactions

Most of the transactions undertaken by the Group during the six-month period ended 30 June 2004 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:

		Six-month period ended 30 June	
	Note	**2004**	2003
		RMB'000	*RMB'000*
Research and development expenses	*(i)*	—	17,520
Research and development subventions received	*(i)*	—	1,750
Insurance premium expenses	*(ii)*	**26,958**	21,021
Safety insurance fund received	*(iii)*	**8,242**	9,697

(i) The Group paid Sinopec Corp for research and development expenditures in accordance with the provisions of an agreement between the Group and Sinopec Corp in 2003. Also, the Group undertook certain research and development projects for Sinopec Corp. For the six-month period ended 30 June 2004, the Group undertook research and development projects itself in accordance with Sinopec Corp's instructions.

(ii) Pursuant to administrative measures issued by Sinopec Corp, the Group maintains insurance coverage with a subsidiary of Sinopec Group Company, which covers the Group's buildings, machinery, equipment and inventories. The insurance premium expenses are 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 or to conduct specified researches.

13. Related party transactions *(continued)*

(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	
	2004	2003
	RMB'000	*RMB'000*
(i) Sinopec Yizheng Chemical Fibre Company Limited		
Sales of products — paraxylene	**799,445**	—

	Six-month period ended 30 June	
	2004	2003
	RMB'000	*RMB'000*
(ii) Others		
Sales of products and service fee income	**14,016,447**	9,790,156
Import of crude oil through a related company	**6,900,126**	2,180,623
Purchase of crude oil	**—**	1,180,528
Purchase of equipment and related service fee charges	**61,279**	516,328
Construction fee expense	**91,015**	168,731
Service fee charges in relation to import and export of crude oil	**41,401**	17,980
Operating lease expense in respect of land	**9,411**	—
Interest income, net	**809**	319

(c) Major transactions between the Group with its associates and jointly controlled entity are as follows:

	Six-month period ended 30 June	
	2004	2003
	RMB'000	*RMB'000*
Sales of products	**1,741,680**	123,163

13. Related party transactions *(continued)*

(d) Settlement account with a related company:

	As at 30 June 2004	As at 31 December 2003
	RMB'000	*RMB'000*
Balance of settlement account	222,801	669,334

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, associates and jointly controlled entity 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, purchase of equipment and capital contributions to investments. The Group had capital commitments outstanding at 30 June 2004 not provided for in the interim financial report as follows:

	As at 30 June 2004	As at 31 December 2003
	RMB'000	*RMB'000*
Authorised and contracted for	342,375	353,076
Authorised but not contracted for	543,205	283,197
	885,580	636,273

15. Contingent liabilities

(a) At 30 June 2004, the Group provided bank loan guarantees totalling RMB70,000,000 (31 December 2003: RMB110,000,000) to an associate of the Group.

(b) At 30 June 2004, the Group discounted undue commercial bills totalling RMB150,000,000 (31 December 2003: RMB nil).

16. Subsequent events

The Board of Directors declared an interim dividend after the balance sheet date. Further details are disclosed in note 5.

Independent Review Report to the Board of Directors of
Sinopec Zhenhai Refining & Chemical Company Limited
(Established in the People's Republic of China with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 2 to 17.

Respective responsibilities of directors and auditors

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.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 2004.

KPMG
Certified Public Accountants

Hong Kong, China
20 August 2004

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.

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.

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 tpa PX trouble-shooting facility, and technological upgrading of the 1,800,000 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.

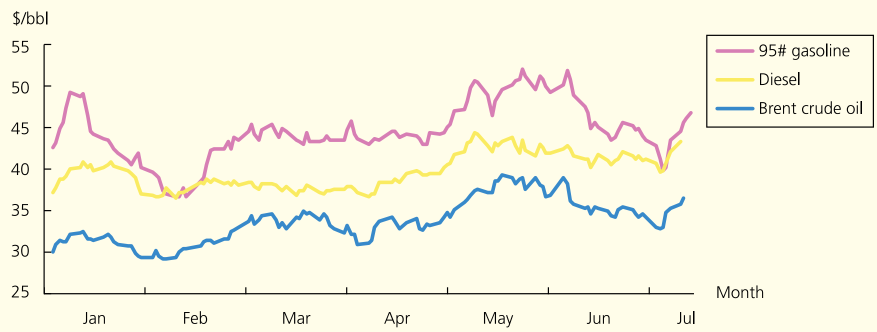
Fourth, the Company is investing for expansion. It has embarked on its 20 million tpa refining capacity expansion project at an estimated capital expenditure of over RMB800 million in the second half of the year mainly for the upgrading and capacity expansion of the 3 million tpa atmospheric and vacuum 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.

1. Operating environment

In the first half of 2004, the price of crude oil in the international market stayed high and even reached a historic high in nearly 20 years. The average dated price of Brent crude oil was US$33.65 per barrel ("$/bbl") for the first half of the year, up by 4.78 $/bbl over that of the same period of last year. The average prices of gasoline, diesel and jet fuel were 44.61 $/bbl, 39.48 $/bbl, and 40.56 $/bbl respectively, representing increases of 11.22 $/bbl, 6.88 $/bbl and 8.14 $/bbl respectively over those of the same period of last year.

Dated price movements of Brent crude oil and those of gasoline and diesel in the Singapore market in the first half of 2004



Source of information: the Platts

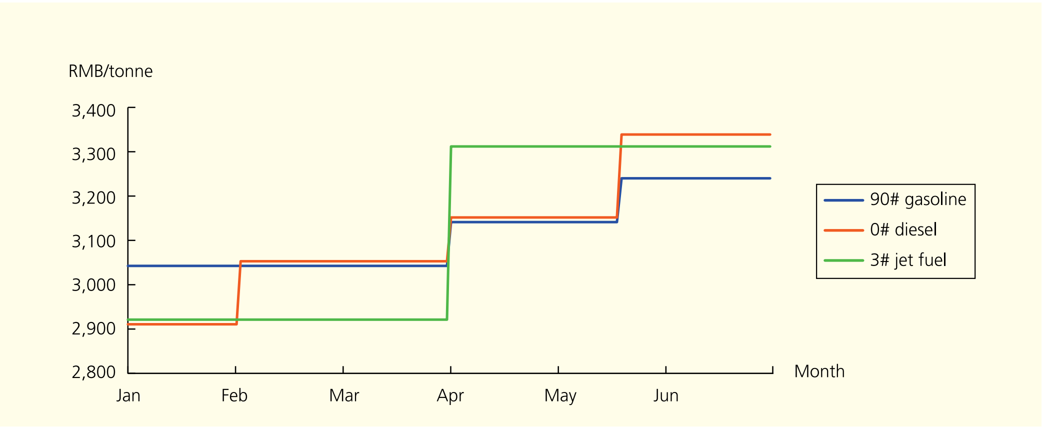
During the first half of 2004, China's GDP increased by 9.7 per cent when compared with that of the same period of last year. The total domestic throughput of crude oil amounted to 134 million tonnes in the first half of 2004, representing a 17.9% increase over that of the same period of last year. The consumption of petroleum products (including gasoline, diesel and kerosene) amounted to 75.75 million tonnes, representing an increase of 24.60% over that of the same period of last year.

The State Development Planning Commission adjusted the prices of gasoline and kerosene in April and that of diesel in May 2004 respectively. The ex-factory prices of the Company's diesel were adjusted in February and April, and so was that of gasoline in May.

1 The following discussion should be read together with the interim financial report and its notes from page 2 to page 17 contained in this interim report.

1. Operating environment *(continued)*

The movement of ex-factory prices (inclusive of tax) of the Company's 90# gasoline, 0# diesel and 3# jet fuel in the first half of 2004



2. Throughput of feedstock

In the first half of 2004, the Company's throughput of feedstock rose by 30.11% to 8,109,800 tonnes when compared with that of the same period of last year.

The following table shows the composition of the throughput of feedstock:

Unit: '000 tonnes		**2004 first half**	**Percentage (%)**	2003 first half	Percentage (%)
By feedstock type	Imported crude oil	**7,412.73**	**91.40**	4,594.96	73.72
	Off-shore crude oil	**635.76**	**7.84**	925.42	14.85
	On-shore crude oil	**50.00**	**0.62**	704.41	11.30
	Purchased feedstock	**11.28**	**0.14**	8.42	0.13
By business type	The Company's own operation	**7,410.51**	**91.38**	5,805.21	93.13
	Third-party processing business	**699.26**	**8.62**	428.00	6.87
Total		**8,109.77**	**100.00**	6,233.21	100.00

In the first half of 2004, China imported 61,025,000 tonnes of crude oil, an increase of 39.30 percentage points when compared with the same period of last year. The Company also processed 7,412,700 tonnes of imported crude oil during the period under review, accounting for 91.40% of the total amount of feedstock processed or an increase of 17.68 percentage points when compared with the same period of last year.

2. Throughput of feedstock *(continued)*

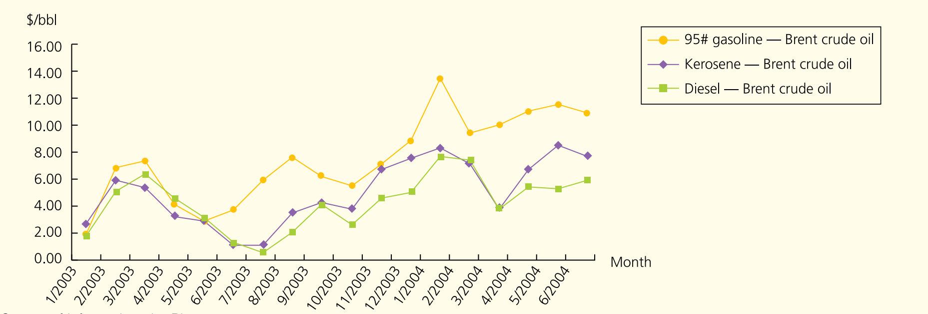
Due to the constant rise in the utilization rate of domestic refineries and changes in allocation of domestic crude oil resource, the Company did not purchase on-shore crude oil in the first half of the year. As such, the total processing volume of on-shore crude oil dropped substantially.

The Company continued to expand its third-party processing business. The volume of third-party processing business reached 699,300 tonnes in the first half of the year, representing an increase of 63.38% when compared with the same period of last year, resulting in an enlarged overall throughput volume and an adjusted product structure offering enhanced economic efficiency.

3. Refining margin and unit complete expense

3.1 The Singapore market

Spread prices of different petroleum products in the Singapore market in 2003– the first half of 2004



Source of information: the Platts

As shown in the diagram above, the Asia-Pacific refining margin has increased in the first half of 2004 when compared to that of the same period of last year.

3.2 The Company's refining margin

In the first half of 2004, the Company's refining margin [defined as the refining business net sales less feedstock processing costs, and divided by the throughput of feedstock (excluding third-party processing business)] was RMB347.68 per tonne (about 5.75 $/bbl), representing an increase of 0.8 $/bbl or 16.16%, when compared with the 4.95 $/bbl in the same period of last year.

Although high crude oil prices and the lagging prices of petroleum products had put pressure on the Company, the timely commencement of operation of the new PX and PP facilities, having been properly adjusted and technically improved, has realised the planned production capacity ahead of schedule. This had improved the product structure and raised the added value of the products, thereby improving the Company's net sales and gross profit.

3. Refining margin and unit complete expense *(continued)*

3.3 Unit complete expense and unit refining cash operating cost

(RMB/tonne)	**2004 first half**	2003 first half	Change (%)
Unit complete expense *(note 1)*	**124.62**	152.36	–18.21
Unit refining cash operating cost *(note 2)*	**71.16**	92.99	–23.48

Notes:

1. Refining complete expenses refer to the costs and expenses of the refining business (excluding chemical fertiliser business and subsidiaries) for the period under review except for the cost of feedstock. Unit complete expense = Refining complete expenses/feedstock throughput.

2. Refining cash operating cost = Refining complete expense less depreciation and amortization less net financing costs. Unit refining cash operating cost = Refining cash operating cost/feedstock throughput.

In the first half of the year, the Company substantially raised the feedstock throughput by 30. 11% and effectively offset the additional expense incurred by the newly installed PX and PP facilities to keep refining complete expenses to RMB1,011 million, representing a slight increase of 6.41% when compared with the same period of last year. And the unit complete expense was reduced by 18.21% when compared with the same period of last year, at RMB124.62 per tonne (about 2.06 $/bbl), which made the Company to stay in the forefront among domestic players in the industry.

Unit refining cash operating cost of the Company fell substantially by 23.48% to RMB71.16 per tonne (about 1.18 $/bbl), when compared with the same period of last year, due mainly to a major increase in feedstock throughput which served to reduce the unit fixed cost. In addition, the inauguration of the CFB boiler also helped to reduce fuel and power expenses.

The unit complete expense reduced due to decline in unit refining cash operating cost and increase in feedstock throughput, which had led to lower unit depreciation and net financing costs.

4. Analysis of major operating results

In the first half of 2004, the profit attributable to shareholders of the Group reached RMB1,277 million, representing an increase of 143.44% over that of the same period last year, and had exceeded the full year figure of 2003.

	2004 first half	2003 first half	Change (%)
	(RMB'000)	*(RMB'000)*	
Turnover	**19,412,997**	13,407,666	44.79
Less: Business tax and surcharges	**(832,872)**	(469,497)	77.40
Net sales	**18,580,125**	12,938,169	43.61
Cost of sales	**(16,527,987)**	(11,901,566)	38.87
Gross profit	**2,052,138**	1,036,603	97.97
Selling, administrative expenses and other operating expenses	**(262,923)**	(253,740)	3.62
Profit from operations	**1,822,502**	793,773	129.60
Net financing costs	**(42,309)**	(36,699)	15.29
Profit from ordinary activities before taxation	**1,801,175**	748,786	140.55
Profit attributable to shareholders	**1,276,600**	524,407	143.44
Basic earnings per share (RMB Yuan/share)	**0.51**	0.21	142.86

4. Analysis of major operating results *(continued)*

4.1 Net sales

The Group's net sales for the first half of 2004 amounted to RMB18,580 million, representing a 43.61% increase over the same period last year. The following table shows the composition of net sales and sales volume:

	2004 first half		2003 first half	
	Net sales	Sales volume	Net sales	Sales volume
	(RMB'000)	*('000 tonnes)*	*(RMB'000)*	*('000 tonnes)*
Gasoline	**2,391,251**	**968**	2,140,041	883
Diesel	**8,606,204**	**3,347**	5,250,545	2,289
Kerosene	**1,513,796**	**566**	1,191,609	481
Naphtha	**778,036**	**327**	775,326	342
Other chemical feed oil	**172,840**	**60**	380,894	147
Heavy oil	**171,255**	**122**	35,127	23
Solvent oil	**131,241**	**44**	168,129	64
LPG	**1,176,723**	**420**	910,347	337
BTX (excluding PX)	**727,769**	**157**	548,628	158
PX	**921,691**	**161**	N/A	N/A
Propylene	**160,642**	**31**	333,162	83
Polypropylene	**452,644**	**66**	30,882	6
Asphalt	**436,991**	**300**	333,055	219
Urea	**390,924**	**298**	320,380	277
Miscellaneous and service income	**78,707**	**112**	380,248*	180*
Income from subsidiaries and other income	**469,411**	**N/A**	139,796	N/A
Total	**18,580,125**	**6,979**	12,938,169	5,489

* Revenues from miscellaneous and service income in the first half of 2003 consist of net sales and sales volume of purchased LPG.

In the first half of the year, the Company's net sales growth exceeded the growth of feedstock throughput mainly due to the following:

1. Sales volume (excluding purchased LPG) increased by 30.26% and reached 6,979,200 tonnes when compared with the same period of last year. The percentage growth in sales volume was slightly higher than that of feedstock throughput.

4. Analysis of major operating results *(continued)*

4.1 Net sales *(continued)*

2. The Company has upgraded its product range and ensured its product mix meeting market demand. The yield of the Company's light oil has increased by 1.86 percentage points to reach 75.03% in the first half of the year. The sales volume of high-standard gasoline above 93# as a portion of the total sales volume of gasoline has increased by 9.81 percentage points to reach 62.94%, with part of the exported gasoline reaching European standard III. Diesel to gasoline ratio increased by 19 percentage points to 2.60 when compared with the same period last year. Amongst the asphalt products, the sales volume of the high-quality paving asphalt has increased by 30.88% when compared with the same period of last year, reaching 264,000 tonnes.

3. Sales tactics that aim at value maximization were opted for by the Company. From the viewpoint of product value, the prices of gasoline, kerosene and diesel before consumption tax and surcharges were RMB2,471.17, RMB2,672.57 and RMB2,571.61 per tonne respectively. The product structure was adjusted under the principle that the market value of the products be maximised. The growth of the output volume of kerosene and diesel which were priced higher in first half of the year exceeded the growth rate of processing volume, with the two registering growths at 37.70% and 36.88% respectively when compared with the same period of last year. As for gasoline, its production volume growth rate was 26.85%, and was lower than that of processing volume.

4. Chemical products have become a new profit centre. In the first half of the year, the sales volume of chemical products, such as, PP, PX, BTX and propylene increased by 68.71% when compared with the same period of last year, reaching 415,600 tonnes. Net sales of the aforementioned products over the Company's overall net sales jumped by 5.13 percentage points, reaching 12.18% when compared with the same period of last year, pushing up the Company's all-product average price from RMB2,333.87 per tonne to RMB2,594.95 per tonne (before tax and surcharges).

5. The chemical fertilizer business has increased its contribution to the Company, thanks to the increase in urea prices and the decrease in costs due to upgraded raw materials and fuel system. In the first half of the year, the chemical fertilizer business realised a pre-tax profit of RMB54.34 million in the first half of the year, representing an increase of 163.68% when compared with the same period of last year, offering better social and economic efficiency.

4. Analysis of major operating results *(continued)*

4.1 Net sales *(continued)*

6. The contribution rate of self-distributed products has risen. The Company had adjusted the ex-factory prices of its self-distributed products in time, resulting in a rise of the average price of the self-distributed products by 23.28%, reaching RMB2,820.41 per tonne (before tax and surcharges) when compared with the same period of last year. The percentage increase in self-distributed product price is higher than the all-product average price by about 12.09 percentage points.

Net sales of the Group by geographic region for the first half of 2004

Geographical region	Net sales	Percentage share
	(RMB million)	*(%)*
Mainland China	18,580	100
Other countries and regions	—	—
Total	18,580	100

Our company continued to implement strategies that mainly aim to satisfy internal demand on mainland China by suspending the exportation of gasoline, kerosene and diesel.

4.2 Cost of sales

The cost of sales of the Group for the first half of 2004 amounted to RMB16,528 million, representing an increase of 38.87% over the same period last year. The rise was mainly due to the increase in feedstock prices. The cost of feedstock accounted for 92.83% of the total cost of sales.

The Company's average price of processed feedstock rose by RMB218.38 per tonne in the first half of the year when compared with the same period of last year, reaching RMB2,048.86 per tonne (CIF price: 33.23$/bbl). The percentage increase of the Company's average price of processed crude oil of 11.93% was lower than the 16.90 percentage increase in the average dated price of Brent crude oil. The main reason laid in the Company's emphasis on utilising its strength in sour crude oil processing, capturing opportunities of price difference between high and low sulphur-content crude oil. The processing volume of sour crude oil rose to 4,872,200 tonnes, representing an increase of 43.19% when compared with the same period of last year.

RMB226.08 million of staff cost was charged in the first half of the year, which was RMB15.24 million more than that of the same period of last year, due to the adjustments of salary.

4. Analysis of major operating results *(continued)*

4.2 Cost of sales *(continued)*

Fuel and power expenses increased by RMB5.53 million in the first half of the year, reaching RMB73.44 million because of the increase in processing volume and the commencement of operation of the newly installed facilities.

Depreciation reached RMB379.96 million in the first half of the year, representing an increase of RMB66.63 million over the same period of last year, due to the commissioning of its newly completed facilities.

4.3 Expenses during the period

In the first half of 2004, the Group strengthened its control over various expenses. Selling expenses, administrative expenses and net financing costs were together reduced by a total of 3.73% to RMB264 million when compared with that of the same period of last year.

Despite upsurge in transportation and other miscellaneous expenses as a result of increase in sales volume, the selling expenses reduced by RMB5,480,100 to RMB40,871,100 in the first half of the year when compared with the same period of last year. This was due to the decrease in agency commission fees resulting from a decline in the exportation of petroleum products.

Due to the reduction in submission of technology development fee, the administrative expenses were reduced by RMB10,364,300 to RMB180,733,200 when compared with the same period of last year.

Net financing costs increased by RMB5,609,500 to RMB42,308,500 when compared with the same period of last year. This was due to the decrease of capitalisation of the interest of long-term borrowing upon the completion of new facilities.

4.4 Profit attributable to shareholders

Unit: RMB'000	**2004 first half**	2003 first half	Changes (%)
Profit from ordinary activities before taxation	**1,801,175**	748,786	140.55
Income tax expenses	**(524,575)**	(224,379)	133.79
Profit attributable to shareholders	**1,276,600**	524,407	143.44

During the first half of 2004, the Group's profit from ordinary activities before taxation was RMB1,801 million. Due to echoing the State's advocation of the recycling of "three kinds of waste materials" and others, the Group has been enjoying a preferential enterprise income tax policy, which enabled the Group to offset an enterprise income tax expense of RMB71.75 million (2003 first half: RMB33.95 million). As a result, profit attributable to shareholders rose by 143.44% from RMB524 million recorded in the first half of 2003 to RMB1,277 million for the period under review.

4. Analysis of major operating results *(continued)*

4.4 Profit attributable to shareholders *(continued)*

The effective enterprise income tax of the Company in the first half of 2004 was 29.12 per cent, a decrease of 0.85 percentage points from that of the same period of last year.

5. Assets, liabilities, shareholders' equity

As at 30 June 2004, the Group's total assets, total liabilities and shareholders' equity amounted to RMB13,601 million, RMB3,321 million and RMB10,281 million respectively. Total assets and shareholders' equity increased 0.84% and 11.39% respectively, while total liabilities decreased by 22.04%, when compared with those as at 31 December 2003. Gearing ratio (total liabilities/total assets) was 24.41%, representing a decline of 7.17 percentage points when compared with those as at 31 December 2003. Current ratio and quick ratio stood at 149.66% and 80.24% respectively. The return on capital employed ("ROCE") stood at 12.22%, representing an increase of 6.73 percentage points. Return on net assets was 13.09%, representing an increase of 7.00 percentage points. The Group's asset structure has remained healthy, with satisfactory returns on capital.

Total assets have increased by RMB112 million from RMB13,489 million as at 31 December 2003. Current assets amounted to RMB3,997 million, representing an increase of RMB152 million compared to that as at 31 December 2003. Non-current assets amounted to RMB9,605 million, which was on par with the RMB9,645 million level as at 31 December 2003.

Total liabilities dropped by RMB938 million from RMB4,259 million as at 31 December 2003. Current liabilities amounted to RMB2,671 million, representing a decrease of RMB778 million from that as at 31 December 2003. The decrease in current liabilities was mainly due to reduction by RMB482 million in bank borrowings due within one year and a decrease of RMB566 million in trade payables — third parties. Non-current liabilities stood at RMB650 million, representing a decrease of RMB160 million from that as at 31 December 2003 mainly due to a reduction in long term bank borrowings by RMB160 million.

The profit attributable to the shareholders for the first half of the year amounted to RMB1,277 million, of which RMB227 million was for profit allocation. Shareholders' equity as at 30 June 2004 rose by RMB1,052 million from RMB9,229 million as at 31 December 2003.

6. Capital expenditure

The Group's capital expenditure stood at RMB470 million in the first half of the year, which was primarily spent on the technical upgrading of the 450,000 tpa PX facilities, the newly built aromatics disproportion sector for PX, the reforming of the 1.80 million tpa heavy oil catalytic facilities and the construction of Zhenhai — Caojing naphtha pipeline.

6. Capital expenditure *(continued)*

The Group planned to spend a capital expenditure of over RMB800 million for the three million tpa atmospheric vacuum distillation unit, the one million tpa delayed coking facilities and the aromatics disproportion sector for PX and the construction of Zhenhai — Caojing naphtha pipeline. The Company will start the upgrading of berths 2# and 3# to add a 250,000-tonne multi-functional oil berth to the Company in order to raise the handling capacity of its self-operated port from 30 million tpa to 40 million tpa.

7. Health, safety and environment ("HSE")

The Company endeavours to pursue a coordinated effort in economic development, that takes into consideration of health, safety and environment (HSE). Since it put into place the HSE management system in September 2003, the Company has been implementing it to the greatest degree to avoid accidents, and minimise health hazards and environmental damage. It has made it its goal to achieve international first-class HSE management objectives by continuously perfecting the HSE management mechanism to achieve long-term effect. The Company has also diligently incorporated the mechanism into its production and management activities.

The Company will continue to forge ahead with its environmental protection work by persisting in its sustainable developmental strategies and diligently creating a nice clean working and living environment for the staff and the society. After its eight million tpa oil refining capacity expansion project was named by the State as one of the first batch of the "100 best State Environmental Protection Projects", and in the first half of this year, the Company 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".

The Company is devoted to providing cleaner energy fuel for the society and the quality of gasoline satisfies the standard requirements of clean gasoline. The Company has succeeded in producing the highest standard 98# clean gasoline in the domestic market in the first half of the year. Its quality satisfies the European Standard III requirements and the fuel requirements of the 2008 Beijing Olympic Games. Plans are now at hand to produce low sulphur diesel used by city automobile.

The Company's various environmental protection indicators met relevant requirements in the first half of the year. Its industrial wastewater treatment rate had reached 100%, and so was its rate of meeting the standard of industrial wastewater discharge and the emission of industrial gases. Fresh water consumption for unit crude oil was controlled at 0.54 tonne of water per tonne of petroleum processed. Wastewater discharged for each tonne of processed crude oil was 0.18 tonne, which was in line with international advanced standards.

The Company insisted on the management philosophy of "sharing a prosperous future through harmonic development" and unceasingly promotes public participation in environmental protection through inviting government representatives and community leaders to visit the Company. It also regularly organises public opinion surveys to engage in proactive and effective communications with the community and taking heed of the public views and proposals on environmental protection.

1. Substantial Shareholders

Save as disclosed below, the Directors of the Company are not aware of any persons (other than a Director or Supervisor or chief executive of the Company or his/her respective associate(s)) who, as at 30 June 2004, had an interest or short position in the shares or underlying shares of the Company which was recorded in the register to be kept under section 336 of the Securities and Futures Ordinance ("SFO"):

Name of shareholder	Nature	Class of Shares	Capacity	*Note*	Number of shares/ underlying shares	% to entire issued capital	% to all issued H shares
Sinopec Corp	Long position	State-owned legal person shares	Corporate	*a*	1,800,000,000	71.32	N/A
BP p.l.c.	Long position	H shares	Corporate	*b*	237,600,000	9.41	32.83
JP Morgan Chase & Co.	Long position	H shares	Investment Manager/Other	*c*	94,850,700	3.76	13.11
	Lending Pool	H shares	Other	*c*	41,036,700	1.63	5.67
Morgan Stanley	Long position	H shares	Corporate	*d*	41,411,000	1.64	5.72
	Short position	H shares	Corporate	*d*	6,980,000	0.28	0.96
FMR Corp	Long position	H shares	Investment Manager		44,126,000	1.75	6.10

Notes:

(a) Sinopec Corp held the above 1,800,000,000 State-owned legal person shares in the Company. China Petrochemical Corporation ("Sinopec Group Company") is the ultimate controlling shareholder of the Company, and is a State-authorised investment institution and a State-holding company. It has a 55.06% equity interest in Sinopec Corp.

(b) ARCO Asia Pacific Investments Limited, which was a controlled corporation of BP p.l.c., had a direct holding in the above 237,600,000 H Shares.

(c) The shares in which JP Morgan Chase & Co. were deemed to be interested were held via JF Asset Management Limited, J.P. Morgan Fleming Asset Management (UK) Limited, JP Morgan Chase Bank, J.P. Morgan Whitefriars Inc. and JF International Management Inc. respectively.

(d) The shares in which Morgan Stanley were deemed to be interested were held via Morgan Stanley Investment Management Company, Morgan Stanley and Co International Limited and MSDW Equity Finance Services I (Cayman) Limited respectively.

2. Trust Deposit and Overdue Time Deposit

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

3. 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.

4. 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.

5. 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.

1. Shareholders' General Meeting

The Company held its 2003 annual general meeting on 18 June 2004 in strict accordance with relevant laws and regulations, as well as, the notices and convening procedures laid down in the Company's Articles of Association. The meeting considered and passed, inter alia, the 2003 annual report and the proposal submitted by the Board of Directors on the amendment of the Articles of Association of the Company.

Announcements with details on the Company's 2003 annual general meeting were published in Hong Kong newspapers, South China Morning Post and Wen Wei Po, on 21 June 2004.

2. Board of Directors

Board of Directors

The fourth meeting of the fourth Board of Directors, which was held on 16 April 2004, passed and considered, inter alia, the 2003 annual report and the proposal submitted by the Board of Directors on the amendment of the Articles of Association of the Company. The above resolutions were submitted for approval in the 2003 annual general meeting.

The Executive Committee of the Board of Directors

During the period under review, the Executive Committee of the Board of Directors convened six meetings, faithfully performing the duties as stipulated in the Company's Articles of Association and the "Rules of Procedures Governing the Board of Directors".

The Composition of the Board of Directors

The Board of Directors of the Company comprises a total of 12 Directors, six of whom are Executive Directors, namely, Mr Sun Weijun, Mr Zhan Juping, Mr Xu Liqiao, Mr Sun Jianli, Mr Zhao Jinxuan and Mr Yu Renming. The two Non-executive Directors are Ms Wang Lisheng and Mr Hu Weiqing. The four Independent Non-executive Directors are Mr Sun Yongsen, Mr Cen Kefa, Mr Li Linghong and Ms Qiu Yun. The composition of the Board of Directors fulfils the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Professional Committee of the Board of Directors

The Company has, in accordance with rule 3.21 of the Listing Rules, set up an audit committee. The Audit Committee comprises the head of the committee, Ms Qiu Yun, and four members, namely Ms Wang Lisheng, Mr Hu Weiqing, Mr Sun Yongsen and Mr Li Linghong. The committee convened meetings on 16 April 2004 and 20 August 2004 respectively, during which "The 2003 Annual Financial Statements" and "The 2004 Interim Financial Report" were reviewed.

The Reform and Remuneration Committee held its meeting on 16 April 2004 to review, inter alia, the proposed amendments to the Articles of Association of the Company.

2. Board of Directors *(continued)*

Training for Directors

In light of the amendments made to the Listing Rules, which came into effect on 31 March 2004, the Company held a training session for the Directors during the period under review to enhance their diligent attitude, sense of responsibility and awareness on the need for standardized operation in order to seriously carry out their duties, thereby raising the level of standardised operation and the standard of disclosure of information of the Company.

3. Independence of Independent Non-executive Directors

The Company has, according to rule 3.10 of the Listing Rules, appointed a sufficient number of Independent Non-executive Directors and those who possess the appropriate professional qualifications.

In August 2004, four Independent Non-executive Directors of the Company separately submitted their confirmation letters on their independence confirming that they strictly observed the requirements for independence as set out in rule 3.13 of the Listing Rules.

4. 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.

5. Investor Relations

The Company has actively and faithfully performed its duties regarding the disclosure of information and the work on investor relations. It has strictly abided by the principles of faith, regulation, transparency and timely disclosure of information. Through the various approaches and channels such as formulating results reports, issuing announcements, organizing roadshows at home and abroad, using telephone conferencing, maintaining a corporate website, receiving investors and analysts, answering enquiries, the Company strengthens its communication and relationship with its investors, enhances its transparency, and helps investors recognise its value.

6. Interests of Directors and Supervisors

As at 30 June 2004, neither the Directors nor the Supervisors of the Company have any interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO).

7. Model Code for Directors

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" contained in Appendix 10 of the Listing Rules as the code of conduct for the Directors. The Directors are not aware of any information which would reasonably indicate that the Company has not complied with the "Model Code for Securities Transactions by Directors of Listed Issuers", during the first half of 2004.

8. 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 Listing Rules during the first half of 2004.

By Order of the Board
Sun Weijun
Chairman

20 August 2004, Ningbo, the PRC

Corporate Information

Sponsor
ING Bank N.V.

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Haiwen & Partners, Beijing

Hong Kong
Johnson Stokes & Master

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KPMG Certified Public Accountants
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10 Chater Road
Central
Hong Kong

Hong Kong Share Registrar and Transfer Office
Hong Kong Registrars Limited
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Principal Bankers
The Industrial and Commercial Bank of China
Ningbo Zhenhai Petrochemical Sub-branch
The Construction Bank of China
Zhenhai Petrochemical Specialized Sub-branch
Bank of China, Zhenhai Sub-branch

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