

Interim Financial Report

Consolidated Income Statement

for the six months ended 30 June 2005 — *unaudited*

	Note	Six months ended 30 June	
		2005	2004
		RMB'000	RMB'000
Turnover		25,858,192	19,412,997
Less: Business taxes and surcharges		(865,365)	(832,872)
Net sales		24,992,827	18,580,125
Cost of sales		(23,186,041)	(16,527,987)
Gross profit		1,806,786	2,052,138
Other operating income		63,436	37,833
Selling and administrative expenses		(253,086)	(221,604)
Other operating expenses		(32,715)	(45,978)
Operating profit before financing costs		1,584,421	1,822,389
Financial income		8,188	6,281
Financial expenses		(37,977)	(48,590)
Net financing costs		(29,789)	(42,309)
Share of profits less losses of associates		21,052	18,628
Share of profits of jointly controlled entity		381	2,354
		21,433	20,982
Profit before tax	4	1,576,065	1,801,062
Income tax expense	5	(314,892)	(524,575)
Profit for the period	3	1,261,173	1,276,487
Attributable to:			
Equity holders of the parent		1,261,148	1,276,600
Minority interests		25	(113)
Profit for the period	3	1,261,173	1,276,487
Basic earnings per share (in Rmb)	7(a)	RMB0.50	RMB0.51

The notes on pages 9 to 18 form part of this interim financial report.

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Consolidated Balance Sheetas at 30 June 2005 — *unaudited*

	<i>Note</i>	As at 30 June 2005	As at 31 December 2004
		<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets			
Property, plant and equipment	8	8,910,315	8,619,019
Construction in progress		473,327	840,159
Lease prepayments		49,802	51,954
Interests in associates		209,163	189,650
Interest in jointly controlled entity		45,218	44,962
Other investments		144,744	148,996
Deferred tax assets		121,909	127,271
Total non-current assets		9,954,478	10,022,011
Current assets			
Inventories		3,283,135	2,016,241
Trade receivables-third parties	9	32,086	230,017
Other receivables, deposits and prepayments		406,499	287,083
Amounts due from associates and jointly controlled entity		103,359	32,253
Amounts due from parent companies and fellow subsidiaries	10	891,715	769,834
Deposits with banks		103,143	40,806
Cash and cash equivalents	11	1,026,694	2,094,534
Total current assets		5,846,631	5,470,768

The notes on pages 9 to 18 form part of this interim financial report.

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Consolidated Balance Sheet

as at 30 June 2005 — *unaudited (continued)*

	Note	As at 30 June 2005	As at 31 December 2004
		<i>RMB'000</i>	<i>RMB'000</i>
Current liabilities			
Bank loans		430,000	430,000
Trade payables-third parties	12	638,288	671,572
Accruals and other payables		669,065	742,594
Amount due to associates		30,154	—
Amounts due to parent companies and fellow subsidiaries	13	1,134,156	1,191,721
Income tax payable		193,356	373,550
Other taxes payable		327,650	345,887
Dividends payable		1,344	1,344
Total current liabilities		3,424,013	3,756,668
Net current assets		2,422,618	1,714,100
Total assets less current liabilities		12,377,096	11,736,111
Non-current liabilities			
Bank loans		220,000	320,000
Net assets		12,157,096	11,416,111
Equity			
Share capital		2,523,755	2,523,755
Reserves	14	7,913,324	6,404,120
Retained earnings		1,717,702	2,485,885
Total equity attributable to equity holders of the parent		12,154,781	11,413,760
Minority interests		2,315	2,351
Total equity		12,157,096	11,416,111

Approved and authorised for issue by the Board of Directors on 19 August 2005.

Sun Wei Jun
Chairman

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

The notes on pages 9 to 18 form part of this interim financial report.

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Condensed Consolidated Statement of Changes in Equityfor the six months ended 30 June 2005 — *unaudited*

	Note	Attributable to equity holders of the parent				Minority interests	Total equity
		Share capital	Reserves	Retained earnings	Total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2004							
— as previously reported		2,523,755	4,954,675	1,750,715	9,229,145	—	9,229,145
— as previously presented separately from liabilities and equity	2	—	—	—	—	2,350	2,350
— as restated		2,523,755	4,954,675	1,750,715	9,229,145	2,350	9,231,495
Profit for the period							
— attributable to equity holders of the parent		—	—	1,276,600	1,276,600	—	1,276,600
— minority interests	2	—	—	—	—	(113)	(113)
Dividends	6(b)	—	—	(227,138)	(227,138)	—	(227,138)
Distributions to minority interests		—	—	—	—	(59)	(59)
Others		—	2,074	—	2,074	—	2,074
As at 30 June 2004		2,523,755	4,956,749	2,800,177	10,280,681	2,178	10,282,859

The notes on pages 9 to 18 form part of this interim financial report

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Condensed Consolidated Statement of Changes in Equityfor the six months ended 30 June 2005 — *unaudited (continued)*

	Note	Attributable to equity holders of the parent				Minority interests	Total equity
		Share capital	Reserves	Retained earnings	Total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2005							
— as previously reported		2,523,755	6,404,120	2,485,885	11,413,760	—	11,413,760
— as previously presented separately from liabilities and equity	2	—	—	—	—	2,351	2,351
— as restated	18	2,523,755	6,404,120	2,485,885	11,413,760	2,351	11,416,111
Profit for the period							
— attributable to equity holders of the parent		—	—	1,261,148	1,261,148	—	1,261,148
— minority interests	2	—	—	—	—	25	25
Appropriations	14	—	1,500,000	(1,500,000)	—	—	—
Dividends	6(b)	—	—	(529,988)	(529,988)	—	(529,988)
Distributions to minority interests		—	—	—	—	(61)	(61)
Deferred tax arising from government grants		—	(657)	657	—	—	—
Others		—	9,861	—	9,861	—	9,861
As at 30 June 2005		2,523,755	7,913,324	1,717,702	12,154,781	2,315	12,157,096

The notes on pages 9 to 18 form part of this interim financial report

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Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2005 — *unaudited*

	Six months ended 30 June	
	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>
Cash generated from operations	748,199	1,553,397
Income tax paid	(482,609)	(385,964)
Net cash generated from operating activities	265,590	1,167,433
Net cash used in investing activities	(681,499)	(730,340)
Net cash used in financing activities	(651,931)	(908,160)
Net decrease in cash and cash equivalents	(1,067,840)	(471,067)
Cash and cash equivalents at 1 January	2,094,534	1,028,518
Cash and cash equivalents at 30 June	1,026,694	557,451

The notes on pages 9 to 18 form part of this interim financial report

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Notes on 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 Company's immediate parent company and China Petrochemical Corporation ("Sinopec Group Company") is the Company's ultimate parent company.

This interim financial report has been prepared in accordance with the applicable disclosure provisions 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 interim financial report was authorized for issuance on 19 August 2005.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2004 annual financial statements, except for the accounting policy change that is expected to be reflected in the 2005 annual financial statements. Details of this change in accounting policy are set out in note 2.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2004 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

The 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 Institute of Certified Public Accountants. KPMG's independent review report to the Board of Directors is included on page 19.

The financial information relating to the financial year ended 31 December 2004 that is included in the interim financial report as being previously reported information does not constitute the Company's annual financial statements for that financial year but is derived from those financial statements. Annual financial statements for the year ended 31 December 2004 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 8 April 2005. The 2004 annual financial statements have been prepared in accordance with IFRSs.

2. Change in accounting policy

The IASB has issued a number of new and revised IFRSs (which term collectively includes IASs and Interpretations) that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. The Board of Directors has determined the accounting policies to be adopted in the preparation of the Group's annual financial statements for the year ending 31 December 2005, on the basis of IFRSs currently in issue.

The IFRS that will be effective or are available for voluntary early adoption in the annual financial statements for the year ending 31 December 2005 may be affected by the issue of additional interpretation(s) or other changes announced by the IASB subsequent to the date of issuance of this interim report. Therefore the policies that will be applied in the Group's financial statements for that period cannot be determined with certainty at the date of issuance of this interim financial report.

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2. Change in accounting policy (continued)

The following sets out further information on the change in accounting policy for the annual accounting period beginning on 1 January 2005 which has been reflected in this interim financial report.

Minority interests (IAS 1, Presentation of financial statements and IAS 27, Consolidated and separate financial statements)

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the consolidated income statement as a deduction before arriving at the profit attributable to shareholders.

With effect from 1 January 2005, in order to comply with IAS 1 and IAS 27, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the parent, and minority interests in the results of the Group for the period are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the period between the minority interests and the equity holders of the parent.

The presentation of minority interests in the consolidated balance sheet, consolidated income statement and condensed consolidated statement of changes in equity for the comparative period has been restated accordingly.

3. Segment reporting

Segment information is presented in respect of the Group's 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 months ended 30 June 2005			Total RMB'000
	Refining RMB'000	Chemicals RMB'000	Elimination RMB'000	
Net sales	24,725,546	482,957	(215,676)	24,992,827
Cost of sales	(23,104,984)	(296,733)	215,676	(23,186,041)
Gross profit	1,620,562	186,224	—	1,806,786
Other operating income				63,436
Selling and administrative expenses				(253,086)
Other operating expenses				(32,715)
Operating profit before financing costs				1,584,421
Net financing costs				(29,789)
Share of profits less losses of associates				21,052
Share of profits of jointly controlled entity				381
Profit before tax				1,576,065
Income tax expense				(314,892)
Profit for the period				1,261,173

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3. Segment reporting (continued)

	Six months ended 30 June 2004			Total RMB'000
	Refining RMB'000	Chemicals RMB'000	Elimination 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				(45,978)
Operating profit before financing costs				1,822,389
Net financing costs				(42,309)
Share of profits less losses of associates				18,628
Share of profits of jointly controlled entity				2,354
Profit before tax				1,801,062
Income tax expense				(524,575)
Profit for the period				1,276,487

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:

- (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.

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4. Profit before tax

Profit before tax is arrived at after charging/(crediting):

	Six months ended 30 June	
	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on borrowings	21,733	40,171
Less: Borrowing costs capitalised into projects in progress	(855)	(2,254)
Interest expense, net	20,878	37,917
Write-down of inventory	30,920	8,437
Depreciation and amortisation	526,011	501,535
Net loss on disposal of property, plant and equipment	1,741	4,546
Dividend income from other investments	(5,857)	(5,461)
Interest income	(8,188)	(6,281)

5. Income tax expense

	Six months ended 30 June	
	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax expense		
— Current period	310,391	525,735
— (Over)/under-provision in respect of prior years	(7,976)	477
	302,415	526,212
Deferred taxation	5,362	(7,939)
Share of associates' taxation	6,989	5,525
Share of jointly controlled entity's taxation	126	777
Total income tax expense in consolidated income statement	314,892	524,575

Individual companies within the Group are mainly subject to Enterprise Income Tax ("EIT") at 33% (2004: 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 recognized by the Group during the six months ended 30 June 2005 was RMB120,587,000 (for the six months ended 30 June 2004: RMB71,747,000).

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 recognized by the Group during the six months ended 30 June 2005 was RMB75,534,000 (for the six months ended 30 June 2004: RMB nil).

The Group did not carry on business overseas and in Hong Kong and therefore does not incur overseas or Hong Kong Profits Tax.

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6. Dividends

(a) Dividends attributable to the interim period:

	Six months ended 30 June	
	2005	2004
	RMB'000	RMB'000
Interim dividend declared after the interim period of RMB0.09 per share (2004: RMB0.09 per share)	227,138	227,138

The interim dividend has not been recognised as a liability at the balance sheet date.

(b) Dividends attributable to the previous financial year, approved and paid during the interim period:

	Six months ended 30 June	
	2005	2004
	RMB'000	RMB'000
Final dividend in respect of the financial year ended 31 December 2004, approved and paid during the following interim period, of RMB0.21 per share (financial year ended 31 December 2003: RMB0.09 per share)	529,988	227,138

7. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity holders of the parent of RMB1,261,148,000 for the six months ended 30 June 2005 (six months ended 30 June 2004: RMB1,276,600,000) and the weighted average number of ordinary shares of 2,523,754,468 (2004: 2,523,754,468) in issue during the period.

(b) Diluted earnings per share

The Group had no dilutive potential ordinary shares in existence during the six months ended 30 June 2005.

8. Property, plant and equipment

The acquisitions and disposals of items of property, plant and equipment during the six months ended 30 June 2005 are as follows:

	Six months ended 30 June	
	2005	2004
	RMB'000	RMB'000
Cost of acquisitions and transfer from construction in progress	852,980	89,172
Disposals (net carrying amount)	36,401	5,177

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9. Trade receivables — third parties

	As at 30 June 2005	As at 31 December 2004
	RMB'000	<i>RMB'000</i>
Bills receivable	5,356	137,202
Accounts receivable	27,754	93,918
	33,110	231,120
Less: Allowance for doubtful accounts	(1,024)	(1,103)
	32,086	230,017

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

	As at 30 June 2005	As at 31 December 2004
	RMB'000	<i>RMB'000</i>
Invoice date:		
Within one year	31,135	228,890
Between one and two years	1,358	1,607
Between two and three years	—	6
Over three years	617	617
	33,110	231,120

The Company generally requests customers to pay cash or settle by bills in full prior to delivery of goods. Subject to negotiation, credit is only available for major customers with well-established trading records.

10. Amounts due from parent companies and fellow subsidiaries

	As at 30 June 2005	As at 31 December 2004
	RMB'000	<i>RMB'000</i>
Trade balances	759,942	616,056
Non-trade balances	131,773	153,778
	891,715	769,834

The credit term granted to the Company's parent companies and fellow subsidiaries is normally within one month. All the trade balances aged less than one year.

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11. Cash and cash equivalents

	As at 30 June 2005	As at 31 December 2004
	<i>RMB'000</i>	<i>RMB'000</i>
Cash on hand	113	78
Balances with banks and other financial institutions with an initial term of less than three months	1,026,581	2,094,456
	1,026,694	2,094,534

12. Trade payables — third parties

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

	As at 30 June 2005	As at 31 December 2004
	<i>RMB'000</i>	<i>RMB'000</i>
Due within 1 month or on demand	254,936	481,548
Due after 1 month and within 6 months	383,352	190,024
	638,288	671,572

13. Amounts due to parent companies and fellow subsidiaries

	As at 30 June 2005	As at 31 December 2004
	<i>RMB'000</i>	<i>RMB'000</i>
Trade balances	946,353	829,056
Non-trade balances	187,803	362,665
	1,134,156	1,191,721

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 2005	As at 31 December 2004
	<i>RMB'000</i>	<i>RMB'000</i>
Due within 1 month or on demand	946,353	828,040
Due after 1 month and within 6 months	—	1,016
	946,353	829,056

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14. Reserves

For the six months ended 30 June 2005, the Company approved to transfer RMB1,500,000,000 from its retained earnings to discretionary surplus reserve (2004: RMB nil). No transfers were made to the statutory surplus reserve or the statutory public welfare fund during the period (2004: RMB nil).

15. Related party transactions

Most of the transactions undertaken by the Group during the six months ended 30 June 2005 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.

Transactions with other state-controlled entities in the PRC

The Group operates in an economic regime currently predominated by state-controlled entities. Apart from transactions with Sinopec Group Company and fellow subsidiaries, the Group conducts a majority of its business activities with entities directly or indirectly owned or controlled by the PRC government and numerous government authorities and agencies (collectively referred to as "state-controlled entities") in the ordinary course of business.

The directors consider that meaningful disclosures of related party transactions have been made below and further disclosures on transactions with state-controlled entities (other than Sinopec Group Company and fellow subsidiaries) in the ordinary course of business would not be necessary given that this will cause undue burden in preparing the interim financial report and the cost of preparing such information would outweigh its benefit.

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

	Note	Six months ended 30 June	
		2005	2004
		RMB'000	RMB'000
Insurance premium expenses	(i)	27,887	26,958
Safety insurance fund received	(ii)	10,866	8,242

(i) 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.

(ii) 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.

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15. 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 months ended 30 June	
	2005	2004
	RMB'000	RMB'000
(i) Sinopec Yizheng Chemical Fibre Company Limited		
Sales of products-paraxylene	1,324,657	799,445
(ii) Shanghai Secco Petrochemical Company Limited		
Sales of products-naphtha	1,246,894	—
(iii) Others		
	Six months ended 30 June	
	2005	2004
	RMB'000	RMB'000
Sales of products and service fee income	17,425,367	14,016,447
Import of crude oil through related companies	12,777,590	6,900,126
Purchase of trading stock, equipment and related service fee charges	314,395	61,279
Construction fee expense	27,536	91,015
Service fee charges in relation to import and export of crude oil	40,264	41,401
Operating lease expense in respect of land	5,193	9,411
Interest income, net	1,155	809

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

	Six months ended 30 June	
	2005	2004
	RMB'000	RMB'000
Sales of products	1,939,402	1,741,680

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15. Related party transactions (continued)

(d) Settlement account with a related company:

	As at 30 June 2005	As at 31 December 2004
	RMB'000	RMB'000
Balance of settlement account	713,091	1,626,615

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.

16. 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 2005 not provided for in the interim financial report as follows:

	As at 30 June 2005	As at 31 December 2004
	RMB'000	RMB'000
Contracted for	330,362	195,307
Authorised but not contracted for	568,379	21,118
	898,741	216,425

17. Contingent liabilities

At 30 June 2005, the Group provided bank loan guarantees totalling RMB20,000,000 (31 December 2004: RMB50,000,000) to an associate of the Group.

18. Comparative figures

Certain comparative figures have been adjusted as a result of the change in accounting policy, details of which are set out in note 2.

19. Post balance sheet event

With the authorisation from the PRC government, the People's Bank of China announced that the PRC government reformed the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies on 21 July 2005. The exchange rate of US dollars against RMB was adjusted to 8.11 yuan per US dollar with effect from the time of 19:00 hours on 21 July 2005.