中国石油化工股份有限公司
CHINA PETROLEUM & CHEMICAL CORPORATION

Annual Report On Form 20-F
2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark One)

☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-15138

中国石油化工股份有限公司
CHINA PETROLEUM & CHEMICAL CORPORATION
(Exact name of Registrant as specified in its charter)

The People's Republic of China
(Jurisdiction of incorporation or organization)

A6, Huixingdong Street
Chaoyang District, Beijing, 100029
The People's Republic of China
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12 (b) of the Act.

Title of Each Class	Name of Each Exchange On Which Registered
American Depositary Shares, each representing 100 H Shares of par value RMB1.00 per share	New York Stock Exchange, Inc.
H Shares of par value RMB1.00 per share	New York Stock Exchange, Inc.*

Securities registered or to be registered pursuant to Section 12 (g) of the Act.

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15 (d) of the Act.

None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

State-owned domestic shares, par value RMB 1.00 per share	67,121,951,000
H Shares, par value RMB 1.00 per share	16,780,488,000
A Shares, par value RMB 1.00 per share	2,800,000,000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) or the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant as required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark which financial statement item the Registrant has elected to follow.

Item 17 ☐ Item 18 ☒

* Not for trading, but only in connection with the registration of American Depository Shares.

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CERTAIN TERMS AND CONVENTIONS

Definitions

Unless the context otherwise requires, references in this annual report to:

- "Sinopec Corp.," "we," "our" and "us" are to China Petroleum & Chemical Corporation, a PRC limited liability company, and its subsidiaries after giving effect to the reorganization of Sinopec Group as described under "Item 4 — Information on the Company — History and Development" as though the reorganization had effect from the earliest relevant date, except where the context otherwise requires;

- "Sinopec Group Company" are to our controlling shareholder, China Petrochemical Corporation, a PRC limited liability company;

- "Sinopec Group" are to the Sinopec Group Company and its subsidiaries other than Sinopec Corp. and its subsidiaries;

- "Old Sinopec" are to the ministerial level enterprise of China Petrochemical Corporation and its affiliates before the industry restructuring in March 1998;

- "China" or the "PRC" are to the People's Republic of China, excluding for purposes of this annual report Hong Kong, Macau and Taiwan;

- "provinces" are to provinces and to provincial-level autonomous regions and municipalities in China which are directly under the supervision of the central PRC government;

- "RMB" are to renminbi, the currency of the PRC; and

- "US$" are to US dollars, the currency of the United States of America.

Presentation of Information Relating to Assets Retained by Sinopec Group Company

Unless the context otherwise indicates, all financial information prior to December 31, 1999 includes certain petroleum and petrochemical operations, consisting primarily of six refining and petrochemical complexes, 16 individual production plants and approximately 2,700 retail service stations, that were retained by Sinopec Group Company on December 31, 1999. The assets and liabilities associated with these operations are reflected as a net distribution of RMB 26.6 billion (US$3.2 billion) to Sinopec Group Company on December 31, 1999. These operations and their assets and liabilities are not ours and are not available to generate revenues for us for periods ended after December 31, 1999. Therefore, to more accurately reflect our operations and businesses going forward, other than the company data described in "Item 5 — Operating and Financial Review and Prospects," or unless the context otherwise indicates, all company data prior to December 31, 1999 provided in this annual report including, among other things, production volume, sales volume, market share, primarily distillation capacity, rated capacity and capacity utilization rate, do not include the data of any of those operations retained by Sinopec Group Company on December 31, 1999.

Basis of Presentation Relating to the Acquisition of Sinopec National Star

We acquired the entire equity interest of Sinopec National Star Petroleum Company ("Sinopec National Star") from Sinopec Group Company in August 2001. As Sinopec National Star and we were under the common control of Sinopec Group Company, our acquisition of Sinopec National Star is treated as a "combination of entities under common control", which is accounted in a manner similar to a pooling-of-interests. Accordingly, the assets and liabilities of Sinopec National Star have been accounted for at historical cost and our financial statements for periods prior to the combination have been restated to include the accounts and results of operations of Sinopec National Star on a combined basis. The consideration paid by us to Sinopec Group Company has been treated as an equity transaction.

Conversion Conventions

Conversions of crude oil from tonnes to barrels are made at a rate of one tonne to 7.35 barrels for crude oil we purchase from external sources and one tonne to 7.1 barrels for crude oil we produce, representing the typical gravity of the respective source of crude oil. Conversions of natural gas from cubic meters to cubic feet are made at a rate of one cubic meter to 35.315 cubic feet.

Consumption Data Convention

Unless the context otherwise indicates, national consumption data are estimated based on national production plus imports less exports, assuming no change in domestic inventory levels; regional consumption data are estimated based on sales volumes in and into the region, assuming no change in inventory levels within the region.

Glossary of Technical Terms

Unless otherwise indicated in the context, references to:

- "billion" are to a thousand million.

- "BOE" are to barrels-of-oil equivalent; natural gas is converted at a ratio of 6,000 cubic feet of natural gas to one BOE.

- "primary distillation capacity" are to the crude oil throughput capacity of a refinery's basic distillation units, calculated by estimating the number of days in a year that such basic distillation units are expected to operate, including downtime for regular maintenance, and multiplying that number by the amount equal to the units' optimal daily crude oil throughput.

- "rated capacity" are to the output capacity of a given production unit or, where appropriate, the throughput capacity, calculated by estimating the number of days in a year that such production unit is expected to operate, including downtime for regular maintenance, and multiplying that number by an amount equal to the unit's optimal daily output or throughput, as the case may be.

- "throughput" are to the amount of material processed by a production unit in a year or other period as indicated.

- "utilization rate" are to the amount of output or throughput by a production unit per annum as a proportion of the capacity of that unit per annum at the end of a year.

CURRENCIES AND EXCHANGE RATES

We publish our financial statements in renminbi. Unless otherwise indicated, all translations from renminbi to US dollars have been made at a rate of RMB 8.2766 to US$1.00, the noon buying rate as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2001. We do not represent that renminbi or US dollar amounts could be converted into US dollars or renminbi, as the case may be, at any particular rate, the rates below or at all.

The following table sets forth noon buying rate for US dollars in New York City for cable transfers in renminbi as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

	Noon Buying Rate			
Period	**End**	**Average[(1)]**	**High**	**Low**
	(RMB per US$1.00)			
1996	8.3284	8.3395	8.3549	8.3002
1997	8.3100	8.3193	8.3290	8.2911
1998	8.2789	8.2968	8.3180	8.2774
1999	8.2795	8.2785	8.2800	8.2770
2000	8.2774	8.2784	8.2799	8.2768
2001	8.2766	8.2770	8.2786	8.2676
October 2001	8.2768	—	8.2770	8.2765
November 2001	8.2772	—	8.2774	8.2765
December 2001	8.2766	—	8.2773	8.2766
January 2002	8.2765	—	8.2800	8.2765
February 2002	8.2765	—	8.2770	8.2765
March 2002	8.2774	—	8.2800	8.2766
2002 (through April 18)	8.2772	8.2769	8.2780	8.2769

(1) Determined by averaging the rates on the last business day of each month during the relevant period.

FORWARD-LOOKING STATEMENTS

This annual report includes "forward-looking statements." All statements, other than statements of historical facts, included in this annual report that address activities, events or developments which we expect or anticipate will or may occur in the future are forward-looking statements. The words believe, intend, expect, anticipate, project, estimate, predict, plan and similar expressions are also intended to identify forward-looking statements.

These forward-looking statements address, among others, such issues as:

- amount and nature of future exploration and development,
- future prices of and demand for our products,
- future earnings and cash flow,
- development projects and drilling prospects,
- future plans and capital expenditures,
- estimates of proved oil and gas reserves,
- exploration prospects and reserves potential,
- expansion and other development trends of the petroleum and petrochemical industry,
- production forecasts of oil and gas,
- expected production or processing capacities, including expected rated capacities and primary distillation capacities, of units or facilities not yet in operation,
- expansion and growth of our business and operations, and
- our prospective operational and financial information.

These statements are based on assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in particular circumstances. However, whether actual results and developments will meet our expectations and predictions depends on a number of risks and uncertainties which could cause actual results to differ materially from our expectations, including the risks set forth in "Item 3 — Key Information — Risk Factors" and the following:

- fluctuations in prices of our products,
- failures or delays in achieving production from development projects,
- potential acquisitions and other business opportunities,
- general economic, market and business conditions, and
- other risks and factors beyond our control.

Consequently, all of the forward-looking statements made in this annual report are qualified by these cautionary statements. We cannot assure you that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected effect on us or our business or operations.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

Historical Financial Information

The selected income statement data and cash flow data for the years ended December 31, 1999, 2000 and 2001, and the selected balance sheet data as of December 31, 2000 and 2001 have been derived from, and should be read in conjunction with, the audited consolidated financial statements included elsewhere in this annual report. The financial data reflects the acquisition of Sinopec National Star which is accounted in a manner similar to a pooling-of-interests. Accordingly, our financial data for periods prior to the acquisition have been restated to include the accounts and results of operations of Sinopec National Star on a combined basis. The selected income statement and cash flow data for the years ended December 31, 1998 and 1997 and the selected balance sheet data as of December 31, 1999, 1998 and 1997 are derived from unaudited consolidated financial statement data based on our historical accounting records. In our opinion, the unaudited data reflects all adjustments necessary for a fair presentation of these data.

This financial data reflect the reorganization and have been prepared as if our current structure had been in existence throughout the relevant periods. In addition, the financial data prior to December 31, 1999 also include the operations retained by Sinopec Group Company that were historically associated with Sinopec Group Company's petroleum and petrochemical operations. The results of operations, financial positions and cash flows associated with such businesses are not reflected in our consolidated financial statements as of December 31, 1999 or a later date, or for periods ended after December 31, 1999. Therefore, the following selected financial data as of December 31, 1999, 2000 and 2001 and for the years ended December 31, 2000 and 2001 are not necessarily comparable with selected financial data as of an earlier date or for an earlier period. In addition, the financial data included herein may not necessarily reflect what our results of operations, financial position and cash flows would have been had we been a separate, stand-alone entity during the periods presented. Further, the selected financial data should be read in conjunction with the consolidated financial statements together with accompanying notes and "Item 5 — Operation and Financial Review and Prospects" included elsewhere in this annual report. Unless otherwise indicated, the consolidated financial statements are prepared and presented in accordance with IAS. For a reconciliation of our net income and shareholders' equity to US GAAP, see note 31 to the consolidated financial statements.

	Years Ended December 31,					
	1997	1998	1999	2000	2001	2001
	RMB	RMB	RMB	RMB	RMB	US$[8]
	(in millions, except per share and per ADS data)					
Income Statement Data[1][2]:						
IAS						
Consolidated results						
Operating revenues	226,142	199,967	241,671	331,576	318,471	38,478
Purchased crude oil, products and operating supplies and expenses	(154,956)	(134,675)	(161,168)	(226,533)	(220,313)	(26,619)
Selling, general and administrative expenses	(18,408)	(17,014)	(18,558)	(19,519)	(17,138)	(2,071)
Depreciation, depletion and amortization	(13,297)	(16,095)	(18,431)	(20,781)	(22,430)	(2,710)
Exploration expenses, including dry holes	(2,050)	(2,524)	(2,309)	(3,030)	(3,775)	(456)
Personnel expenses	(11,178)	(11,544)	(12,696)	(13,264)	(12,889)	(1,557)
Employee reduction expenses	—	—	—	—	(2,546)	(308)
Taxes other than income tax	(8,452)	(8,655)	(9,536)	(12,220)	(11,887)	(1,436)
Other operating expenses, net	(2,973)	(3,259)	(3,261)	(718)	(193)	(23)
Operating income	14,828	6,201	15,712	35,511	27,300	3,298
Interest expense, net of interest income and net foreign exchange gains (losses)	(8,201)	(11,146)	(10,282)	(4,936)	(3,152)	(381)
Gains from issuance of shares by subsidiaries	1,627	2,114	607	—	—	—
Other income and gains	625	771	814	461	519	63
Income/(loss) before income tax and minority interests	8,879	(2,060)	6,851	31,036	24,667	2,980
Income tax	(1,797)	2,345	(351)	(9,638)	(8,029)	(970)
Income before minority interests	7,082	285	6,500	21,398	16,638	2,010
Minority interests	(841)	(457)	(1,577)	(1,814)	(613)	(74)
Net income/(loss)	6,241	(172)	4,923	19,584	16,025	1,936
Basic earnings/(loss) per share [3]	0.09	(0.00)	0.07	0.27	0.19	0.02
Basic earnings/(loss) per ADS [3]	9.07	(0.25)	7.16	27.22	18.82	2.27
Cash dividends declared per share	—	—	—	0.01	0.08	0.01
Segment results[4]						
Exploration and production	4,947	3,550	3,005	25,411	23,185	2,801
Refining	7,410	2,550	6,065	1,394	2,106	255
Marketing and Distribution	(320)	155	2,550	6,358	2,443	295
Chemicals	2,642	(564)	3,677	2,437	(758)	(92)
Corporate and others	(447)	(144)	(831)	(89)	324	39
Operating income	14,232	5,547	14,466	35,511	27,300	3,298
US GAAP						
Net income/(loss)	6,291	(54)	5,426	22,011	17,315	2,092
Basic earnings/(loss) per share [3]	0.09	(0.00)	0.08	0.31	0.20	0.02
Basic earnings/(loss) per ADS [3]	9.14	(0.08)	7.89	30.60	20.33	2.46
Cash dividends declared per share	—	—	—	0.01	0.08	0.01

	As of December 31,					
	1997	1998	1999	2000	2001	2001
	RMB	RMB	RMB	RMB	RMB	US$[8]
			(in millions)			
Balance Sheet Data[1][2]:						
IAS						
Cash and cash equivalents	21,855	27,234	21,759	19,621	21,023	2,540
Total current assets	110,367	112,609	89,159	136,173	109,795	13,266
Total non-current assets[5]	185,431	204,486	194,085	218,569	256,914	31,041
Total assets[5]	295,798	317,095	283,244	354,742	366,709	44,307
Short-term debts and loans from Sinopec Group Company and its affiliates (including current portion of long-term debts)	81,083	86,172	83,686	59,110	49,211	5,946
Long-term debts and loans from Sinopec Group Company and its affiliates (excluding current portion of long-term debts)[7]	69,458	78,747	42,846	71,004	67,001	8,095
Shareholders' equity[5]	71,281	74,060	89,878	133,154	147,669	17,842
Capital employed[6]	214,270	227,798	216,667	266,857	266,399	32,187
US GAAP						
Total assets	NA	304,585	246,928	320,381	336,626	40,672
Long-term debts and loans from Sinopec Group Company and its affiliates (excluding current portion of long-term debts)	NA	77,995	42,448	70,554	66,501	8,035
Shareholders' equity	NA	73,742	67,691	112,633	130,371	15,752

	Years Ended December 31,					
	1997	1998	1999	2000	2001	2001
	RMB	RMB	RMB	RMB	RMB	US$[8]
			(in millions)			
Other Financial Data[1][2]:						
IAS						
Net cash generated from operating activities	19,117	22,452	25,902	29,180	55,279	6,679
Net cash generated from/(used in) financing activities	17,117	17,790	4,319	33,003	(15,387)	(1,859)
Net cash used in investing activities	(33,531)	(34,828)	(35,700)	(64,319)	(38,483)	(4,650)
Capital expenditures						
Exploration and production	10,356	8,795	10,531	14,813	20,276	2,450
Refining	9,670	10,809	6,942	5,511	8,992	1,086
Marketing and distribution	2,229	2,075	3,176	16,080	17,256	2,085
Chemicals	10,781	12,127	12,919	6,205	11,947	1,444
Corporate and others	425	809	1,092	251	358	43
Total	33,461	34,615	34,660	42,860	58,829	7,108

(1) Except for data as of and for the year ended December 31, 2000 and 2001 and as of December 31, 1999, include the results of operations and net assets of certain petroleum and petrochemical operations that were included in the consolidated financial statements but were retained by Sinopec Group Company. These net assets were reflected as a distribution to shareholder as of December 31, 1999.

(2) The acquisition of Sinopec National Star in 2001 is considered a "combination of entities under common control" which is accounted in a manner similar to a pooling-of-interests ("as-if pooling-of-interests accounting"). Accordingly, the assets and liabilities of Sinopec National Star acquired have been accounted for at historical cost and the consolidated financial statements for periods prior to the combination have been restated to include the accounts and results of operations of Sinopec National Star on a combined basis. The consideration paid has been treated as an equity transaction.

(3) Basic earnings/(loss) per share and per ADS have been computed by dividing net income/(loss) by the weighted average number of shares in issue during 2001 of 85,168,192,425 (2000: 71,936,025,585) as if the 68,800,000,000 shares issued and outstanding upon the formation of Sinopec Corp. on February 25, 2000 had been outstanding for all relevant periods.

(4) Segment operating income without considering the effects of finance costs or investment income.

(5) Includes the effect of the revaluation of property, plant, and equipment as of September 30, 1999. In addition, property, plant and equipment of Sinopec National Star were revalued as of December 31, 2000 in connection with the acquisition by Sinopec Corp.

(6) Equals the sum of short-term debts, long-term debts, loans from Sinopec Group Company and its affiliates, shareholders' equity and minority interests less cash and cash equivalents.

(7) As of December 31, 2000 and 2001, interest-free loans from Sinopec Group Company and its affiliates due 2020 amounted to RMB 35.6 billion.

(8) Translated solely for the convenience of the reader into US dollars at the rate prevailing on December 31, 2001 of US$1.00 to RMB 8.2766.

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

Risks Relating to Sinopec Corp.

Our limited operating history as an integrated petroleum and petrochemical company could affect our operating efficiency.

In 1983, the PRC government formed Old Sinopec to take primary responsibility for the administration and development of the petrochemical industry in China. Old Sinopec administered 38 production enterprises and was the PRC's predominant force in petroleum refining and petrochemical production. As a result of the restructuring of the petroleum and petrochemical industry in China in March 1998, Sinopec Group Company acquired most of the businesses of Old Sinopec, some of the exploration and production of crude oil business of CNPC and a large number of businesses which were engaged in retail and wholesale sales of refined petroleum products in the PRC.

In anticipation of the October 2000 global offering of our H shares and ADSs representing H shares, we were created in our present form on February 25, 2000 with Sinopec Group Company as the sole shareholder. Therefore, we have a limited history as an integrated company and in operating our assets.

The integration of the exploration and production business with our refining, petrochemical and marketing operations will present management challenges. Our newly established management structure and management information and financial systems may also need further adjustment and development. Our future business will depend in part on our ability to successfully manage our businesses and operations as an integrated petroleum and petrochemical company and to successfully implement our vision and strategy.

Our development plans have significant capital expenditure and financing requirements, which are subject to a number of risks and uncertainties.

The petroleum and petrochemical business is a capital intensive business. Our ability to maintain and increase our revenues, net income and cash flows depends upon continued capital spending. Our current capital expenditures plan contemplates approximately RMB34.5 billion (US$4.17 billion) in 2002. Our actual capital expenditures may vary significantly from these planned amounts due to various factors, including, among others, our ability to generate sufficient cash flows from operations to finance our capital expenditures, general economic, market and business conditions and other factors that are beyond our control. In addition, there can be no assurance as to whether, or at what cost, our capital projects will be completed or the success of these projects if completed.

In addition, our ability to obtain external financing in the future is subject to a variety of uncertainties including:

- our future results of operations, financial condition and cash flows;
- the economic condition in China and the markets for our products;
- the cost of financing and the condition of financial markets; and
- the issuance of relevant government approvals and other project risks associated with the development of infrastructure in China.

Our failure to obtain sufficient funding for our operations or development plans could adversely affect our business, results of operations and financial condition.

Competition from PetroChina and other existing or new companies.

The industry in which we operate is highly competitive. Our principal market has enjoyed stronger economic growth and a higher demand for refined products and petrochemicals than other regions of China. As a result, we believe that our direct competitors such as PetroChina and other companies will try to expand their sales and build up their distribution networks in our principal market.

Among our other competitors are some of the world's major integrated petroleum and petrochemical companies, many of which have recently become more significant participants in the petroleum and petrochemicals industry in China. We believe such trend will continue and probably accelerate. Increased competition may have a material adverse effect on our financial condition and results of operations.

We may not be able to pass on all increases in costs of our raw materials.

We currently consume large amounts of crude oil and other raw materials to manufacture our refined products and petrochemical products. We have been sourcing an increasing amount of crude oil, representing a greater percentage of our total crude oil requirements, from outside suppliers. In 2001, approximately 70% of the crude oil required for our refinery business was sourced from outside suppliers, including approximately half from the international market. While we try to match cost increases with corresponding raw material price increases, our ability to pass on cost increases to our customers is dependent on market conditions and government regulations. Consequently, there may be periods during which increases in costs of raw materials due to either price increases or increases in the amounts we source from third parties are not fully recovered by us due to an inability to increase the sale prices of our products. This may have a material adverse effect on our financial condition, results of operations or cash flows. In addition, because of our increased exposure to volatile prices for crude oil in the international markets, we expect that our future results of operations will be affected by these fluctuations more than our historical results of operations.

Related party transactions; non-competition; conflicts of interest.

We have engaged from time to time and will continue to engage in a variety of transactions with Sinopec Group Company and various members of Sinopec Group, which provide a number of services to us, including ancillary supply, transport, educational and community services. The nature of our transactions with Sinopec Group Company and members of Sinopec Group are governed by a number of service and other contracts between Sinopec Group Company and us. In addition, Sinopec Group Company has interests in businesses which compete or are likely to compete, either directly or indirectly, with our businesses. We and Sinopec Group Company have entered into a non-competition agreement whereby Sinopec Group Company has agreed to refrain from operating businesses which compete or could compete with us in any of our domestic or international markets; grant us an option to purchase Sinopec Group Company's operations that compete or could compete with our businesses; operate its sales enterprises and service stations in a manner uniform to our sales and service operations; and appoint us as sales agent for certain of its products which compete or could compete with our products. Notwithstanding the foregoing contractual arrangements, because Sinopec Group Company is our dominant shareholder and the interests of the Sinopec Group may conflict with our own interests, Sinopec Group Company or any member of Sinopec Group may take actions that favor the interests of members of Sinopec Group over our interests. In addition, Sinopec Group Company, as our controlling shareholder, may cause us to effect corporate transactions which might be in conflict with our minority shareholders' interests.

In addition, while we and Sinopec Group Company have entered into agreements which generally provide that these services will be priced on terms at least as favorable to us as ordinary commercial terms, we have limited or no practical alternative source of supply for some of these services, utilities, materials and equipment at reasonable cost. As a result, in the future we may have limited ability to negotiate with our affiliates in Sinopec Group over the terms of our agreements with respect to these services, utilities, materials and equipment.

The low level of integration of our information and management systems may limit our ability to assure the timeliness and completeness of our financial and operating data.

Our information and management systems, including our financial information management systems, were largely developed for use by individual subsidiaries, branches, plants or oil fields on a stand-alone basis and lack an integrated system architecture. We are in the process of implementing a financial and accounting information and reporting system, a refined products sales information and decision support system, and a comprehensive enterprise resource planning, or ERP, system. Failure to improve the level of integration of our information and management systems may prevent us from assuring the timeliness, completeness and reliability of our financial and operating data required for the effective management of our business operations and the successful implementation of our business strategy.

Our insurance coverage may not be sufficient to cover the risks related to exploration, development and production and losses caused by natural disasters.

Due to the nature of our business, we handle many highly flammable and explosive materials and operate many facilities under high pressure and high temperatures. We have experienced accidents that have caused property damage and personal injuries, and we cannot assure that industry-related accidents will not occur in the future.

We currently maintain insurance coverage with Sinopec Group Company on our property, plant, equipment and inventory. The amount of coverage is determined on the basis of the historical value of the covered fixed assets and, with respect to inventory, twice each year on the basis of the average month-end inventory value of the most recent six months. The amount of our insurance coverage may be less than the replacement cost of the covered properties and plants and may not be sufficient to cover all our financial losses.

We do not carry any business interruption insurance or third party liability insurance to cover claims in respect of personal injury, property or environmental damage arising from accidents on our property or relating to our operations other than third party liability insurance with respect to certain trucks and other vehicles. Losses incurred or payments required to be made by us, which are not fully insured, may have a material adverse effect on our results of operations.

The oil and natural gas reserves data in this annual report are only estimates, and our actual production, revenues and expenditures with respect to our reserves may differ materially from these estimates.

There are numerous uncertainties inherent in estimating quantities of proved oil and natural gas reserves, and in the timing of development expenditures and the projection of future rates of production. The reserve data set forth in this annual report represent estimates only. Adverse changes in economic conditions may render it uneconomical to develop certain reserves. Our actual production, revenues, taxes and fees payable and development and operating expenditures with respect to our reserves may likely vary from these estimates.

The reliability of reserves estimates depends on:

- the quality and quantity of technical and economic data;
- the prevailing oil and gas prices applicable to our production;
- the production performance of the reservoirs;
- extensive engineering judgments; and
- consistency in the PRC government's oil policies.

In addition, new drilling, testing and production following the estimates may cause substantial upward or downward revisions in the estimates. Furthermore, the discounted future cash flow calculated by applying the 10% discount rate, which was included in "Consolidated Financial Statements — Supplemental Information on Oil and Gas Producing Activities (unaudited)" following Item 19, may not represent the actual net present value of the relevant cash flow.

Our continued business success depends in part on our ability to replace reserves and develop newly discovered reserves.

Our ability to achieve our growth objectives is dependent in part on our level of success in discovering or acquiring additional oil and natural gas reserves and further exploring our current reserve base. Our exploration and development activities for additional reserves expose us to inherent risks associated with drilling, including the risk that no economically productive oil or natural gas reservoirs will be encountered. Without reserve additions through further exploration and development or acquisition activities, our reserves and production will decline over time as our reserves will be depleted. Exploring for, developing and acquiring reserves is highly capital intensive. If these activities are unsuccessful and we do not acquire properties containing proved reserves, our total proved reserves will decline, which may adversely affect our results of operations and financial condition.

Sinopec Group Company may seek to influence our dividend policy because of its reliance on dividends received from us.

Sinopec Group Company has obligations to provide supplementary social services to Sinopec Group Company's employees and a limited number of third parties. These services include education, hospitals, public transportation services, property management and security services which are likely to be operated at a significant loss. Revenues generated from operations retained by Sinopec Group Company in the reorganization, financial support from various government agencies, and dividends received from us are likely to be three of Sinopec Group Company's principal means of funding these losses. We believe that the operating revenues and government support will substantially reduce Sinopec Group Company's reliance on dividends from us. Nevertheless, subject to the relevant provisions of the PRC Company Law and our articles of association, Sinopec Group Company may seek to influence our determination of dividends with a view to satisfying its cash flow requirements. Any resulting increase in our dividend payout would reduce funds available for reinvestment in our business.

Risks Relating to the Petroleum and Petrochemical Industry

Our business operations may be adversely affected by present or future environmental regulations.

As an integrated petroleum and petrochemical company, we are subject to extensive environmental protection laws and regulations in China. These laws and regulations permit:

- the imposition of fees for the discharge of waste substances;
- the levy of fines and payments for damages for serious environmental offenses; and
- the central government, at its discretion, to close any facility which fails to comply with orders and require it to correct or stop operations causing environmental damage.

Our production operations produce substantial amounts of waste water, gas and solid waste materials. In addition, our production facilities require operating permits that are subject to renewal, modification and revocation. We have established a system to treat waste materials to prevent and reduce pollution and believe that our operations substantially comply with all applicable PRC environmental laws and regulations as they have been previously interpreted and enforced. The PRC government, however, has moved, and may move further, toward more rigorous enforcement of applicable laws, and toward the adoption of more stringent environmental standards, which, in turn, would require us to incur additional expenditures on environmental matters.

Our operations may be adversely affected by the cyclical nature of the petroleum and petrochemical market and by the volatility of prices of crude oil and refined products.

Most of our revenues are attributable to sales of crude oil, refined petroleum products and petrochemical products which have historically been cyclical and sensitive to the availability and price of feedstocks and general economic conditions. Regional and global markets for many of our products are sensitive to changes in industry capacity and output levels, cyclical changes in regional and global economic conditions, the price and availability of substitute products and changes in consumer demand, which from time to time have had a significant impact on product prices in the regional and global markets. Historically, the markets for these products have experienced alternating periods of tight supply, causing prices and margins to increase, followed by periods of capacity additions, possibly resulting in oversupply and declining prices and margins. As tariffs and other import restrictions are reduced and the control of product allocation and pricing relaxed in China, the domestic markets for many of our products have become increasingly subject to the cyclicality of regional and global markets. Historically, international prices of crude oil and refined products have fluctuated widely due to many other factors that are beyond our control. Between 1994 and 2001, the markets for many of our principal products experienced substantial price fluctuations. We cannot assure you that future growth in demand for these products will be sufficient to alleviate any existing or future conditions of excess industry capacity or that such condition will not be sustained or further aggravated by anticipated or unanticipated capacity additions or other events. In addition, we expect that the volatility and uncertainty of the prices of crude oil and refined products will continue. Increasing crude oil prices and declines in prices of refined products may adversely affect our business and results of operations and financial condition.

Our business faces natural disasters and operation risks that may cause significant interruption of operations.

Exploring for, producing and transporting crude oil and natural gas and producing and transporting refined and petrochemical products involve a number of hazards. As with many other companies in the world which conduct similar businesses, we have experienced accidents that have caused property damage and personal injuries. Our safety and maintenance measures at our production facilities and for our transportation facilities may not be sufficient, and significant natural disasters may cause significant interruption of our operations and property and environmental damage that could have a material adverse impact on our financial condition.

Risks Relating to the PRC

Government regulations may limit our activities and adversely affect our business operations.

The central and local PRC governments continue to exercise a certain degree of control over the petroleum and petrochemical industry in China by, among others:

- licensing the right to explore and produce crude oil;
- publishing guidance prices for crude oil, gasoline and diesel based on formulas linked to relevant international prices;
- allocating and pricing of certain resources and services;
- assessing taxes and fees payable;
- setting import and export quotas and procedures; and
- setting safety, environmental and quality standards.

In addition, we may be required from time to time to make capital expenditures to comply with PRC government policies regarding the development of the domestic petroleum and petrochemical industry. As a result, we may face significant constraints on our flexibility and ability to expand our business operations or to maximize our profitability.

Our development plans require regulatory approval.

We are currently engaged in a number of construction and expansion projects. Most of our projects are subject to extensive governmental review and approval. Such projects include most exploration and production projects and construction of significant refining and petrochemical facilities, significant expansions or renovations to existing facilities, as well as the construction of significant oil and natural gas pipelines, refined product pipelines and storage facilities. The timing and cost of completion of these projects will depend on numerous factors, including approvals from relevant PRC government authorities and general economic conditions in China.

While in general we attempt to obtain governmental approval as far in advance as practicable, we may not be able to control the timing and outcome of these governmental reviews and approvals. If any of our important projects required for our future growth are not approved, or not approved on a timely basis, our results of operations and financial condition could be adversely impacted.

Entry by China into the World Trade Organization will significantly increase competition from foreign companies in our lines of business.

China became a member of the World Trade Organization in December 2001. In entering the WTO, China has agreed to significantly reduce the trade barriers over time for imports that have historically existed and that currently exist in China such as:

- granting foreign-owned companies the right to import into China crude oil and refined products through Chinese companies authorized by the PRC government;
- granting foreign-owned companies the right to import into China petrochemical products;
- permitting foreign companies to distribute and market refined petroleum products in both retail and wholesale markets in China;
- significantly reducing tariffs on refined products and petrochemical products; and
- eliminating over time quotas and other non-tariff barriers for imports and exports of crude oil and refined products.

As a result of China's entry to the WTO, we will likely face increased competition from foreign producers of crude oil, refined products and petrochemical products in the near future and longer term. In addition, the trade agreements under the WTO are periodically renegotiated, sometimes resulting in continuing reductions in tariffs, elimination of non-tariff barriers such as import quota and opening of markets to foreign competition. Any present or future increase in foreign competition may have a material adverse effect on our results of operations.

PRC economic, political and social conditions as well as government policies could significantly affect our business.

Substantially all of our business, assets and operations are located in China. The economy of China differs from the economies of most developed countries in many respects, including:

- government involvement;
- level of development;

- growth rate;
- control of foreign exchange; and
- allocation of resources.

The economy of China has been transitioning from a planned economy to a more market oriented economy. Although the majority of productive assets in China are still owned by the PRC government at various levels, in recent years the PRC government has implemented economic reform measures emphasizing utilization of market forces in the development of the economy of China and a higher level of management autonomy. The economy of China has experienced significant growth in the past 20 years, but growth has been uneven both geographically and among various sectors of the economy. Economic growth has also been accompanied by periods of high inflation. The PRC government has implemented various measures from time to time to control inflation and restrain the rate of economic growth. Some of these measures will benefit the overall economy of China, but may have a negative effect on us. For example, our operating results and financial condition may be adversely affected by:

- changes in the rate or method of taxation;
- imposition of additional restrictions on currency conversion and remittances abroad;
- reduction in tariff protection and other import restrictions;
- changes in the usage and costs of state controlled transportation services; and
- state policies affecting the industries to which we sell our products.

Government control of currency conversion and future movements in exchange rates may adversely affect our operations and financial results.

We receive substantially all of our revenues in renminbi. A portion of such revenues will need to be converted into other currencies to meet our foreign currency obligations, including:

- import of crude oil and other materials;
- debt service on foreign currency denominated debt;
- purchases of imported equipment; and
- payment of any cash dividends declared in respect of the H shares.

The existing foreign exchange regulations have significantly reduced government foreign exchange controls for transactions under the current account, including trade and service related foreign exchange transactions and payment of dividends. We may undertake current account foreign exchange transactions without prior approval from the State Administration of Foreign Exchange by producing commercial documents evidencing such transactions, provided that they are processed through Chinese banks licensed to engage in foreign exchange transactions. The PRC government has stated publicly that it intends to make the renminbi freely convertible in the future. However, we cannot predict whether the PRC government will continue its existing foreign exchange policy and when the PRC government will allow free conversion of renminbi to foreign currency.

Foreign exchange transactions under the capital account, including principal payments in respect of foreign currency-denominated obligations, continue to be subject to significant foreign exchange controls and require the approval of the State Administration of Foreign Exchange. These limitations could affect our ability to obtain foreign exchange through debt or equity financing, or to obtain foreign exchange for capital expenditures.

Since 1994, the conversion of renminbi into Hong Kong and United States dollars has been based on rates set by the People's Bank of China, which are set daily based on the previous day's PRC interbank foreign exchange market rate and current exchange rates on the world financial markets. Although the renminbi to US dollar exchange rate has been relatively stable since 1994, we cannot predict nor give any assurance of its future stability. We do not hedge exchange rate fluctuations between the renminbi and the US dollar or other currencies and currently have no plans to do so. Fluctuations in exchange rates may adversely affect the value, translated or converted into US dollars or Hong Kong dollars, of our net assets, earnings and any declared dividends.

Interpretation of PRC laws and regulations involves significant uncertainties.

The PRC legal system is based on written statutes and their interpretation by the Supreme People's Court. Prior court decisions may be cited for reference but have limited precedent value. Since 1979, the PRC government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. Two of the latest examples are the promulgation of the Contract Law of the PRC to unify the various economic contract laws into a single code, which went into effect on October 1, 1999, and the Securities Law of the PRC, which went into effect on July 1, 1999. However, because these laws and regulations are relatively new, and because of the limited number of published cases and judicial interpretation and their non-binding nature, interpretation and enforcement of these laws and regulations involve significant uncertainties. In addition, as the PRC legal system develops, we cannot assure that changes in such laws and regulations, their interpretation or their enforcement will not have a material adverse effect on our business operations.

Risks Relating to our H Shares or ADSs

Enforcement of shareholder rights; mandatory arbitration.

Currently, the primary sources of shareholder rights are our articles of association, the PRC Company Law and the Listing Rules of the Hong Kong Stock Exchange, which, among other things, impose certain standards of conduct, fairness and disclosure on us, our directors and our controlling shareholder. In general, their provisions for protection of shareholder's rights and access to information, are less developed than those applicable to companies incorporated in the U.S., the U.K. and other developed countries. In addition, the mechanisms for enforcement of rights under the corporate framework to which we are subject may also be relatively undeveloped and untested. To our knowledge, there has not been any published report of judicial enforcement in the PRC by H share shareholders of their rights under constituent documents of joint stock limited companies or the PRC Company Law or in the application or interpretation of the PRC or Hong Kong regulatory provisions applicable to PRC joint stock limited companies. We cannot assume that our shareholders will enjoy protections that they may be entitled in other jurisdictions.

China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom, Japan or most other Western countries, and therefore recognition and enforcement in China of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be impossible. Our articles of association as well as the Listing Rules of the Hong Kong Stock Exchange provide that most disputes between holders of H shares and us, our directors, supervisors, officers or holders of domestic shares, arising out of the articles of association or the PRC Company Law concerning the affairs of our company or with respect to the transfer of our shares are to be resolved through arbitration by arbitration organizations in Hong Kong or China, rather than through a court of law. On June 18, 1999, an arrangement was made between Hong Kong and the PRC for the mutual enforcement of arbitral awards. This new arrangement was approved by the Supreme People's Court of the PRC and the Hong Kong Legislative Council, and became effective on February 1, 2000. So far as we are aware, no action has been brought in China by any shareholder to enforce an arbitral award, and we are uncertain as to the outcome of any action brought in China to enforce an arbitral award granted to shareholders.

The liquidity and market price of our H shares and ADSs may be volatile.

The price and trading volume for our H shares and ADSs may be highly volatile from time to time. Factors such as variations in our revenue, earnings and cash flow and announcements of new investments, discovery of new reserves, strategic alliances and/or acquisitions, fluctuations in market prices for our principal products, or fluctuations in the price and trading volume of our domestically listed A shares could cause the market price for our H shares and ADSs to change substantially. In addition, as a result of unpredictable international economic and political developments, international crude oil prices have had a history of volatility. Any such developments may result in large and sudden changes in the volume and price at which our H shares and ADSs trade. We can give no assurance that these developments will not occur in the future.

ITEM 4. INFORMATION ON THE COMPANY

Except for certain historical financial data such as sale of goods, unless the context otherwise indicates, all company data prior to December 31, 1999 provided in this section, including our production volume, sales volume, market share, primary distillation capacity, rated capacity and capacity utilization rate, do not include data of any of the petroleum and petrochemical operations that were included in our consolidated financial statements but were retained by Sinopec Group Company as part of the reorganization. The operations retained by Sinopec Group Company are not ours and the results of operations, financial positions and cash flows associated with these operations are not reflected in our consolidated financial statements as of December 31, 1999 or a later date, or for periods ended after December 31, 1999.

A. HISTORY AND DEVELOPMENT

Our legal and commercial name is China Petroleum & Chemical Corporation. Our head office is located at A6, Huixindong Street, Chaoyang District, Beijing 100029, the People's Republic of China and our telephone number is (8610) 6499-0060. We have appointed SINOPEC USA Co., Ltd., 25-24, 127th Street, Flushing, NY 11354, USA (telephone number: (718) 539-4087) as our agent for service of process for actions brought under the U.S. securities laws.

Sinopec Group was reorganized in anticipation of the October 2000 global offering of our H shares and ADSs representing H shares, and as a result, we were established as a joint stock limited company on February 25, 2000 under the Company Law of the PRC with Sinopec Group Company as the sole shareholder. To effect the reorganization, we and Sinopec Group Company entered into a reorganization agreement which had effect from December 31, 1999. As part of the reorganization, certain of Sinopec Group's petroleum and petrochemical operations, together with the related assets and liabilities that were transferred to us, were segregated and separately managed by us beginning December 31, 1999. Sinopec Group Company transferred to us most of its petroleum and petrochemical operations, including most of their production assets, and retained most of the social and ancillary service operations, as well as certain production assets, including certain petrochemical facilities, small capacity refineries and retail service stations. Sinopec Group's operations transferred to us include:

- exploration for and development of crude oil and natural gas;
- refining of crude oil and marketing and distribution of refined petroleum products, including transportation, storage, trading, import and export of petroleum products; and
- production and sales of petrochemical products.

Sinopec Group's continuing activities consist, among other things, of:

- operating certain petrochemical facilities, small capacity refineries and retail service stations retained by Sinopec Group Company;
- providing drilling services;
- providing social services, such as health care, education and transportation services;
- providing well logging services;
- providing downhole operational services;

- manufacturing and maintaining production equipment;
- providing construction services; and
- providing utilities, such as electricity and water.

Sinopec Group Company transferred the businesses to us either by transferring its equity holdings in subsidiaries or by transferring their assets and liabilities. For the 13 subsidiaries with publicly traded shares, Sinopec Group Company transferred its entire equity interest to us. These subsidiaries include companies whose shares or depositary receipts are listed on various stock exchanges including the New York Stock Exchange, the Hong Kong Stock Exchange, the Shanghai Stock Exchange and the Shenzhen Stock Exchange. For the remaining subsidiaries, Sinopec Group Company transferred operating assets and associated liabilities directly to us. Principal assets transferred to us include:

- equity in 13 listed subsidiaries with operations in China;
- operating assets and associated liabilities of six oil fields;
- operating assets and associated liabilities of 24 refinery and petrochemical enterprises, including ten of the aforementioned listed subsidiaries with operations in China;
- operating assets and associated liabilities of 22 sales enterprises;
- operating assets and associated liabilities of one pipeline enterprise;
- operating assets and associated liabilities of one import and export company; and
- operating assets and associated liabilities of six research organizations.

Sinopec Group Company also agreed in the reorganization agreement to transfer to us its exploration and production licenses and its rights and obligations under contracts relating to the businesses transferred to us. The personnel associated with these assets were also transferred to us.

In consideration of the assets and operations transferred to us, we issued and allocated 68.8 billion of our shares to Sinopec Group Company on February 25, 2000. These shares represented our entire issued share capital before our October 2000 global offering of H shares and ADSs representing H shares.

Prior to the reorganization, we did not exist as a separate legal entity and our business operations were conducted by Sinopec Group Company and its various affiliates. Because Sinopec Group Company had controlled the operations it transferred to us as part of the reorganization and now controls us through its holdings of a majority of our issued and outstanding shares (and will continue to hold a majority of our shares after the global offering), our historical consolidated financial statements were prepared on the basis of a reorganization of businesses under common control in a manner similar to a pooling of interests. Accordingly, assets and liabilities transferred to us by Sinopec Group Company are stated at historical amounts. In addition, our consolidated financial statements include transactions between us and Sinopec Group for sales of a wide range of goods and services.

Certain petroleum and petrochemical operations consisting primarily of six refining and petrochemical complexes, 16 individual production plants and approximately 2,700 retail service stations and individual assets and liabilities retained by Sinopec Group Company are reflected in our historical consolidated financial statements prior to December 31, 1999. These operations and individual assets and liabilities were historically associated with the production operations transferred to us and, accordingly, in preparing our consolidated financial statements, the revenues and expenses associated with these operations and individual assets and liabilities were included in our consolidated financial statements for each of the years prior to December 31, 1999. As a result of the segregation and commencement of separate management on December 31, 1999 of the operations that were transferred to us from Sinopec Group Company, the individual assets and liabilities that were retained by Sinopec Group Company have been reflected in our consolidated financial statements as a distribution to Sinopec Group Company of RMB 26.6 billion as of December 31, 1999. These operations were not, and will not be, available to generate revenues for us in 2000 or any period after 2000.

In addition to the reorganization agreement, we entered into an asset swap agreement on June 3, 2000 whereby Sinopec Group Company transferred to us certain operations, consisting principally of various overseas investments and its majority shareholding in China Petrochemical International Company which is the controlling shareholder of Sinopec Kantons Holding Limited, a listed company on the Hong Kong Stock Exchange, and China International United Petroleum and Chemical Co., Ltd., also known as Unipec. In return, we transferred to Sinopec Group Company certain polyester facilities at Tianjin and Luoyang.

Pursuant to the resolution passed at the Extraordinary General Meeting held on August 24, 2001, we acquired in 2001 the entire equity interest of Sinopec National Star Petroleum Company ("Sinopec National Star") from Sinopec Group Company for a consideration of RMB 6.45 billion. Sinopec National Star was the fourth largest company that engaged in oil and gas exploration and production activities in China, and is the only company that had the exploration and production licenses for both onshore and offshore oil and natural gas resources in China. As Sinopec National Star and we were under the common control of Sinopec Group Company, the acquisition was considered a "combination of entities under common control" which was accounted in a manner similar to a pooling-of-interests ("as-if-pooling-of-interests accounting"). Accordingly, the assets and liabilities of Sinopec National Star acquired have been accounted for at historical cost and our financial statements for periods prior to the combination have been restated to include the accounts and results of operations of Sinopec National Star on a combined basis.

B. BUSINESS OVERVIEW

We are an integrated petroleum and petrochemical company with upstream, midstream and downstream operations, and, based on total operating revenues of RMB318.5 billion (US$38.5 billion) in 2001, we are the largest petroleum and petrochemical company in China and one of the largest in Asia.

We are the largest refiner, distributor and seller of gasoline, diesel, jet fuel and most other major refined products in China and in Asia. In 2001, sales of gasoline, diesel, kerosene and jet fuel through our Sinopec branded retail and wholesale distribution networks approximated 59% and 85% of the total consumption of these products in China and in our principal market in the eastern, southern and central regions of China, respectively.

We are also the largest producer and distributor of petrochemicals in China. Our production of ethylene, a key petrochemical building block, constituted approximately 45% of the total production in China in 2001.

In addition, we explore for, develop and produce crude oil and natural gas principally to supply our refining and chemical operations. In 2001, approximately 31% of our refining and chemical operations' crude oil requirements were provided by our own crude oil exploration and production operations with the remainder sourced domestically and internationally.

As of December 31, 2001, we had proved reserves in China of 3,215 million barrels of petroleum liquids and 3,488 billion cubic feet of natural gas. In 2001, we produced 269 million barrels of crude oil, which accounted for approximately 23% of the total production in China. Over 75% of this production was consumed or used internally as feedstock in our refining and petrochemical operations with the remainder sold to third parties.

We are the largest refiner of petroleum products in China. In 2001, we operated 25 refineries and processed approximately 101 million tonnes of crude oil, representing approximately 48% of the total crude oil processed in China. We produce gasoline, diesel, jet fuel, lubricants, fuel oil, various petrochemical feedstocks and other refined products. In 2001, we produced approximately 18.7 million tonnes of gasoline and 37.9 million tonnes of diesel, representing approximately 45% and 51% of the total respective production in China.

We have the largest distribution network for refined products in China consisting, as of December 31, 2001, of approximately 892 bulk storage sites and 24,062 retail service stations that we operated under the Sinopec brand. We have also franchised the Sinopec brand to approximately 4,184 service stations that are operated by third parties. This distribution network covers the 19 provinces that we refer to as our principal market in the more prosperous eastern, southern and central areas of China. We believe our control of this logistics infrastructure and distribution system in our principal market provides us with a significant barrier to entry and leverage to further expand our market. In 2001, retail sales volumes of gasoline and diesel through the Sinopec branded service stations approximated 65% of the total retail gasoline and diesel consumption in our principal market.

We sold approximately 67.74 million tonnes of gasoline, diesel, jet fuel and kerosene in 2001 through our marketing and distribution network.

We produce and sell more petrochemical products than any other producer in China. We produce a full range of petrochemical products including intermediate petrochemicals, synthetic resins, synthetic fiber monomers and their polymers, synthetic fibers, synthetic rubber and chemical fertilizers. We are the largest producer in China of all of these product categories.

Exploration and Production

Unless the context otherwise indicates, all company data provided in the following discussion of our exploration and production operation, where applicable, include the relevant data of Sinopec National Star.

Summary

We currently explore for, develop and produce crude oil and natural gas in various regions across China. As of December 31, 2001, we had 11 oil and gas fields, including five fields we acquired from Sinopec National Star, for which we held 191 production licenses with terms ranging from seven to 55 years, which were equal to or longer than the maximum numbers of years of the estimated life of the reserves as evaluated by us as at December 31, 2001. Our production licenses are renewable upon our application 30 days prior to expiration. During the term of our production license, we will pay an annual production right usage fee of RMB 1,000 per square kilometers. Of our oil and gas fields, the Shengli field in Shandong province is the second largest oil field in China and accounted for approximately two-thirds of our total production in 2001. In 2001, we produced 269 million barrels of crude oil and 163 billion cubic feet of natural gas.

As of December 31, 2001, we held 260 exploration licenses for various blocks in which we engaged in exploration activities. The maximum term of our exploration licenses is seven years. Our exploration licenses may be renewed twice upon our application 30 days prior to expiration of the original term with each renewal for a two-year term. We are obligated to make a progressive annual minimum exploration investment relating to the exploration blocks in respect of which the exploration licenses are issued. In addition, we are also obligated to pay an annual exploration license fee starting from RMB 100 per square kilometer up to RMB 500 per square kilometer.

As of December 31, 2001, we had net proved reserves of 3,796 million barrels-of-oil equivalent, consisting of 3,215 million barrels of petroleum liquids and 3,488 billion cubic feet of natural gas, representing a slight increase on a barrels-of-oil equivalent basis since December 31, 2000.

Properties

We currently operate 11 oil and gas producing fields, each of which consists of many oil and gas producing zones.

Shengli

The Shengli field is our most important producing oil field and the second largest producing oil field in China. It consists of 67 oil producing zones of various size extending over an area of 61,000 square kilometers in northern Shandong province. Most of the Shengli field is located in the Jiyang sag. Crude oil in the Shengli field is primarily located in reservoirs with relatively moderate depths. As a result, our finding and development costs at the Shengli field are the lowest among all our oil fields.

The Shengli field contributed approximately 65% of our annual total crude oil and natural gas production in 2001 with a production of 189.43 million barrels of crude oil and 30.01 billion cubic feet of natural gas.

Zhongyuan and Other Fields

The Zhongyuan field is situated at the border of Hebei, Shandong and Henan provinces and extends over an area of approximately 5,300 square kilometers. The Zhongyuan field comprises 29 oil and gas producing zones. In 2001, the Zhongyuan field produced approximately 26.97 million barrels of crude oil and 52.9 billion cubic feet of natural gas.

We have nine other fields in East China sea, Xinjiang, Sichuan, Henan, Jiangsu, Hubei, Yunnan, Guizhou, Guangxi and other regions in China. In 2001, these fields produced approximately 52.76 million barrels of crude oil and 79.9 billion cubic feet of natural gas.

Oil and Natural Gas Reserves and Productions

Oil and gas proved reserves cannot be measured precisely. Reserve estimates are based on many factors related to reservoir performance which require evaluation by engineers interpreting the available data, as well as price and other economic factors. The reliability of these estimates at any point in time depends on both the quality and quantity of the technical and economic data, the production performance of the reservoirs as well as extensive engineering judgment. Consequently, reserve estimates are subject to revision as additional data become available during the producing life of a reservoir. When a commercial reservoir is discovered, proved reserves are initially determined based on limited data from the first well or wells. Subsequent data may better define the extent of the reservoir and additional production performance, well tests and engineering studies will often improve the reliability of the reserve estimate.

The following table sets forth our estimated proved oil and gas reserves and productions and the respective yearly changes for the years ended December 31, 1999, 2000 and 2001. Our proved reserves do not include additional quantities recoverable beyond the term of the relevant production licenses, or that may result from extensions of currently proved areas, or from application of improved recovery processes not yet tested and determined to be economical. Our estimated proved reserves do not include any quantities that are recoverable through application of tertiary recovery techniques. Proved developed reserves are the quantities expected to be recovered through existing wells with existing equipment and operating methods.

	Years ended December 31,		
	1999	**2000**	**2001**
Proved developed and undeveloped reserves (oil) (million barrels)			
Beginning of year	2,785	3,028	3,168
Revisions of previous estimates	129	72	(23)
Improved recovery	129	140	125
Extensions and discoveries	235	191	214
Production	(250)	(263)	(269)
End of year	3,028	3,168	3,215
Proved developed reserves (oil) (million barrels)			
Beginning of year	2,375	2,418	2,490
End of year	2,418	2,490	2,444
Proved developed and undeveloped reserves (gas) (billion cubic feet)			
Beginning of year	1,491	2,031	3,342
Revisions of previous estimates	229	164	(429)
Extensions and discoveries	437	1,281	738
Production	(126)	(134)	(163)
End of year	2,031	3,342	3,488
Proved developed reserves (gas) (billion cubic feet)			
Beginning of year	762	1,052	1,164
End of year	1,052	1,164	1,183

Refining and Marketing and Distribution of Refined Petroleum Products

Overview

Our refining and marketing and distribution segments consist of processing crude oil into refined petroleum products, buying and selling refined petroleum products, and transporting, marketing and distributing refined petroleum products. We are the largest refiner in China, both in terms of total primary distillation capacity per annum as of December 31, 2001 and total throughputs in 2001. We processed approximately 101 million tonnes of crude oil in 2001, representing approximately 48% of the national crude oil throughput. We also have the largest refined petroleum products marketing and distribution operations in the PRC in terms of sales volume. We sold 67.74 million tonnes of gasoline, diesel, jet fuel and kerosene in 2001 through our marketing and distribution network, representing approximately 85% of the sales volume in our principal market.

We produce a full range of refined petroleum products. The following table sets forth our production of our principal refined petroleum products for the three years ended December 31, 1999, 2000 and 2001.

	1999 Production	2000 Production	2001 Production
	(in million tonnes)		
Gasoline	17.1	20.2	18.7
Diesel	31.0	37.5	37.9
Jet fuel and kerosene	4.4	4.9	4.5
Lubricant	1.0	0.9	0.8
Liquefied petroleum gas	4.2	4.9	4.8
Fuel oil	8.0	6.3	4.6

Gasoline and diesel, which are our largest revenue producing products, are sold mostly through our marketing and distribution segment, both through wholesale and retail channels. We use most of our production of petrochemical feedstocks as feedstock for our own petrochemical operations. Most of our production of other refined products is sold domestically to a wide variety of residential and industrial customers, and a small amount is exported.

Refining Facilities

We operate 25 refineries in China, all of which are located in our principal market. As of December 31, 2001, our consolidated primary distillation capacity of 130.3 million tonnes per annum was the largest in China, representing approximately 47.6% of the total domestic capacity. Each of our thirteen largest refineries had a primary distillation capacity of over 5,000,000 tonnes per annum as of December 31, 2001.

The following table sets forth our total primary distillation capacity per annum, crude oil throughputs and crude oil distillation capacity utilization rate as of and for the years ended December 31, 1999, 2000 and 2001.

	As of and for the Year Ended December 31,		
	1999	2000	2001
Primary distillation capacity (million tonnes per annum)	130.3	130.3	130.3
Crude oil throughputs (million tonnes)	88.2	105.5	101.4
Crude oil distillation capacity utilization rate	67.7%	81.0%	77.8%

Our consolidated refined petroleum product yields by volume in 2001 were approximately 18.5% for gasoline, 37.4% for diesel, 4.1% for jet fuel and 32.2% for other products including lubricant, fuel oil, liquified petroleum gas, solvent oil, asphalt, petro coke, wax and petrochemical feedstock.

The following table sets forth the primary distillation capacity per annum, crude oil throughput and utilization rate calculated based on primary distillation capacity per annum at the end of each year for the years ended December 31, 1999, 2000 and 2001 of each of our 13 largest refineries. These refineries represent 77.74% of our total primary distillation capacity per annum as of December 31, 2001.

	1999			2000			2001		
Refinery	Primary Distillation Capacity	Crude Oil Throughput	Utilization Rate	Primary Distillation Capacity	Crude Oil Throughput	Utilization Rate	Primary Distillation Capacity	Crude Oil Throughput	Utilization Rate
	(in million tonnes, except utilization rate data in percentage)								
Maoming	13.5	8.16	60.5%	13.5	10.5	78.0%	13.5	10.6	78.8%
Zhenhai	12.0	7.33	61.1	12.0	10.5	87.5	12.0	10.7	89.3
Qilu	10.5	6.79	64.7	10.5	7.5	71.4	10.5	7.6	72.1
Yanshan	8.0	6.65	83.1	8.0	6.9	86.3	8.0	6.5	81.0
Guangzhou	7.7	5.60	72.7	7.7	6.5	84.4	7.7	6.3	81.6
Gaoqiao	7.3	6.17	84.5	7.3	7.0	95.9	7.3	6.5	89.5
Jinling	10.5	5.82	55.4	10.5	6.8	64.8	10.5	6.3	59.6
Tianjin	5.0	3.32	66.4	5.0	4.0	80.1	5.0	4.7	93.2
Yangzi	5.5	4.28	77.8	5.5	4.9	89.1	5.5	4.3	78.5
Shanghai	6.3	5.32	84.4	6.3	6.0	95.2	6.3	6.6	105.2
Changling	5.0	3.75	75.0	5.0	4.0	80.0	5.0	3.2	63.4
Luoyang	5.0	3.65	73.0	5.0	4.1	82.0	5.0	4.2	84.8
Jingmen	5.0	2.72	54.4	5.0	3.4	68.0	5.0	2.8	56.6
Total	101.3	69.56	68.7%	101.3	82.1	81.0%	101.3	80.3	79.3%

Major Refineries

Maoming Refinery

The Maoming refinery has a primary distillation capacity to process 13.5 million of crude oil tonnes per annum as of December 31, 2001. Located in the coastal city of Maoming in Guangdong province, the Maoming refinery has access to domestic and foreign crude oil sources. It is one of our most important processing centers for imported crude oil. Its principal products are gasoline, diesel, jet fuel, high grade lubricant, fuel oil, wax, asphalt and petro coke. Its products are widely sold in Guangdong, Guangxi, Yunnan, Hainan and Guizhou provinces and certain Southeast Asian countries.

The Maoming refinery is the largest refinery and the largest processing center for sour crude oil in China. It has the capability to process various sources of domestic and foreign crude oil. Its current distillation capacity for sour crude oil is 9.5 million tonnes per annum. The major facilities of Maoming refinery include atmospheric distillation, vacuum distillation, catalytic cracking, hydrocracking, visbreaker, delayed coking, hydrorefining, hydro desulphuration and catalytic reforming units.

Zhenhai Refinery

The Zhenhai refinery has a primary distillation capacity to process 12 million tonnes of crude oil per annum as of December 31, 2001. Located 18 kilometers from the Ningbo port in Zhejiang Province, the Zhenhai refinery has access to both domestic and foreign crude oil sources and is one of our most important processing centers for imported crude oil. The Zhenhai refinery has the largest oil wharf owned by any PRC refinery, which is capable of handling 250,000 tonne tankers and has a total annual handling capacity of over 20 million tonnes. The Zhenhai refinery produces a wide range of refined petroleum products including gasoline, diesel, jet fuel, fuel oil, petroleum liquified gas and asphalt. It is one of the major suppliers of petroleum products in eastern China.

The Zhenhai refinery is the second largest oil refinery in China and is capable of processing imported crude oil from various sources. As of December 31, 2001, its capacity to process sour crude oil was 8 million tonnes per annum. We have completed the initial phase of revamp to improve the product mix at the Zhenhai refinery to produce more higher quality asphalt, gasoline and diesel.

The major facilities at the Zhenhai refinery include atmospheric distillation, vacuum distillation, catalytic cracking, hydrocracking, continuous reforming, hydrorefining, delayed coking, solvent deasphalting, alkylation and MTBE units.

Qilu Refinery

The Qilu refinery has a primary distillation capacity to process 10.5 million tonnes of crude oil per annum as of December 31, 2001, including a capacity to process 6 million tonnes per annum of sour crude oil, which makes the Qilu refinery one of our largest processing centers for imported crude oil. Located in Zibo City of Shandong Province, the Qilu refinery's proximity to our Shengli oil field and the nearby Huangdao port provides it with reliable and cost effective sources of crude oil supply. Shengli crude oil is delivered to the Qilu refinery by pipelines and imported crude oil is first shipped to Huangdao port and then transported to it by pipelines. Its major refined petroleum products include gasoline, diesel, jet fuel, chemical light oil, asphalt, fuel oil and petro coke. It is one of the major refined petroleum product suppliers in eastern China.

Although it was first built to process crude oil from the Shengli field, the Qilu refinery has become one of our largest facilities and an important processing center for sour crude oil as well as a higher quality asphalt production center. Its major refining facilities include atmospheric distillation, vacuum distillation, catalytic cracking, hydrocracking, delayed coking, heavy oil hydro de-sulphuration, hydrorefining, asphalt and alkylation units.

Jinling Refinery

The Jinling refinery has a primary distillation capacity to process 10.5 million tonnes of crude oil per annum as of December 31, 2001. It is located in the northeastern suburb of Nanjing city, adjacent to the Shanghai-Nanjing Expressway and close to the Yangzi river. The Jinling refinery receives crude oil primarily from the Shengli oil field and international markets. The Jinling refinery produces a wide range of products including gasoline, diesel, jet fuel, asphalt, petro coke and fuel oil. Its products are primarily sold in Jiangsu, Anhui and Jiangxi provinces, while some are sold across the eastern region in China.

The Jinling refinery's major facilities include atmospheric distillation, vacuum distillation, catalytic cracking, catalytic reformings, hydrocracking, delayed coking and hydrorefining units.

Yanshan Refinery

The Yanshan refinery, located 45 kilometers southwest of Beijing, has a primary distillation capacity of 8.0 million tonnes of crude oil per annum as of December 31, 2001. The Yanshan refinery mainly processes crude oil from the Daqing oil field, all delivered through its dedicated pipelines. Its major products include gasoline, diesel, chemical light oil, lubricants and paraffin wax. In addition to sales to the Beijing area, the Yanshan refinery mainly sells its products to Hebei, Henan and Shanxi provinces.

The Yanshan refinery is one of the largest lubricant base oil producing centers in China. In 2001, it produced approximately 270,000 tonnes of lubricant base oil. Because of its proximity to Beijing, the Yanshan refinery expects its cleaner burning gasoline and diesel products will become the leading refined petroleum products in the Beijing market. Its major facilities include atmospheric distillation, vacuum distillation, catalytic cracking, catalytic reforming, hydrorefining, lubricant solvent refining, paraffin wax refining and lubricant solvent dewaxing units.

Guangzhou Refinery

The Guangzhou refinery has a primary distillation capacity of 7.7 million tonnes of crude oil per annum as of December 31, 2001. Located in the Pearl River delta area, the Guangzhou refinery processes primarily imported crude oil. Its major products include gasoline, diesel, jet fuel, chemical light oil and fuel oil. Its products are mainly sold in Guangdong, Hainan, and Guangxi provinces.

The Guangzhou refinery is one of our important processing centers for imported crude oil. Its major facilities include atmospheric distillation, vacuum distillation, catalytic cracking, visbreaker, delayed coking, solvent deasphalting and catalytic reforming units.

Gaoqiao Refinery

The Gaoqiao refinery has a primary distillation capacity to process 7.3 million tonnes of crude oil per annum as of December 31, 2001. Located along the Huangpu river in Shanghai, it has easy access to both oil supply and a ready market for its refined petroleum products. The Gaoqiao refinery produces a full range of refined petroleum products including gasoline, diesel, jet fuel, fuel oil, lubricant oil and petro coke. Its refined petroleum products are primarily sold in the Shanghai market and its jet fuel is delivered directly through pipelines to Shanghai Pudong International Airport. Its products are also sold in eastern regions in China and Guangdong province, and some of its products are exported.

The Gaoqiao refinery had a rated capacity to produce 400,000 tonnes of lubricant per annum and was our largest producer of lubricants as of December 31, 2001. Its major facilities include atmospheric distillation, vacuum distillation, catalytic cracking, delayed coking, catalytic reforming, gasoline, diesel hydrorefining and alkylation units as well as lubricant solvent dewaxing, lubricant solvent refining and paraffin wax refining units.

Shanghai Petrochemical Refining Facility

The Shanghai refinery has a primary distillation capacity to process 6.3 million tonnes of crude oil per annum as of December 31, 2001. Located southeast of Shanghai next to Hangzhou Bay, it has access to both inland and waterway transportation. Crude oil is primarily transported to the refinery via sea route, unloaded at Aoshan and Huangdao ports and delivered to its own oil wharf capable of handling tankers of 50,000 tonnes. Its principal refined products include gasoline, diesel, fuel oil and petro coke as well as petrochemical feedstocks. Its principal market is in the eastern regions in China and Guangdong province. Some of its products are also exported.

Its major refining facilities include atmospheric distillation, vacuum distillation, catalytic cracking, hydrocracking, continuous reforming, delayed coking and hydrorefining units.

Yangzi Refinery

The Yangzi refinery has a primary distillation capacity to process 5.5 million tonnes of crude oil per annum as of December 31, 2001. Approximately 60% of the crude oil processed at the Yangzi refinery is from the Shengli oil field with the remaining crude oil from international markets. Crude oil from the Shengli oil field is delivered through Shandong-Nanjing pipelines and imported crude oil is unloaded at Aoshan port or Huangdao port and then transported to the refinery via the Yangtze river. Its principal products include various petrochemical feedstocks as well as gasoline, jet fuel, fuel oil, petro coke, liquefied petroleum gas and other refined products. Its products are primarily sold in Jiangsu, Anhui and Zhejiang provinces.

Major facilities at the Yangzi refinery include atmospheric distillation, vacuum distillation, catalytic cracking, hydrocracking, continuous reforming, hydrorefining, steam cracking and delayed coking units.

Marketing, Sales and Distribution of Refined Petroleum Products

Overview

We operate the largest sales and distribution system for refined petroleum products in China. We sold approximately 67.74 million tonnes of gasoline, diesel, jet fuel and kerosene in 2001 through our marketing and distribution network. We estimate we have a market share of approximately 85% in our principal market based on our sales volume of gasoline, diesel, jet fuel and kerosene in 2001. Our principal market encompasses 19 provinces and municipalities in eastern, southern and central regions in China, which include many of the largest cities and some of the fastest growing economic regions in China. In addition, our refineries directly sold approximately 4 million tonnes of gasoline, diesel, jet fuel and kerosene in 2001 primarily for export.

In 2001, approximately 37.3 million tonnes of gasoline, diesel, jet fuel and kerosene, were sold through our wholesale distribution network, including direct distribution sales to mostly end-users, and approximately 30.4 million tonnes of gasoline, diesel, jet fuel and kerosene were sold through a network of service stations and petroleum shops which were owned, jointly-owned or leased, and mostly operated, by us. Our other refined petroleum products are generally sold directly to distributors or large end-users, some of whom rely exclusively on our supply, including some connected to us by dedicated pipelines.

Most of the refined products sold by us are produced internally. Specifically in 2001, approximately 78.7% of our gasoline sales volume and approximately 86.8% of our diesel sales volumes were produced internally by us.

We currently dominate the distribution of refined petroleum products in China, and we believe that we will continue to build on our dominant market position by additional focused marketing activities and further rationalization and cost reductions in our distribution system. Our improvement plans call for, among other things, building our refined product pipeline system to significantly reduce transportation costs, implementing better measurement and internal controls to monitor product flow, and implementing an integrated sales and distribution information network to monitor our sales and distribution of refined products and centrally manage our customer accounts and cash flows.

Wholesale Distribution

In 2001, we sold approximately 37.3 million tonnes of gasoline, diesel, jet fuel and kerosene through wholesale sales including direct distribution sales, representing 55.1% of our total sales volume of gasoline, diesel, jet fuel and kerosene sold by our marketing and distribution segment. Our wholesale sales include sales to large end-users and independent distributors, direct distribution sales to corporate customers and other relatively large end-users as well as sales to certain special customers designated by the central government.

Among our wholesale sales in 2001, we directly sold 9.48 million tonnes of gasoline, diesel, jet fuel and kerosene to the special customers designated by the central government, representing approximately 25.4% of our total wholesale sales volume of these products. These special customers include the military, the railway, aeronautical, marine and utility industries and these sales are made at prices and in volumes directly or indirectly determined by the PRC government. See "Item 4 — Information on the Company — Regulatory Matters" for further information on sales made to these special customers.

In 2001, we sold wholesale approximately 16.2 million tonnes of gasoline, diesel, jet fuel and kerosene to large end-users and independent distributors, representing approximately 43.4% of our total wholesale sales. These large end-user customers come from various industries such as public transportation, tourism and agricultural industries.

In 2001, we also sold approximately 11.6 million tonnes of gasoline, diesel, jet fuel and kerosene through direct distribution to various corporate customers and other relatively large end-users representing approximately 31.1% of our total wholesale sales.

Through our distribution centers, we operate 892 storage facilities with a total capacity of approximately 15.1 million cubic meters, substantially all of which are wholly-owned by us. Our distribution centers are connected to our refineries by railway, waterway and, in some cases, by pipelines. We also own some dedicated railways, oil wharfs, oil barges, rail tankers and oil trucks.

Retail Distribution

We estimate that our share of the retail market in 2001 based on sales volumes of gasoline and diesel was approximately 65% in our principal market. All of our retail sales are made through a network of service stations and petroleum shops which operate under the Sinopec brand. Through this unified distribution network we are more able to implement consistent pricing policies, maintain both product and service quality standards and more efficiently manage the retail distribution in our principal market.

In 2001, we sold approximately 30.4 million tonnes of gasoline, diesel, jet fuel and kerosene through our retail distribution network, representing approximately 47.5% of our total sales volumes of gasoline, diesel, jet fuel and kerosene sold by our marketing and distribution segment. Our retail distribution network consists principally of our wholly-owned and operated service stations, and some jointly-owned and leased service stations that are usually operated by us under the Sinopec brand. As at December 31, 2001, we operated a total of 24,062 service stations under the Sinopec brand. In addition, we have franchised the Sinopec brand to 4,184 service stations that are operated by third parties.

Most of our wholly-owned service stations are located in central commercial districts or relatively high traffic areas. They typically have relatively long operating histories compared with other service stations and, therefore, often enjoy better brand name recognition and higher sales volume. In 2001, we acquired 3,123 and built 680 service stations and renovated 920 of our existing service stations to increase capacity.

Chemicals

Overview

Not only are we the largest petrochemical producer in China, but we are also the largest producer of most major petrochemical products produced in China. For example, in 2001 our production of ethylene constituted approximately 44.8% of total production in China. Historically, there has been a shortage in China of most types of petrochemicals. The shortage of domestic supply has been filled by imports, which currently are subject to import duty. Because of strong domestic demand, most of our petrochemical products are sold in the domestic market.

We produce the full range of petrochemical products including intermediate petrochemicals, synthetic resins, synthetic fiber monomers and their polymers, synthetic fibers, synthetic rubber and chemical fertilizers. Synthetic resins, synthetic fibers, synthetic rubber, chemical fertilizers and some intermediate petrochemicals comprise a significant majority of our external sales. Synthetic fiber monomers and their polymers and intermediate petrochemicals, on the other hand, are mostly internally consumed as feedstock for the production of these other products. Our petrochemical operations are integrated with our exploration and production and refining and marketing businesses. For example, natural gas liquids and certain refined petroleum products, such as naphtha, are primarily supplied from our exploration and production and refining operations and are the feedstock we use in the extraction of olefins and aromatics as well as chemical fertilizers.

Products

Intermediate Petrochemicals

We are the largest producer of intermediate petrochemicals in China. Intermediate petrochemicals produced by our facilities include olefins and aromatics and organic petrochemicals. Our intermediate petrochemical production is partly internally consumed for manufacture of synthetic resins, synthetic rubber and synthetic fibers.

Olefins can be extracted from natural gas liquids and refined petroleum products such as naphtha and LPG. They are the basic building blocks of most petrochemicals and include ethylene, propylene and butadiene. Ethylene is the primary olefin product and the most widely-used chemical in the petrochemical industry. We are the largest ethylene producer in China. Our rated ethylene capacity of 2.195 million tonnes per annum represented 46.3% of the total domestic ethylene capacity as of December 31, 2001. In 2001, we produced 2.153 million tonnes of ethylene, or approximately 44.8% of the total domestic output, with a utilization rate of 98.1%. Nearly all of our olefins production is used as feedstock for our petrochemical operations.

We produce aromatics mainly in the forms of benzene and xylene which are used primarily as feedstock for purified terephthalic acid (PTA), the preferred raw material for polyester. We are the largest aromatics producer in China. Our annual rated capacities for benzene and xylene were 1.0194 million tonnes and 0.5515 million tonnes per annum, respectively, as of December 31, 2001. In 2001, we produced 863,600 tonnes of benzene and 369,500 tonnes of xylene.

Organic chemicals are also intermediate petrochemicals extracted mainly from olefins and aromatics and are essential raw materials for synthetic resins, synthetic rubber and synthetic fibers. Our principal organic chemical products include acetic acid, methanol, butanol, 2-ethyl hexanol, styrene, phthalic anhydride, para-xylene, vinyl-acetate, phenol and acetone. We are the largest producer in China of butanol, styrene, paraxylene, vinyl acetate, phenol and acetone.

The following table sets forth our rated capacity per annum, capacity utilization rate and production volume as of or for the year ended December 31, 2001 for our principal intermediate petrochemical products.

	Our Rated Capacity	**Utilization Rate**	**Our Production**
	(in thousand tonnes, except utilization rate in percentage)		
Ethylene	2,195	98.1%	2,153.3
Propylene	2,326.6	101	2,349.3
Benzene	1,019.4	84.7	863.6
Xylene	551.5	67	369.5
Acetic acid	130	69.6	90.5
Styrene	224	88.7	198.6
Para-xylene	879	85.5	751.6
Phenol	190	87.4	166

Synthetic Resins

Synthetic resins is a core downstream product group. We are the largest producer of polyethylene, polypropylene and polystyrene in China. Our principal synthetic resin products are polyethylene, polypropylene, polyvinyl chloride (PVC) and polystyrene. Synthetic resins are widely used in various industries including agriculture, construction, automobile and consumer product industries. The following table sets forth our principal synthetic resin products and their major applications.

Resins	Major Applications
Polyethylene	films, boards, sheets, bottles, machinery parts, toys, housewares, wire and cable insulation, industrial packaging materials, pipes, ropes, fish nets, household containers
Polypropylene	films or sheets, ropes, housewares, toys and household electric appliance and automobile parts, fibers
Polyvinyl chloride	films, sheets, boards, wire and cable insulation, pipes, construction materials, bottles, toys, shoes, artificial leather
Polystyrene	automobile parts, optical devices, boards, sheets, telecommunications devices, electronic appliances, housewares, toys, containers and packaging materials

We are the largest producer of polyethylene in China. As of December 31, 2001, our polyethylene rated capacity was 1.4 million tonnes per annum. There are three main types of polyethylene resin, high density, low density and linear low density polyethylene, commonly known as HDPE, LDPE and LLDPE. Polyethylene is the most widely produced thermoplastic resin in the world. We produce HDPE at our Yangzi, Yanhua, Qilu and Shanghai facilities, LDPE at our Yanhua, Shanghai and Qilu facilities and LLDPE at our Qilu and Guangzhou facilities. We produced 599,000 tonnes of HDPE, 512,000 tonnes of LDPE and 218,000 tonnes of LLDPE in 2001.

We are the largest polypropylene producer in China. As of December 31, 2001, our polypropylene rated capacity was 1.45 million tonnes per annum. We produce most types of polypropylene for the domestic market. Polypropylene represents an economical alternative to other higher cost polymers due to its high performance and its relatively low cost of production. We produce polypropylene at our Yanhua, Shanghai, Yangzi, Qilu and other facilities. In 2001, we produced 1.5 million tonnes of polypropylene.

We produce polyvinyl chloride at our Qilu facility, which has a rated capacity of 230,000 tonnes per annum as of December 31, 2001. In 2001, we produced 233,800 tonnes of polyvinyl chloride.

We are one of the principal polystyrene producers in China with a total rated capacity of 151,000 tonnes per annum as of December 31, 2001. We produce polystyrene at our Yanhua, Qilu and Guangzhou facilities. Our total production of polystyrene was 123,300 tonnes in 2001.

The following table sets forth our rated capacity per annum, capacity utilization rate and production volumes for each of our principal synthetic resins as of or for the year ended December 31, 2001.

	Our Rated Capacity	Utilization Rate	Our Production
	(in thousand tonnes, except utilization rate in percentage)		
Polyethylene	1,403	94.7%	1,328.6
Polypropylene	1,447.5	103.9	1,504.4
Polyvinyl chloride	230	101.7	233.8
Polystyrene	151	81.7	123.3

Synthetic Fiber Monomers and Their Polymers

Synthetic fiber monomers and their polymers are mainly used as feedstock for synthetic fibers. Our principal synthetic fiber monomers and polymers are purified teraphthalic acid, ethylene glycol, acrylonitrile, caprolactam, dimethyl terephthalate. Based on 2001 production, we are the largest producer of all of these synthetic fiber monomers and polymers except for acrylonitrile in China. Most of the synthetic fiber monomers and their polymers are used as feedstock for synthetic fibers. The rest of them were mainly sold in the domestic market.

The following table sets forth information relating to our rated capacity per annum, capacity utilization rate and our production volume as of or for the year ended December 31, 2001 for each type of our principal synthetic fiber monomers and their polymers.

	Our Rated Capacity	Utilization Rate	Our Production
	(in thousand tonnes, except utilization rate in percentage)		
Purified teraphthalic acid	1,205	107%	1,289.3
Ethylene glycol	460	79.7	366.5
Acrylonitrile	157	115.3	181
Caprolactam	120	73.9	88.7
Dimethyl teraphthalate	130	44	57.2
Polyester chips	1,605.5	96.7	1,552
Polyvinyl alcohol	38.3	118.5	45.4

Synthetic Fibers

Synthetic fibers are also a core downstream product group. We are the largest producer of polyester and acrylic fibers in China. Our principal synthetic fiber products are polyester fiber, acrylic fiber, nylon, vinylon fiber and polypropylene fiber. Synthetic fibers are widely used to make apparel, carpets and industrial products such as canvas, sacking, nautical rope and fishing nets in the textile industry.

The following table sets forth our rated capacity per annum, capacity utilization rate and production volume for each type of our principal synthetic fibers as of and for the year ended December 31, 2001.

	Our Rated Capacity	Utilization Rate	Our Production
	(in thousand tonnes except utilization rate in percentage)		
Polyester fiber	904.7	81.7%	739.1
Acrylic fiber	228.9	89.7	259.0
Nylon	18.3	61.7	11.3
Polypropylene fiber	17.0	102.9	17.5

Synthetic Rubbers

Synthetic rubbers are also a core downstream product group. Our principal synthetic rubbers are cis-polybutadiene rubber, styrene butadiene rubber ("SBR"), styrene butadiene-styrene thermoplastic elastomer and isobutadiene isoprene rubber ("IIR"). Synthetic rubbers are widely used in the manufacture of tires, inner tubes for tires, housewares, shoes, toys and other industries. Based on 2001 production, we are the largest producer of SBR rubber and cis-polybutadiene rubber and the only producer of IIR in China.

The following table sets forth our rated capacity per annum and capacity utilization rate as of or for the year ended December 31, 2001 for each of our principal synthetic rubbers.

	Our Rated Capacity	Utilization Rate	Our Production
	(in thousand tonnes except utilization rate in percentage)		
Cis-polybutadiene rubber	200.8	111%	222.9
Styrene butadiene rubber	163	81.7	133.1
Styrene-butadiene-styrene thermoplastic elastomers	50	75.4	37.7
Isobulylene isoprene rubber	30	14	4.2

Chemical Fertilizers

We produce synthetic ammonia and urea. Our synthetic ammonia is used to manufacture urea, CPL and acrylintride. Urea is used primarily as a fertilizer.

The following table sets forth our rated capacity per annum, capacity utilization rate and our production for ammonia and urea as of or for the year ended December 31, 2001. In response to the continuing sluggish market demand for chemical fertilizer, we further reduced production of chemical fertilizer by operating at a lower capacity utilization rate or temporarily shutting down some of our chemical fertilizer facilities in 2001.

	Our Rated Capacity	Utilization Rate	Our Production
	(in thousand tonnes except utilization rate in percentage)		
Ammonia	2,615	54.0%	1,412.0
Urea	4,360	53.7	2,341.5

Major Petrochemical Facilities

Overview

We operate 17 petrochemical plants in China, all of which are located in the major petrochemical market of China. Of our four largest ethylene plants, each has a rated capacity to produce over 400,000 tonnes of ethylene per annum, and, collectively, represented approximately 41.3% of the total domestic capacity for ethylene as of December 31, 2001. Our major petrochemical plants are described below.

Yanhua Plant

Located 45 kilometers southwest of Beijing, the Yanhua plant was the largest producer of synthetic resins in China as of December 31, 2001. The Yanhua plant had the largest single ethylene production facility in China, with a rated capacity of 660,000 tonnes per annum as of December 31, 2001. The plant is also the largest polypropylene and one of the largest synthetic rubber producers in China, with a rated capacity of 355,000 tonnes of polypropylene per annum and 190,000 tonnes of synthetic rubber per annum, respectively, as of December 31, 2001. The Yanhua plant also produces a wide range of products including LDPE, HDPE, polypropylene, polystyrene, cis-polybutadiene rubber, IIR, phenol, acetone and ethylene glycol.

Shanghai Plant

Located approximately 75 kilometers southwest of Shanghai, the Shanghai plant produces a broad range of petrochemical products, including ethylene, LDPE, HDPE, polypropylene, polyester, polyvinyl alcohol, polyester fiber, acrylic fiber, vinylon fiber, polypropylene fiber and synthetic fiber raw materials. The Shanghai plant had an ethylene capacity of 545,000 tonnes per annum as of December 31, 2001. The Shanghai plant has a synthetic fiber facility with a rated capacity of 363,200 tonnes per annum as of December 31, 2001. It also has a resin facility with a rated capacity of 500,500 tonnes per annum as of December 31, 2001.

Qilu Plant

Located in Zibo City in Shangdong Province close to the Shengli field, the Qilu plant produces a full range of petrochemical products such as synthetic resins, synthetic rubbers, synthetic fibers, urea and intermediate petrochemicals. The Qilu plant had the largest synthetic rubber rated capacity in China with 155,800 tonnes per annum as of December 31, 2001. Its styrene butadiene rubber facility with a rated capacity of 130,000 tonnes per annum as of December 31, 2001 was also the largest in China. In addition, it had per annum rated capacity of 450,000 tonnes of ethylene, 676,000 tonnes of resins, 45,000 tonnes of synthetic fibers, 250,000 tonnes of caustic soda and 590,000 tonnes of urea, respectively, as of December 31, 2001.

Yangzi Plant

Located north of the city of Nanjing close to the Yangtze River, the Yangzi plant had the largest synthetic fiber monomer facilities in China as of December 31, 2001. It had a rated capacity of 400,000 tonnes of ethylene per annum as of December 31, 2001. Its 600,000 tonne per annum PTA facility rated as of December 31, 2000 was the largest of its kind in China. Yangzi plant produces a broad range of petrochemical products including PTA, ethylene oxide and ethylene glycol, acetic acid, polyethylene and polypropylene.

Yizheng Plant

Located in Yizheng City in Jiangsu province, the Yizheng plant was the largest polyester and synthetic fiber producer in China as of December 31, 2001. The Yizheng plant had a rated capacity to produce 322,500 tonnes of PTA, 1.1 million tonnes of polyester and 651,500 tonnes of polyester fibers per annum as of December 31, 2001. Yizheng plant sources some of its petrochemical feedstock from Yangzi plant which is located approximately 35 kilometers away from it.

Marketing and Sales of Petrochemicals

Price and volume of petrochemical sales are generally market driven and free from government control. The southern and eastern regions in China, where most of our petrochemical plants are located, constitute the major petrochemical markets in China. Our proximity to the major petrochemical market gives us a competitive advantage over our competitors.

Our principal sales and distribution channels consist of (i) direct sales to end-users, most of which are large and medium size manufacturing enterprises, and (ii) sales to distributors in our national sales network. In 2001, we sold approximately 61.6% of our petrochemical products directly to end-users and 38.4% to our distributors. By selling through distributors, we are able to reduce the risk of bad debt and expand our market share by taking advantage of these distributors' extensive local sales networks.

Our distribution network covers all the major petrochemical markets in the PRC. Some of our distributors are wholly-owned by us, some are jointly owned by us and other companies and the rest are companies with which we have long-term cooperative relationships but no equity interests.

We offer a range of payment terms to our customers depending upon a number of factors such as customers' commercial creditability, repeat orders, the amount of the order, and our relationship with the customer. Payment terms include payment on delivery, payment through a bank credit system or sales on trade accounts with 30 to 90 day payment terms. Letters of credit are normally required for overseas customers.

Our sales and marketing department conducts routine customer visits and customer satisfaction surveys, information from which, together with domestic and international market information, comprise our market data system. Such information provides the basis for our customer relationship maintenance and new customer development. As part of our effort to become more market-oriented, we also provide after-sale service, including technical support and technology assistance, to our customers. At the same time, we can adjust our production level and product mix in accordance with our customer's demand. We believe that we have established long-term relationships with most of our large and medium size manufacturing enterprise customers and large trading companies which relationships provide us with a generally dependable and stable customer base.

Our petrochemicals customers are located throughout China. We principally use rail, road transport and waterways for the transportation of our products.

To strengthen our petrochemical marketing and sales effort, we have launched a business-to-business e-commence platform for our marketing and sales activities of petrochemicals. We commenced our on-line sales activities in August 2000. Our domain names for our e-commerce web sites are www.sinopec-ec.com and www.sinopec-ec.com.cn. We use the Internet and our web site as a platform to exchange product and sales information and negotiate businesses with our customers. We are currently able to enter our sales contracts with our customers over the Internet, but payments are made off the Internet. In 2001, the amounts of sales contracted over the Internet reached RMB 15.9 billion (US$1.9 billion). We intend to ultimately conclude our sales including billing and receiving payment of petrochemicals over the Internet.

Raw Materials

Crude Oil

Our most important raw material is crude oil. In 2001, we processed approximately 101 million tonnes of crude oil, of which approximately 31 million tonnes were from our own production and approximately 70 million tonnes were from external sources, including approximately 49 million tonnes of imports, approximately 14 million tonnes from PetroChina and approximately 7 million tonnes from CNOOC. The fluctuation of crude oil prices generally have a significant effect on our profitability. Increases in crude oil prices increase the costs of our downstream operations and may substantially reduce our earnings if the prices of our downstream products cannot be increased correspondingly.

Crude oil from our exploration and production segment and from PetroChina are delivered to our refineries mostly by waterways or pipelines. Less than 5% of our crude oil is transported to our refineries by railway. Crude oil purchased from CNOOC and international sources is shipped by marine tankers to our jetties at various ports. For our refineries located in inner provinces, inland waterways are used to transport the crude oil along the Yangtze River. We maintain storage tanks in various regional centers.

We, as well as PetroChina and CNOOC, set the respective crude oil production plan each year and report to the State Development Planning Commission. The State Development Planning Commission and the State Economic and Trade Commission coordinate matters relating to crude oil production and sales. We sign annual crude oil supply contracts with PetroChina and CNOOC, and our refineries and petrochemical complexes and producers of crude oil sign quarterly sales contracts. These quarterly sales contracts generally specify commercial terms such as quantity, price, delivery and payment methods.

To meet our production demand, the State Economic and Trade Commission and MOFTEC allocates to us import quotas and limited import certificate to import crude oil, which enable us to purchase crude oil from the international markets at prevailing market prices. We import crude oil through our subsidiary China International United Petroleum and Chemicals Co., Ltd., also known as Unipec, China National Chemical Import and Export Corporation, and Zhenrong Trading Corporation. As the demand for crude oil and petroleum products continues to rise in the PRC, we anticipate our reliance on crude oil imports is likely to increase in the future.

Other Raw Materials

We produce most of the other raw materials used as feedstock for our petrochemical operations from crude oil. When our demand exceeds our internal supply of these other raw materials, we purchase the shortfall from domestic or foreign sources.

Competition

We are a major competitor in every sector in which we compete. Most of our revenues are derived from domestic sales. Our competition is mainly in the domestic market. As the domestic market is more open for foreign participation, some foreign companies have become our competitors.

Exploration and Production

The business of exploration and development of crude oil and natural gas is highly competitive. We compete in the PRC market primarily for the acquisition of desirable oil and gas prospects. We also compete in the international and domestic capital markets to finance our operations, including exploration, development and production activities. Our principal competitors in the PRC market in the above areas are PetroChina and CNOOC. Because our production of crude oil constitutes only about 30% of our crude oil requirements in 2001, all our crude oil production can be internally consumed, and thus, we do not compete for crude oil customers.

Refining and Marketing of Refined Petroleum Products

We control the largest refining business in China as measured by the crude oil processed and the refined petroleum products distributed. Competition has increased in recent years due to China's transition to a more market oriented economy, and the entry of PetroChina and international companies into the market. We expect that the competition will continue to increase.

Market participants compete primarily on the basis of quality of products and service, efficiency of operations including proximity to customers and awareness of brand name. We believe that we have a competitive advantage over many of our competitors in these aspects arising from the quality of our personnel, technology, assets and organizational management.

We are the market leader in the densely populated eastern, central and southern coastal regions. PetroChina controls most of the market for refined petroleum products in the other regions, primarily in the northeastern and western regions in China.

Petrochemicals

We are the largest producer of most petrochemical products in China. We compete in the PRC markets with both domestic and overseas petrochemical producers, especially PetroChina and those producers from South Korea, Japan and Taiwan. We compete primarily on the basis of proximity to our customers, the wider variety, quality and price of our products and brand recognition.

Our proximity to customers has given us significant competitive advantages. Our production facilities are located in the eastern and southern regions in China, an area which has experienced higher economic growth rates in China in the past two decades. Proximity of our production facilities to our markets has given us an advantage over our competitors in terms of easy access to our customers, resulting in reduced transportation costs, more reliable delivery of products and better service to customers.

We expect competition in the petrochemicals market to increase substantially as the PRC markets open up to foreign competitors. Such competitors are likely to be large, reputable foreign companies producing high quality products at competitive prices. There can be no assurance that such foreign competition will not adversely affect our existing market position and our results of operations in our petrochemicals business.

Foreign Competition after WTO

Most of our products face strong competition from foreign competitors in the domestic market. However, imports of certain refined petroleum and petrochemical products have been subject to tariffs, import quotas and other restrictions.

Currently, the PRC government also restricts the availability of foreign exchange with which imports must be purchased. In the absence of any quality difference, the combination of price differentials, tariffs and quotas, as well as the restrictions on foreign exchange, has had the effect of reducing competition from imported products.

China became a member of the World Trade Organization ("WTO") in December 2001. In line with the general progress of its economic reform programs and as part of its WTO commitments, China has recently significantly reduced import tariffs on a wide range of products including petrochemical products. China's entry into the WTO may also result in China further lowering tariff and eliminating quotas, granting foreign companies distribution rights of refined petroleum products, and eventually lifting its restrictions that limit competition by foreign companies in the PRC petroleum and petrochemicals industry. To the extent these restrictions are relaxed, competition may increase. In anticipation of the increased foreign competition after joining the WTO, we have taken measures to improve our own competitiveness.

Patents and Trademarks

We currently have 1,131 patents register under our name in China and overseas. In addition, as of December 31, 2001, we have filed a total of 1,000 patent applications in China, approvals for which are currently pending. We also use domestic and foreign patents owned by Sinopec Group Company under royalty-free licenses from Sinopec Group Company. These patents expire from time to time and cover many products, processes and product uses. No individual patent is of material importance to our business as a whole. Our patent licenses from Sinopec Group Company are for a term of ten years commencing on February 25, 2000. We also have royalty-free licenses from Sinopec Group Company to use certain Sinopec Group Company's trademarks and brands for our products and services. Our trademark licenses from Sinopec Group Company are for a term of ten years commencing February 25, 2000.

Regulatory Matters

Overview

While the petrochemical industry in China has been significantly deregulated during the last decade, the exploration, production, sales and distribution of crude oil and natural gas and the production, sales and distribution of refined petroleum and petrochemical products are still subject to regulation by several agencies of the PRC government, including the following:

- *The State Development Planning Commission.* This commission has been charged with setting and implementing most of the PRC government's policies regarding the petroleum and petrochemical industry. For example, this commission:
  - estimates the annual nationwide production, import and export levels for crude oil, natural gas, and refined petroleum product based on its macro-economic forecast of China's market condition;
  - publishes retail guidance prices for gasoline and diesel with reference to international market prices;
  - approves investments exceeding certain capital expenditure amounts; and
  - approves Sino-foreign joint venture projects exceeding certain investment limits.
- *The State Economic and Trade Commission.* This commission coordinates economic development of state owned enterprises and oversees their reform, and is responsible for setting and allocating import and export quotas for crude oil and refined products and issuing certificates of limited imports of crude oil.
- *The Ministry of Foreign Trade and Economic Cooperation.* This ministry has the authority to examine and approve production sharing contracts and Sino-foreign equity and cooperative joint venture contracts. It is also responsible for issuing import and export licenses for refined products companies once they have obtained import or export quotas from the State Economic and Trade Commission.
- *The Ministry of Land and Resources.* This ministry has the authority to grant licenses necessary for the exploration and production of crude oil and natural gas in China.

In addition, governmental regulation also affects many other areas of our operations such as environmental protection, transportation and labor.

Regulation of Exploration and Production

Exploration and Production Rights

The PRC Constitution provides that all mineral and oil resources belong to the state. In 1988, the National People's Congress passed the Mineral Resources Law which authorizes the Ministry of Land and Resources to exercise administrative authority over the exploration and production of the mineral and oil resources within the PRC, including its territorial waters. The Mineral Resources Law and its supplementary regulations provide the basic legal framework under which exploration licenses and production licenses are granted. The Ministry of Land and Resources has the authority to grant exploration licenses and production licenses on a competitive bidding or other basis it considers appropriate. Applicants for these licenses must be companies approved by the State Council to engage in oil and gas exploration and production activities. Currently, only we, PetroChina, CNOOC and our wholly-owned subsidiary Sinopec National Star have received such approval.

Applicants for exploration licenses must first register with the Ministry of Land and Resources blocks in which they intend to engage in exploration activities. The holder of an exploration license is obligated to make a progressive annual minimum exploration investment relating to the exploration blocks in respect of which the license is issued. Investment ranges from RMB 2,000 per square kilometer for the initial year to RMB 10,000 per square kilometer for the third and subsequent years. Additionally, the holder has to pay an annual exploration license fee that starts at RMB 100 per square kilometer for each of the first three years and increases by an additional RMB 100 per square kilometer per year for subsequent years up to a maximum of RMB 500 per square kilometer. The maximum term of an exploration license is 7 years. The exploration license may be renewed twice upon application by the holder 30 days prior to expiration of the original term with each renewal for a two-year term.

At the exploration stage, an applicant can also apply for a progressive exploration and production license that allows the holder to test and develop reserves not yet fully proved. The progressive exploration and production license has a maximum term of 15 years. Upon the reserves becoming proved for a block, the holder must apply for a full production license in order to undertake production.

The Ministry of Land and Resources issues full production licenses to applicants on the basis of the reserve reports approved by relevant authorities. The maximum term of a full production license is 30 years unless a special dispensation is given by the State Council. Due to a special dispensation granted to us by the State Council, the maximum term of our full production licenses is 55 years. The full production license is renewable upon application by the holder 30 days prior to expiration. A holder of the full production license has to pay an annual full production right usage fee of RMB 1,000 per square kilometer.

All companies approved by the State Council to engage in oil and gas exploration and production activities may apply for exploration and production licenses for onshore oil and natural gas resources (including areas of shallow water less than 5 meters deep) without geographical restrictions. Currently, CNOOC and our wholly-owned subsidiary Sinopec National Star have the exploration and production license of offshore oil and natural gas resources in China, while we, PetroChina and Sinopec National Star have exploration and production licenses of onshore (including areas of shallow water less than 5 meters deep) crude oil and natural gas in China.

Exploration and production licenses do not grant the holders the right to enter upon any land for the purpose of exploration and production. Holders of exploration and production licenses must separately obtain the right to use the land covered by the licenses, and current owners of the rights to use such land may transfer or lease the land to the license holder.

Volume and Price Controls on Crude Oil

Each of the major crude oil producers is required to submit each year estimated production volumes for the following year. Based on these estimates and other data, such as forecasted domestic consumption and international oil prices, the State Development Planning Commission sets annual production targets for us and other major oil producers and determines permitted levels of crude oil imports and exports nationwide. The State Economic and Trade Commission then allocates the nationwide import and export quotas among us and PetroChina. The actual production levels are determined by the producers themselves, which may vary from their estimates submitted to the State Development Planning Commission.

The PRC government is also involved in the pricing of domestically produced crude oil. Prior to June 1, 1998, the PRC government directly set the prices for domestically produced crude oil. They were infrequently adjusted and, thus, did not reflect crude oil price fluctuations in international markets.

Beginning June 1, 1998, the PRC government relaxed its control over prices of crude oil by generally allowing producers and buyers to negotiate prices. We are the largest purchaser and PetroChina is the largest seller of crude oil in China. To help us and PetroChina negotiate crude oil prices, the PRC government until March, 2001 published monthly a benchmark price for a number of crude oil grades based on an average of the daily FOB Singapore prices for the previous month plus the amount of import duty. We and PetroChina negotiated a premium or a discount from the applicable benchmark price reflecting transportation costs, oil quality and current supply to reach a price for PetroChina's crude oil supplied to us. A similar process applied to our sales of crude oil to PetroChina. If we and PetroChina cannot reach agreement, the State Development Planning Commission will intervene to mediate. Beginning March, 2001, the State Development and Planning Commission stopped publishing the monthly crude oil benchmark prices to further distance itself from intervening the negotiation between PetroChina and us. We and PetroChina agreed to continue to adhere to the same benchmarking system as before, though the benchmark prices would be determined by PetroChina and us instead.

CNOOC and its foreign partners set the prices of crude oil produced by them based on market prices without mandatory government involvement. We and CNOOC negotiate the price for crude oil supplied to us by CNOOC based on international market prices.

Volume and Price Controls on Natural Gas

Each year, the State Development Planning Commission publishes the production targets for natural gas producers based on consumption estimates submitted by all natural gas producers. The State Development Planning Commission also formulates the annual natural gas guidance supply plan, which requires natural gas producers to distribute specified amounts of natural gas to specified fertilizer producers. The actual production level of natural gas, except the amount supplied to the fertilizer producers, is determined by the natural gas producers.

The price of natural gas has three components:

- wellhead price;
- pipeline transportation tariff; and
- purification fee.

Wellhead prices vary depending on whether or not the natural gas sold is within the government-formulated natural gas supply plan. For natural gas sold within the government-formulated supply plan, the State Development Planning Commission fixes wellhead prices at the wellhead according to the nature of the customers.

For sales of natural gas which was produced in excess of the government-formulated natural gas supply plan, the State Development Planning Commission publishes the wellhead guidance price and allows the producer to set the price within ±10% of this guidance price. Natural gas producers also submit to the State Development Planning Commission for examination and approval proposed pipeline transmission tariffs based on the capital investment made in the pipeline, the depreciation period for the pipeline, and the ability of end users to pay. Producers set the purification fee based on the cost of natural gas purification. The purification fee must also be approved by the State Development Planning Commission.

The PRC government has proposed to replace the wellhead fixed prices with the wellhead guidance prices in the near future. In September 1999, the PRC government proposed to set prices based on a ratio between the thermal value and the price of composite alternative energy. If these proposals are adopted, natural gas producers will be able to negotiate prices of natural gas with customers based on market demand and supply with reference to such pricing ratio. Sales of natural gas to fertilizer producers would still be made at a discount set by the PRC government to the market price of natural gas supplied.

Regulation of Refining and Marketing of Refined Petroleum Products

Volume and Price Controls on Gasoline and Diesel

Controls on retail and wholesale sales. Other than as described below for sales to special customers, there are no state controls on volume allocations of gasoline and diesel. The PRC government, to a limited extent, continues to exercise control over gasoline and diesel prices, but such control has been significantly reformed since June 1, 1998 to reflect more of the price volatility of gasoline and diesel in the international markets.

Prior to June 1, 1998, the PRC government directly set gasoline and diesel prices. Once the prices were set, they were adjusted infrequently and did not reflect gasoline and diesel price fluctuations in the international markets. From June 1, 1998, the State Development Planning Commission began determining and publishing guidance prices for retail sales of gasoline and diesel for each province in the PRC based on the sum of:

- FOB Singapore prices;
- estimated ocean shipping and insurance;
- customs duties (9% for gasoline and 6% for diesel), consumption tax (RMB 277.6 per tonne of gasoline and RMB 117.6 per tonne of diesel), value added tax (13% and 17%, where appropriate) and other fees;
- estimated domestic transportation costs; and
- additional allowances.

Prior to June 1, 2000, the retail guidance price was adjusted infrequently. Although we and PetroChina could jointly apply for adjustment to the State Development Planning Commission if we and PetroChina jointly determined market fluctuations required such an adjustment, the retail guidance price was adjusted only four times under this policy, once each in June 1998, November 1999, February 2000 and May 2000. Beginning June 1, 2000 and until October 2001, the State Development Planning Commission determined and published the retail guidance prices of gasoline and diesel monthly.

Beginning October 17, 2001, the State Development Planning Commission has started determining the retail guidance prices of gasoline and diesel based on the FOB prices on the Singapore, Rotterdam and New York markets, instead of solely relying on the Singapore market alone. In addition, instead of publishing the retail guidance prices monthly, the State Development Planning Commission would publish the retail guidance prices whenever it determines that the prices in those international markets have fluctuated over a certain extent. As a result, both the retail guidance prices of gasoline and diesel in the PRC and the timing of changes in such prices are expected to more closely reflect prevailing international market prices.

Before October 17, 2001, we and PetroChina were permitted to set our own respective retail prices within 5% of the published guidance prices. After October 17, 2001, we and PetroChina have been permitted to set our own respective retail prices within 8% of the published guidance prices. Service stations that do not belong to either us or PetroChina, including foreign-owned service stations, must fix their retail prices at the same prices as set by either us or PetroChina, depending upon from whom the stations purchase gasoline and diesel.

We and PetroChina have been permitted to determine our wholesale prices of gasoline and diesel subject to the requirement of the State Development Planning Commission that our wholesale prices are at least 5.5% below our respective retail prices.

There are no government restrictions on how we set prices for sales among PetroChina and us, or among our segments and subsidiaries.

Controls on sales to special customers. The State Development Planning Commission allocates to us and PetroChina a quota of minimum supplies of gasoline and diesel that must be made available to meet the requirements of the military, national reserves, railways, airlines and other similar special customers. In addition, the State Development Planning Commission sets the prices for gasoline and diesel sold to those customers. These special customer prices are lower than the respective wholesale prices determined based on the government published retail guidance prices. Except for sales to the military and national reserve, beginning October 17, 2001, we have been permitted to charge up to a 8% premium, which was increased from 5% before, on the special customer prices to these special customers.

Volume and Price Controls on Refined Products other than Gasoline and Diesel

There are limited or no volume controls for most other refined petroleum products. The prices of certain products which are mostly sold to special customers such as jet fuel and heavy oil for use as fertilizer feedstock are determined directly by the State Development Planning Commission. Prices for kerosene, the remaining heavy oil and small amounts of LPG which are mostly sold wholesale are determined with reference to other state determined prices such as the retail guidance price for gasoline. We are permitted to determine the prices for our sales of other refined products such as lubricants, asphalt and paraffin wax.

Regulation of Petrochemicals

Since 1994, the PRC government has taken steps to gradually eliminate volume and price controls on petrochemical products. Currently, the State Development Planning Commission still publishes guidance prices for small amount of urea and small amount of synthetic resins for use as agricultural film. Both we and PetroChina are permitted to set our own sales price within 10% of these guidance prices.

Participation of domestic companies in the sales and distribution of petrochemicals is not regulated. Foreign participation in the sales and distribution of petrochemicals has generally been permitted only to the extent that the products are produced by a facility in China owned by the foreign participant.

Imports and Exports

The import and export of crude oil and refined products in China are subject to quota and certificate of limited import or licensing control. Currently, only a small number of companies, including our 70% owned subsidiary China International United Petroleum and Chemicals Co., Ltd., also known as Unipec, and PetroChina's 70% owned subsidiary China National United Oil Corporation, have been granted licenses by the PRC government to import and export crude oil and refined products. The State Economic and Trade Commission sets nationwide import and export quotas for crude oil and refined products by taking into account the supply and demand in China as well as the country's overall import and export volumes, and allocates the quota for crude oil and refined products and issues certificates of limited import for crude oil among the individual PRC companies. The Ministry of Foreign Trade and Economic Cooperation is responsible for issuing import and export licenses for refined products. Since September 1998, the State Economic and Trade Commission has suspended import of gasoline and diesel.

Investment

Depending on the size and type of investment, construction and other investment projects are subject to different government approvals. Prior approval from the State Development Planning Commission is required for capital investments in any new projects if the amount of capital involved exceeds RMB 50 million, and prior approval from the State Economic and Trade Commission is required for investment in renovation and expansion projects if the amount of capital involved exceeds RMB 50 million. If the investment is below RMB 50 million, no government approval is required. All joint ventures with foreign participation require government approval.

Because the petroleum industry is regarded as crucial to the national economy and security, the PRC government generally requires state ownership of a majority stake in joint ventures. Current PRC regulations permit foreign minority ownership in pipeline transportation, oil storage facilities and oil jetties. Subject to the regular approval process for foreign investments, there is no express general restriction on foreign investment in refineries and petrochemical facilities.

Taxation, Fees and Royalty

Companies which operate petroleum and petrochemical businesses in China are subject to a variety of taxes, fees and royalties. The table below sets forth the various taxes, fees and royalties generally payable by us or by such companies in China.

Tax Item	Tax Base	Tax Rate
Corporate income tax	Taxable income	33%.
Value-added tax	Revenue	13% for liquified petroleum gas, natural gas, low density polyethylene for use as agricultural film and fertilizers and 17% for other items. We generally charge value-added tax to our customers at the time of settlement on top of the selling prices of our products on behalf of the taxation authority. We may directly claim refund from the value-added tax collected from our customers of any value-added tax that we paid for (i) purchasing materials consumed during the production process; (ii) charges paid for drilling and other engineering services; and (iii) labor consumed during the production process.
Business tax	Revenue from transportation services	3%.
Consumption tax	Sales volume	RMB 277.6 per tonne for gasoline and RMB 117.6 per tonne for diesel, payable by producer.
Import tariff	CIF China price	RMB 16 per tonne of crude oil.
Resource tax	Aggregate volume sold or self-consumed	RMB 8 to 30 per tonne for crude oil. RMB 2 to 15 per thousand cubic meter for natural gas. The actual applicable rate for each oil field may differ depending on the volume of the exploration and production activities and costs required for the production at the particular oil field.
Compensatory fee for mineral resources	Revenue	1% for crude oil and natural gas.
Exploration license fee	Area	RMB 100 to 500 per square kilometer per annum.
Production license fee	Area	RMB 1,000 per square kilometer per annum.
Royalty fee[1]	Production volume	Progressive rate of 0-12.5% for crude oil and 0-3% for natural gas.
City construction tax	total amount of value-added tax, consumption tax and business tax	1% to 7%.
Education Surcharge	total amount of value-added tax, consumption tax and business tax	3%.

(1) Payable only by Sino-foreign oil and gas exploration and development cooperative projects, and the project entity of those cooperative projects is not subject to any other resource tax or fee.

The amended PRC Highway Law, which became effective on October 31, 1999, provides that the PRC government shall collect funds for highway maintenance. The State Council will formulate specific implementation methods and procedures for the imposition of fuel tax. The State Council has not yet announced or published any specific rate, implementation method or procedure for the imposition of the tax.

C. ORGANIZATIONAL STRUCTURE

For a description of our relationship with Sinopec Group Company, see "Item 4 — Information on the Company — History and Development" and "Item 7 — Major Shareholders and Related Party Transactions." For a description of our significant subsidiaries, see note 30 to our consolidated financial statement.

D. PROPERTY, PLANT AND EQUIPMENT

See "Item 4 — Information on the Company — Business Overview" for description of our property, plant and equipment.

Environmental Matters

We are subject to various national environmental laws and regulations and also environmental regulations promulgated by the local governments in whose jurisdictions we have operations. For example, national regulations promulgated by the central government set discharge standards for emissions into air and water. They also set forth schedules of discharge fees for various waste substances. These schedules usually provide for discharge fee increases for each incremental increase of the amount of discharge up to a certain level. Above a certain level, the central regulations permit the local government to order any of our facilities to cure certain behavior causing environmental damage and subject to the central government's approval, the local government may also issue orders to close any of our facilities that fail to comply with the existing regulations.

Each of our production subsidiaries has implemented a system to control its pollutant emissions and to oversee compliance with the PRC environmental regulations. We have a central safety and environmental compliance department to set our internal environmental requirements and procedures, and to manage and supervise the environmental protection programs at the various production facilities. Each production subsidiary has an environmental compliance department which is responsible for supervising environmental matters at the subsidiary and implementing our environmental requirements and procedures. These departments report both to the management of the subsidiary and to the central environmental compliance department.

Our production facilities have their own facilities to treat waste water, solid waste and waste gases on site. Waste water first goes through preliminary treatment at our own waste water treatment facilities. Thereafter, the water is sent to nearby waste water treatment centers operated either by us or by Sinopec Group for further treatment. All solid waste materials generated by our production facilities are buried at disposal sites or burned in furnaces either operated by us or by Sinopec Group. Waste gases are generally treated and burned in furnaces before dissipation and the ash is disposed in accordance with our solid waste disposal procedures.

Environmental regulations also require companies to file an environmental impact report to the environmental bureau for approval before undertaking any construction of a new production facility or any major expansion or renovation of an existing production facility. Such an undertaking will not be permitted to operate until the environmental bureau has performed an inspection and is satisfied that environmentally sound equipment has been installed for the facility.

We believe our environmental protection systems and facilities are adequate for us to comply with current applicable national and local environmental protection regulations. The PRC government, however, may impose stricter regulations which require additional expenditure on compliance with environmental regulations.

We paid pollutant discharge fees of approximately RMB0.3 billion in each of 1999 and 2000 and RMB 221 million (US$26.7 million) in 2001.

Insurance

In respect of our refining, petrochemical production, and marketing and sales operations, we currently maintain with Sinopec Group Company, under the terms of its Safety Production Insurance Fund ("SPI Fund"), approximately RMB 169.6 billion of coverage on our property and plants and approximately RMB 35.7 billion of coverage on our inventory. In 2001, we paid an insurance premium of approximately RMB 821 million to Sinopec Group Company for such coverage. Transportation vehicles and products in transit are not covered by Sinopec Group Company and we maintain insurance policies for those assets with insurance companies in the PRC.

The insurance coverage under SPI Fund applies to all enterprises controlled by Sinopec Group Company under regulations published by the Ministry of Finance. We believe that, in the event of major accident, we will be able to recover most of our losses from insurance proceeds paid under the SPI Fund or by insurance companies.

Consistent with what we believe to be customary practice among PRC enterprises, we do not currently carry any third party liability insurance to cover claims in respect of personal injury, environmental damage arising from accidents on our property or relating to our operations other than on our transportation vehicles. We have not had a third party liability claim filed against us during the three years. We also do not carry business interruption insurance, as such coverage is not customary in the PRC.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Unless the context otherwise indicates, in the following discussion and analysis all financial data prior to December 31, 1999 include the results of operations of businesses retained by Sinopec Group Company as part of the reorganization. The results of operations, financial positions and cash flows associated with such businesses are not reflected in our consolidated financial statements as of December 31, 1999 or a later date, or for periods ended after December 31, 1999.

A. OPERATING RESULTS

The following discussion and analysis should be read in conjunction with our consolidated financial statements, selected historical consolidated financial data and operating and reserves data, in each case together with the accompanying notes, included elsewhere in this annual report. The consolidated financial statements have been prepared in accordance with IAS, which differ in certain material respects from US GAAP. Note 31 to the consolidated financial statements provides a reconciliation to US GAAP of net income and shareholders' equity as they relate to us. Unless otherwise indicated, all financial data, whether presented on a consolidated basis or by segment, is presented net of intersegment transactions (i.e., intersegment and other intercompany transactions have been eliminated).

Our consolidated financial statements and this discussion present our results:

- as if we had been in existence throughout the relevant period;
- as if our operations and businesses were transferred to us by Sinopec Group Company and were conducted by us throughout the three-year period ended December 31, 2001; and
- reflecting the operations and businesses of Sinopec National Star acquired from Sinopec Group Company which acquisition was accounted in a manner similar to a pooling-of-interests.

Prior to the reorganization of Sinopec Group and us, we did not exist as a separate legal entity and our operations were conducted by Sinopec Group Company and its various affiliates. As part of the reorganization, certain of Sinopec Group's petroleum and petrochemical operations, together with the related assets and liabilities that were transferred to us, were segregated and separately managed by us beginning December 31, 1999. As Sinopec Group Company controlled the operations transferred to us before the reorganization and continues to control us after the reorganization, the accompanying consolidated financial statements have been prepared on the basis of a reorganization of businesses under common control in a manner similar to a pooling-of-interests. Accordingly, the assets and liabilities transferred to us have been stated at historical amounts. The consolidated financial statements present the results of our operations as if our operations were transferred to us from Sinopec Group since the beginning of the earliest period presented and, prior to December 31, 1999, include the assets, liabilities, revenues, and expenses of certain other operations retained by Sinopec Group Company that were historically associated with Sinopec Group's petroleum and petrochemical operations.

Certain petroleum and petrochemical operations consisting primarily of six refining and petrochemical complexes, 16 individual production plants and approximately 2,700 retail service stations and certain other assets and liabilities, were retained by Sinopec Group Company but were included in our consolidated financial statements for the year ended December 31, 1999 as required by the applicable accounting rules related to reorganizations of businesses under common control. This is because these operations and individual assets and liabilities were historically associated with the production operations transferred to us and, accordingly, in preparing our consolidated financial statements, the revenues and expenses associated with these operations and individual assets were included in our consolidated financial statements for the year ended December 31, 1999. As a result of the segregation and commencement of separate management on December 31, 1999 of the operations that were transferred to us from Sinopec Group Company, the individual assets and liabilities that were retained by Sinopec Group Company are reflected as a distribution of RMB 26.6 billion (US$3.2 billion) to Sinopec Group Company in our consolidated financial statements as of December 31, 1999. These operations, assets and liabilities were not available to generate revenues for us, and were not included in our consolidated financial statements, in any periods after January 1, 2000.

We acquired the entire equity interest of Sinopec National Star from Sinopec Group Company in August 2001. As Sinopec National Star and we were under the common control of Sinopec Group Company, our acquisition of Sinopec National Star was treated as a "combination of entities under common control", which was accounted in a manner similar to a pooling-of-interests. Accordingly, the assets and liabilities of Sinopec National Star have been accounted for at historical cost and our financial statements for periods prior to the combination have been restated to include the accounts and results of operations of Sinopec National Star on a combined basis. The consideration paid by us to Sinopec Group Company has been treated as an equity transaction.

Critical Accounting Policies

Our consolidated financial statements have been prepared in accordance with International Accounting Standards. Our principal accounting policies are set out on pages F-13 to F-17 of our consolidated financial statements. International Accounting Standards require that we adopt the accounting policies and estimation techniques that are most appropriate in the circumstances for the purpose of giving a true and fair view of our results and financial condition. However, different policies, estimation techniques and assumptions in critical areas could lead to materially different results. In particular:

Oil and gas properties and reserves

The accounting for our upstream oil and gas activities is subject to special accounting rules that are unique to the oil and gas business. There are two methods to account for oil and gas business activities, the successful efforts method and the full cost method. We have elected to use the successful efforts method. A description of our policies for oil and gas properties, impairment, maintenance and repair activities is set forth in note 2 to our consolidated financial statements.

The successful efforts method reflects the volatility that is inherent in exploring for mineral resources in that costs of unsuccessful exploratory efforts are charged to expense as they are incurred. These costs primarily include dry hole costs, seismic costs and other exploratory costs. Under the full cost method, these costs are capitalized and written-off (depreciation) over time.

Engineering estimates of our oil and gas reserves are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated oil and gas reserves can be designated as "proved." Proved and proved developed reserve estimates are updated at least annually and take into account recent production and technical information about each field. In addition, as prices and cost levels change from year to year, the estimate of proved and proved developed reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation rates.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation expense and impairment expense, and in disclosing the supplemental standardized measure of discounted future net cash flows relating to proved oil and gas properties. Depreciation rates are determined based on estimated proved developed reserve quantities (the denominator) and capitalized costs of producing properties (the numerator). Producing properties' capitalized costs are amortized based on the units of oil or gas produced. Therefore, assuming all other variables are held constant, an increase in estimated proved developed reserves decreases our depreciation, depletion and amortization expense. Also, estimated reserves are often used to calculate future cash flows from our oil and gas operations, which serve as an indicator of fair value in determining whether a property is impaired or not. The larger the estimated reserves, the less likely the property is impaired.

Impairments

If circumstances indicate that the net book value of an asset or investment, including oil and gas properties, may not be recoverable, this asset may be considered "impaired," and an impairment loss may be recognized in accordance with IAS 36 "Impairment of Assets." The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occured, the carrying amount is reduced to recoverable amount. The amount of impairment loss is the difference between the carrying amount of the asset and its recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling prices because quoted market prices for our assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, selling prices and amount of operating costs. We use all readily available information in determining an amount that is a reasonable approximation of recoverable reserves, including estimates based on reasonable and supportable assumptions and projections of reserve quantities.

Overview of Our Operations

We are the largest integrated petroleum and petrochemical company in China and one of the largest in Asia in terms of operating revenues for the year ended December 31, 2001. We engage in exploring for, developing and producing crude oil and natural gas, operating refineries and petrochemical facilities and marketing crude oil, natural gas, refined petroleum products and petrochemicals. We have reported our consolidated financial results according to the following four principal business segments and the corporate and others segment.

- *exploration and production segment*, which consists of our activities related to exploring for and developing, producing and selling crude oil and natural gas;

- *refining segment*, which consists of purchasing crude oil from our exploration and production segment and from third parties, processing of crude oil into refined products, selling refined products principally to our marketing and distribution segment;

- *marketing and distribution segment*, which consists of purchasing refined petroleum products from the refining segment and third parties, and marketing, selling and distributing refined products by wholesale to large customers and independent distributors and retail through our retail distribution network;

- *chemicals segment*, which consists of purchasing chemical feedstock principally from the refining segment and producing, marketing, selling and distributing chemical products; and

- *corporate and others segment*, which consists principally of trading activities of the import and export subsidiaries and our research and development activities.

Consolidated Results of Operations

The following table sets forth certain income and expense items from our consolidated statements of income for the periods indicated.

	Year Ended December 31,			
	1999	2000	2001	2001
	RMB	RMB	RMB	US$
	(in billions)			
Operating revenues				
Sales of goods	239.1	325.3	304.4	36.8
Other operating revenues	2.6	6.2	14.1	1.7
Total operating revenues	241.7	331.5	318.5	38.5
Operating Expenses				
Purchased crude oil, products and operating supplies and expenses	(161.2)	(226.5)	(220.3)	(26.6)
Selling, general and administrative expenses	(18.6)	(19.5)	(17.1)	(2.1)
Depreciation, depletion and amortization	(18.4)	(20.8)	(22.4)	(2.7)
Exploration expenses, including dry holes	(2.3)	(3.0)	(3.8)	(0.5)
Personnel expenses	(12.7)	(13.3)	(12.9)	(1.6)
Employee reduction expenses	—	—	(2.6)	(0.3)
Taxes other than income tax	(9.5)	(12.2)	(11.9)	(1.4)
Other operating expenses, net	(3.3)	(0.7)	(0.2)	(0.0)
Total operating expenses	(226.0)	(296.0)	(291.2)	(35.2)
Operating income	15.7	35.5	27.3	3.3
Net finance costs	(10.3)	(5.0)	(3.2)	(0.4)
Gains from issuance of shares by subsidiaries	0.6	—	—	—
Other income and gains	0.8	0.5	0.5	0.1
Income before income tax and minority interests	6.8	31.0	24.6	3.0
Income tax	(0.3)	(9.6)	(8.0)	(1.0)
Income before minority interests	6.5	21.4	16.6	2.0
Minority interests	(1.6)	(1.8)	(0.6)	(0.1)
Net income	4.9	19.6	16.0	1.9

Year Ended December 31, 2001 Compared with Year Ended December 31, 2000

Our sales of goods, operating income and net income in 2001 declined 6.4%, 23.1% and 18.4%, respectively, from 2000 to RMB 304.4 billion (US$36.8 billion), RMB 27.3 billion (US$3.3 billion) and RMB 16 billion (US$1.9 billion), respectively. The decline was largely due to the our lower average realized prices of crude oil, refined products and chemical products in 2001, which were affected by the global economic downturn. These lower realized prices were the major causes of our depressed profit margins in exploration and production segment, marketing and distribution segment and chemical segment.

Operating Revenues

Overview. Operating revenues were down by RMB 13 billion (US$1.6 billion), or 3.9%, from RMB 331.5 billion (US$40.1 billion) in 2000 to RMB 318.5 billion (US$38.5 billion) in 2001. Sales of goods decreased by RMB 20.9 billion (US$2.5 billion), or 6.4%, from RMB 325.3 billion (US$39.3 billion) in 2000 to RMB 304.4 billion (US$36.8 billion) in 2001 primarily as a result of the fall of the average realized prices of crude oil, refined products and chemical products. The decrease in sales of goods was partially offset by an increase of RMB 7.9 billion (US$1.0 billion), or 127.4%, in the other operating revenues, which increased from RMB 6.2 billion (US$0.7 billion) in 2000 to RMB 14.1 billion (US$1.7 billion) in 2001 primarily because other operating revenues in 2000 were reported net of the related expenses whereas in 2001 other operating revenues are reported on a gross basis and the related expenses are reported separately in operating expenses. The other operating revenues primarily consist of sales revenue generated by us in sales of certain ancillary products and raw materials such as steel, cement and wood to Sinopec Group Company and third parties. Had we reported the 2000 other operating revenues on a gross basis, the year to year comparison of the change in other operating revenues would not be significant.

Sales of crude oil and natural gas. We produce crude oil principally to supply our refining and chemical operations. Natural gas and a relatively small portion of our crude oil production are sold to the refineries owned by Sinopec Group Company and third party customers. In 2001, sales of crude oil and natural gas were RMB 11.1 billion (US$1.3 billion), down RMB 1.2 billion (US$0.1 billion) from 2000, and accounted for 3.5% of our operating revenues. The decline was largely due to the lower average realized crude oil price, which was down 12% from RMB 1,427 (US$172.4) per tonne in 2000 to RMB 1,256 (US$151.8) per tonne in 2001.

Sales of refined petroleum products. Both the refining and the marketing and distribution segments make external sales of refined products, which consist primarily of gasoline, diesel, kerosene and jet fuel and other refined petroleum products. In 2001, sales of refined products by those two segments were RMB 230.1 billion (US$27.8 billion), down 5.1% compared with RMB 242.5 billion (US$29.3 billion) in 2000, and accounted for 72.2% of our operating revenues. Sales of gasoline and diesel in 2001 were RMB 164.4 billion (US$19.9 billion), down 5.6% compared with RMB 174.1 billion (US$21.0 billion) in 2000, and accounted for 71.4% of our revenues from the sales of refined products. Sales of gasoline decreased by 7.4% from RMB 65.2 billion (US$7.9 billion) in 2000 to RMB 60.4 billion (US$7.3 billion) in 2001. Sales of diesel decreased by 4.5% from RMB 108.9 billion (US$13.2 billion) in 2000 to RMB 104 billion (US$12.6 billion) in 2001. The decline of sales of gasoline and diesel was largely due to the lower average realized prices of gasoline and diesel in 2001.

Sales of chemicals. Sales of chemical products in 2001 were RMB 48.9 billion (US$5.9 billion), down 13% compared to RMB 56.2 billion (US$6.8 billion) in 2000. The decline was largely due to the continual slump in the prices of chemical products in 2001, which was in part caused by the continued depression of the global chemical products market and the fairly steep decline of the international crude oil prices in 2001. While the sales volumes of synthetic resins, synthetic rubbers, and synthetic fibers monomers and polymers slightly increased compared to those in 2000, the average realized prices of these products declined by 12%, 11% and 27.5%, respectively, from those in 2000.

Operating Expenses

Overview. Operating expenses in 2001 were RMB 291.2 billion (US$35.2 billion), down RMB 4.8 billion (US$0.6 billion), or 1.6%, from 2000. The decline in operating expenses was primarily attributable to the decline in the expense item of purchased crude oil, products and operating supplies and expenses.

Purchased crude oil, products and operating supplies and expenses. Purchased crude oil, products and operating supplies and expenses in 2001 were RMB 220.3 billion (US$26.6 billion), down 2.7% compared with RMB 226.5 billion (US$27.4 billion) in 2000, and accounted for 75.7% of our total operating expenses. Among the purchased crude oil, products and operating supplies and expenses, purchased crude oil expenses were RMB 116 billion (US$14.0 billion), down 17.8% compared with RMB 141.2 billion (US$17.1 billion) in 2000, which decline was largely due to:

- The volume of purchased crude oil decreased as more of our crude oil requirement was satisfied by our own production. We processed a total of 101.04 million tonnes of crude oil in 2001, down 3.7% compared with 104.88 million tonnes in 2000. Of the total amount of crude oil processed, 31.27 million tonnes, or 31%, were supplied by our exploration and production segment, up 13.7% compared with 27.5 million tonnes in 2000, and 69.77 million tonnes, or 69%, were purchased from external sources, down 9.8% compared with 77.38 million tonnes in 2000. In 2001, our purchased crude oil includes 48.98 million tonnes of imports, 14.09 million tonnes from PetroChina Limited and 6.7 million tonnes from CNOOC Limited; and

- The average realized price that we expensed on crude oil in 2001 declined as the international crude oil prices fell. The average realized crude oil price that we expensed in 2001 decreased by 8.9% from RMB 1,825 (US$220.5) per tonne in 2000 to RMB 1,663 (US$200.9) per tonne in 2001.

Among the purchased crude oil, products and operating supplies and expenses, expenses other than purchased crude oil were RMB104.3 billion (US$12.6 billion) in 2001, up 22% compared with RMB85.3 billion (US$10.3 billion) in 2000, and accounted for 35.8% of the our total operating expenses. The increase was largerly due to:

- Other operating revenues in 2000 were reported net of associated operating expenses whereas in 2001 other operating revenues are reported on a gross basis and the related operating expenses are reported separately in operating expenses; and

- Purchased diesel and gasoline expenses increased due to larger amount purchased in 2001.

Selling, general and administrative expenses. Selling, general and administrative expenses in 2001 were RMB 17.1 billion (US$2.1 billion), down 12.3% compared with RMB 19.5 billion (US$2.4 billion) in 2000, which decline was largely due to our implementation of cost reduction measures and strengthened administration on accounts receivables.

Depreciation expenses. Depreciation, depletion and amortization in 2001 were RMB 22.4 billion (US$2.7 billion), up 7.7% compared with RMB 20.8 billion (US$2.5 billion) in 2000, which increase was largely due to the commencement of operation of newly developed or acquired properties, plants and equipment, including oil and gas properties.

Exploration expenses. Exploration expenses in 2001 were RMB 3.8 billion (US$0.5 billion), up 26.7% compared with RMB 3 billion (US$0.4 billion) in 2000. The increase was largely a result of the implementation of our strategy to continue expanding resources, which led to the increased exploration expenditure.

Personnel expenses and employee reduction expenses. Personnel expenses in 2001 were RMB 12.9 billion (US$1.6 billion), down 3% compared with RMB 13.3 billion (US$1.6 billion) in 2000, which decline was largely a result of our employee reduction programme.

In accordance with our employee reduction plan, we recorded employee reduction expenses of RMB 2.6 billion (US$0.3 billion) in 2001 in respect of the voluntary termination and the transfer to Sinopec Group Company totalling approximately 68,000 employees.

Taxes other than income tax

Taxes other than income tax, which primarily are the consumption tax, were RMB 11.9 billion (US$1.4 billion) in 2001, down 2.5% compared with RMB 12.2 billion (US$1.5 billion) in 2000. The decline was largely due to the reduction in sales volume of gasoline and diesel produced by us, resulting in lower consumption tax in 2001.

Operating income

Operating income in 2001 was RMB 27.3 billion (US$3.3 billion), down 23.1% compared with RMB 35.5 billion (US$4.3 billion) in 2000. The decline was largely due to the fact that the decrease in our operating revenues exceeded the decrease in our operating expenses.

Net finance cost

Net finance cost in 2001 was RMB 3.2 billion (US$0.4 billion), down 36% compared with RMB 5 billion (US$0.6 billion) in 2000. The decrease was largely due to:

- Lower interest rates in 2001 of a number of foreign currency loans;
- Lower average long and short-term debt level partly as a result of our enhanced centralization of fund management; and
- Increase in interest income from the proceeds from the public offering of domestic listed A shares in 2001 after deduction of the offering expenses.

Income before income tax and minority interests

Income before income tax and minority interests in 2001 was RMB 24.6 billion (US$3.0 billion), down 20.6% compared with RMB 31 billion (US$3.7 billion) in 2000. The decline was a result of the lower operating income, and was partially offset by the decrease of net finance cost.

Income tax

Income tax in 2001 was RMB 8 billion (US$1.0 billion), down 16.7% compared with RMB 9.6 billion (US$1.2 billion) in 2000 as a result of the lower operating income.

Net income

Net income in 2001 was RMB 16 billion (US$1.9 billion), down 18.4% compared with RMB 19.6 billion (US$2.4 billion) in 2000 primarily because the decline in operating revenues outpaced the decline in operating expenses in 2001. Basic earnings per share in 2001 was RMB 0.19 (US$0.023) as compared to basic earnings per share of RMB 0.27 in 2000 (US$0.033).

Year Ended December 31, 2000 Compared with Year Ended December 31, 1999

Certain revenues and costs included in our results of operations for 1999 were associated with certain production assets relating to petroleum and petrochemical products which were retained by Sinopec Group Company following the reorganization of Sinopec Group and us. These operations, assets and liabilities were not available to generate revenues for us in 2000 (and will not be available to generate revenues for us in current or future periods). Therefore, our results of operations for 1999, particularly with respect to petrochemicals, are not necessarily comparable with the results for 2000.

Operating Revenues

Overview. We had significant growth in our sales of refined products in 2000. Our operating revenues increased by RMB 89.8 billion (US$10.8 billion), or 37%, from RMB 241.7 billion in 1999 to RMB 331.5 billion (US$40.1 billion) in 2000. Sales of refined products from the refining and the marketing and distribution segments contributed RMB 71.8 billion (US$8.7 billion), or approximately 80%, of the increase in our operating revenues. This increase in sales of refined products was due primarily to increases in the averaged realized sales prices of gasoline and diesel, which have been set with reference to FOB Singapore prices since June 2000, and the increased portion of our sales volume of gasoline and diesel made through retail sales which tend to have the highest unit prices among all sales channels. Operating revenues from our corporate and others segment contributed RMB 13.8 billion (US$1.7 billion), or 15%, of the increase in our operating revenues. This increase was primarily due to the increased external sales of Sinopec (Hong Kong) Co. and the consolidation of the financial results of China International United Petroleum and Chemicals Co., Ltd., or Unipec, of which our equity interest increased to 70% at the end of 1999 resulting in our accounting for it as a subsidiary for the whole year in 2000.

Sales of crude oil and natural gas. We produce crude oil principally to supply our refining and chemical operations. We sold approximately 6.9 million tonnes crude oil in 2000, compared with approximately 5.5 million tonnes in 1999. The increase in external sales volume is primarily due to the increased sales volume of Sinopec National Star in 2001 compare with 2000 and the segregation and distribution on December 31, 1999 of certain refineries to Sinopec Group Company which during previous periods had been accounted for as our intersegment sales but were actually retained by Sinopec Group Company in the reorganization.

Revenues from sales of crude oil and natural gas increased by approximately RMB 4.7 billion (US$567.9 million), or 61%, to RMB 12.3 billion (US$1.5 billion) in 2000. The increase in sales of crude oil and natural gas was principally due to:

- an increase of approximately 67% in the average realized sales price of crude oil from approximately RMB 855 (US$103.3) per tonne in 1999 to approximately RMB 1,430 (US$172.8) per tonne in 2000, as the international crude oil prices against which our crude oil prices are principally benchmarked rose steeply in 2000 as compared with 1999; and

- an increase of approximately 25% in the external sales volume of crude oil from approximately 5.5 million tonnes in 1999 to approximately 6.9 million tonnes in 2000.

Sales of refined products. Both the refining and the marketing and distribution segments make external sales of refined products. External sales from the refining and the marketing and distribution segments in 2000 were RMB 67.9 billion (US$8.2 billion) and RMB 174.6 billion (US$21.2 billion), respectively, representing increases of 34.6% and 45.2%, respectively, from 1999. Consolidated revenues from external sales of refined products in the two segments represented approximately 73.7% of our operating revenues in 2000.

We derived approximately 72% of our sales of refined products from sales of gasoline and diesel in 2000. Our gasoline sales went up by 35% to RMB 65.2 billion (US$7.9 billion) and our diesel sales went up by 41% to RMB 108.9 billion (US$13.2 billion) in 2000 from 1999. The increase in our gasoline and diesel sales was primarily the result of the significant increase in the realized sales prices for both gasoline and diesel. Sales of our principal refined products other than gasoline and diesel also experienced significant growth due to both the increased realized sales prices and the increased sales volume, except for sales volume of lubricants which decreased slightly, from 1999 to 2000.

The average realized sales prices of gasoline and diesel in 2000 went up by approximately 40% and 38%, respectively, from 1999, to approximately RMB 2,846 (US$343.8) and RMB 2,634 (US$318.2) per tonne, respectively. This increase in prices was principally the result of:

- the PRC government's reform on the state control over gasoline and diesel prices, which allowed the domestic prices to more closely reflect the rising gasoline and diesel prices on the international markets after May 2000; and

- the higher percentage of retail sales, as opposed to wholesale sales, in our sales volume of gasoline and diesel in 2000 compared with 1999.

The State Development Planning Commission adjusted the retail guidance prices for gasoline and diesel upward in November 1999, February and May 2000 in response to the rising international gasoline and diesel prices. Beginning June 2000, the State Development Planning Commission adopted a monthly adjustment mechanism to set the gasoline and diesel retail guidance prices with reference to the Singapore gasoline and diesel market price of the previous month. As a result, the retail guidance prices, and the timing of changes in these prices, have reflected more closely the prevailing international market prices for gasoline and diesel.

Combined sales volumes of gasoline and diesel in 2000 amounted to 64.2 million tonnes, which slightly increased from 1999. Over 2,700 service stations that were retained by Sinopec Group Company were included in our 1999 results of operation and contributed to our retail sales in 1999. Sales made by these service stations were no longer accounted for as our retail sales in 2000. Rather, sales made to these service stations were part of our wholesale sales. Despite this fact, the retail sales volume of gasoline as a percentage of total sales volume of gasoline was up from 23.8% in 1999 to 34.6% in 2000, and the retail sales volume of diesel as a percentage of total sales volume of diesel was up from 13.7% in 1999 to 27.9% in 2000. The increases in retail sales volume and the decreases in wholesale sales volume are primarily due to our acquisition of more than 8,200 service stations which during previous periods had been wholesale customers and our construction of more than 600 new service stations.

Sales of chemicals. Revenues from sales of chemicals were RMB 56.2 billion (US$6.8 billion) in 2000, down 6% from 1999. The decline in chemicals sales was a result of lower sales volumes of some of our principal chemical products in 2000 as compared to 1999, which was primarily due to the segregation and distribution of certain petrochemical operations that were retained by Sinopec Group Company in the reorganization but were included in our historical financial statements prior to December 31, 1999. If these operations were excluded as of January 1, 1999, our sales volumes for most chemicals other than chemical fertilizers would have increased in 2000 as compared to 1999, and our revenues from sales of chemicals in 2000 would have increased by 24% from 1999. Average realized sales prices of most chemicals other than chemical fertilizers increased significantly in 2000 due to:

- the PRC's domestic demand for chemicals continued to grow at a fairly strong rate which we believe is correlated with China's 8% GDP growth rate;

- higher crude oil price drove up petrochemical feedstock cost which is partly passed on to the chemical product prices;

- our efforts to improve our product mix with more higher value added products such as differential fibers and performance compounds for synthetic resin; and

- our efforts to increase the amount of direct sales as a percentage of our total sales of our major chemical products.

Operating Expenses

Overview. Our total operating expenses in 2000 were RMB 296.1 billion (US$35.8 billion), representing an increase of RMB 70.1 billion (US$8.5 billion), or 31%, from 1999. The increase in our total operating expenses was primarily attributable to the increase in the expense item of purchased crude oil, products and operating supplies and expenses.

Purchased crude oil, products and operating supplies and expenses. Purchased crude oil, products and operating supplies and expenses increased by RMB 65.3 billion, or 40.5%, to RMB 226.5 billion (US$27.4 billion) in 2000 from 1999. Purchased crude oil expenses accounted for approximately RMB 141.2 billion (US$17.1 billion), or 62%, of these expenses, and constituted approximately 48% of our total operating expenses in 2000. Purchased crude oil expenses increased by approximately RMB 73.5 billion (US$8.9 billion) in 2000 from 1999, due to:

- an increase of approximately 27% in the volume of crude oil purchased from approximately 61 million tonnes in 1999 to approximately 77.4 million tonnes in 2000; and

- an increase of approximately 64% in the average realized prices we expensed for crude oil from approximately RMB 1,113 per tonne in 1999 to approximately RMB 1,825 (US$220.5) per tonne in 2000. The increase in the average realized price we expensed for crude oil reflected the upward trend in 2000 of crude oil prices in the international markets.

Approximately 74% of our crude oil requirements by volume in 2000 were sourced from imports, PetroChina, CNOOC, with the remaining 26% supplied by our exploration and production operations.

We purchased diesel and gasoline from other domestic refineries to supplement our own production. Our purchased diesel and gasoline expenses decreased by approximately RMB 8.3 billion, or 27%, from approximately RMB 30.8 billion in 1999 to approximately RMB 22.5 billion in 2000. The decrease was entirely due to a decrease in the volume purchased from external sources, partially offset by increased prices in 2000. Our externally purchased volumes of gasoline and diesel were down by approximately 52% and 43%, respectively, to approximately 3.6 million tonnes and 5.6 million tonnes, respectively, in 2000.

We improved our crude oil distillation capacity utilization rate from 67.7% in 1999 to 81% in 2000. We produced more gasoline and diesel and our sales of diesel and gasoline included a larger percentage of internally produced products in 2000 compared to 1999.

The increase in our purchased crude oil, products and operating supplies and expenses in 2000 as compared to 1999 was also attributable to the increased purchases and expenses of our trading subsidiaries of Unipec and Sinopec Hong Kong Co., both of which were accounted for in our corporate and others segment.

Selling, general and administrative expenses. Our selling, general and administrative expenses increased by RMB 0.9 billion (US$108.7 million), or 5%, to RMB 19.5 billion (US$2.3 billion) in 2000 as compared to 1999. The increase was primarily attributable to the increase in operating lease charges, which was up by RMB 2.5 billion (US$0.3 billion) from RMB 0.4 billion in 1999 to RMB 2.9 billion (US$0.4 billion) in 2000. We entered into a land use rights lease contract and a property lease contract with Sinopec Group Company effective as at January 1, 2000. Under the two contracts, we paid approximately RMB 2.4 billion (US$0.3 billion) as rental payment to Sinopec Group Company in 2000. Although our sales increased significantly, we managed to control our selling, general and administrative expenses other than operating lease charges in part due to:

- our efforts to better control our customers' credits to reduce provisions for bad and doubtful debts; and

- our efforts to implement cost reduction programs to better control our logistics to reduce transportation and storage costs.

Depreciation expenses. Our depreciation, depletion and amortization expenses increased by approximately 13% from RMB 18.4 billion in 1999 to RMB 20.8 billion (US$2.5 billion) in 2000 due primarily to:

- an increase in the depreciable value of much of our property, plant and equipment as a result of a revaluation effected on September 30, 1999, offset in part by a decrease in depreciation expenses resulting from the distribution of certain assets to the Sinopec Group Company on December 31, 1999 as part of the reorganization; and

- commencement of operations of newly constructed or acquired facilities including a significant number of service stations and the resulting commencement of depreciation of such facilities.

Personnel and other expenses. Our personnel expenses slightly increased by approximately 5% from RMB 12.7 billion in 1999 to RMB 13.3 billion (US$1.6 billion) in 2000. The increase was primarily due to the payment of year-end performance bonuses to our employees in 2000 in connection with our better operating results.

Taxes other than income tax, which primarily consisted of consumption tax, increased by approximately 28% from RMB 9.5 billion in 1999 to RMB 12.2 billion (US$1.5 billion) in 2000 primarily as a result of increased sales volume, including both external and intersegment sales volume, of gasoline and diesel from our refineries which were subject to consumption tax. Net other operating expenses decreased from RMB 3.3 billion in 1999 to RMB 0.7 billion (US$86.8 million) in 2000 due primarily to the decrease in impairment loss on long-lived assets and the cessation of allocation of staff quarters under the housing reform policy after December 31, 1999.

Operating Income

Our operating income increased by RMB 19.8 billion (US$2.4 billion), or 126%, from RMB 15.7 billion in 1999 to RMB 35.5 billion (US$4.3 billion) in 2000. Our operating income increased because our operating revenue grew faster than our operating expenses. The increase in operating revenue outpaced the increase in operating expenses as a result of a number of factors including the increases in the average realized sales prices of most of our products other than in some petrochemicals where we were unable to pass along the increases in the costs of raw materials, and our implementation of many cost reduction programs. However, the most important factor that contributes to the increase in our net income is that the higher refined product prices more than offset the higher crude oil cost, partly as a result of:

- our efforts to expand our retail sales network to sell more refined products at the higher retail prices;
- our efforts to control increases in operating expenses through increased utilization of our crude oil distillation capacities and increased distillation of less expensive crude oil with higher sulphur content;
- our efforts to improve refining productivity yields and recovery rates for lighter refined products; and
- our efforts to increase the ratio of diesel production to gasoline production and to increase production of cleaner burning gasoline and diesels in response to market demands.

Finance Cost and Other

Our net finance costs decreased by RMB 5.3 billion (US$0.6 billion), or approximately 52%, from RMB 10.3 billion in 1999 to RMB 4.9 billion (US$0.6 billion) in 2000 largely as a result of a decrease in interest expenses of RMB 3.5 billion (US$0.4 billion), and to a lesser extent, an increase of net foreign exchange gains of RMB 2.3 billion (US$278 million) which primarily resulting from the depreciation of the Japanese yen against renminbi in 2000. Our interest expenses decreased principally due to:

- a distribution of certain assets and associated liabilities that were retained by Sinopec Group Company but were included in our historical consolidated financial statements prior to January 1, 2000 to Sinopec Group Company on December 31, 1999;
- Sinopec Group Company's assumption of RMB 13.1 billion (US$1.6 billion) of our bank loans on December 31, 1999;

- Sinopec Group Company's assumption of RMB 5.8 billion (US$0.7 billion) of bank loans in April 2000 in consideration of our transferring to it an equivalent amount of receivables; and

- a conversion of short and long-term debts of RMB 35.6 billion (US$4.3 billion) into an interest free 20-year subordinated loan from Sinopec Group Company as of April 30, 2000.

Net Income

Our income before income tax and minority interests of RMB 31.0 billion (US$3.7 billion) in 2000 was significantly higher than the RMB 6.9 billion amount for 1999 principally because of our increased operating income and reduced interest expense. Income tax expense went up significantly to RMB 9.6 billion (US$1.2 billion) in 2000 because of our increased income before income tax and minority interests and the increase in our effective income tax rate. The latter was mainly attributable to the absence of income tax refunds and cessation of special allowance relating to our exploration and production activities in 2000. Income before minority interests and minority interests were RMB 21.4 billion (US$2.6 billion) and RMB 1.8 billion (US$0.2 billion), respectively, in 2000 compared to RMB 6.5 billion and RMB 1.6 billion, respectively, in 1999. Minority interests increased by 15% due to increased contribution from our non-wholly owned subsidiaries to our consolidated income before minority interests reflecting stronger financial performance of these subsidiaries in 2000 compared with 1999.

Net income increased from RMB 4.9 billion in 1999 to RMB 19.6 billion (US$2.4 billion) in 2000. Basic earnings per share in 2000 was RMB 0.27 (US$0.033) as compared to basic earnings per share of RMB 0.07 in 1999 (US$0.01).

Discussion of Segment Operations

We began reorganizing our operations into four principal business segments and a corporate and other services segment in early 2000. Although in 1999 we had not divided our operations into these segments, for purposes of the following discussion, we have reconstructed our 1999 financial results on a segment basis. As we further impose the business segmentation on our corporate structure and operations, we expect that allocations of revenues and expenses amongst segments and our policies regarding transfer pricing will be better fine-tuned. Consequently, investors are cautioned not to place undue reliance on historical segmental operating revenues, operating expenses or operating income as measures of the economic efficiency of these segments.

Unless otherwise indicated, intersegment transactions have not been eliminated from the financial data discussed in this section and the operating revenue data for each of our business segments discussed in this section include, in addition to the sale of goods, other operating revenues for each such segment.

The following table lists operating revenues by segment for the periods indicated; the contribution of external sales and intersegment sales as a percentage of consolidated operating revenues before elimination of intersegment sales for 2000 and 2001; and the contribution of external sales as a percentage of consolidated operating revenues (i.e., after elimination of intersegment sales) for 2000 and 2001.

	Year Ended December 31,				As a Percentage of Consolidated Operating Revenues Before Elimination of Intersegment Sales		As a Percentage of Consolidated Operating Revenues After Elimination of Intersegment Sales	
	1999	2000	2001	2001	2000	2001	2000	2001
	RMB	RMB (in billions)	RMB	US$	Percent		Percent	
Operating Revenues								
Exploration & Production								
External sales[(1)]	8.2	13.7	17.3	2.1	3%	3%	4%	5%
Intersegment sales	24.7	46.2	43.3	5.2	8	8		
Total operating revenue	32.9	59.9	60.6	7.3	11	11		
Refining								
External sales[(1)]	51.6	70.9	52.3	6.4	13	10	21	16
Intersegment sales	87.0	162.2	156.8	18.9	29	29		
Total operating revenue	138.6	233.1	209.1	25.3	42	39		
Marketing and distribution								
External sales[(1)]	120.7	175.0	180.8	21.8	31	34	53	57
Intersegment sales	.1	.6	2.5	.3	—	—		
Total operating revenue	120.8	175.6	183.3	22.1	31	34		
Chemicals								
External sales[(1)]	60.5	57.5	53.3	6.4	10	10	17	17
Intersegment sales	2.2	3.4	5.6	.7	1	1		
Total operating revenue	62.7	60.9	58.9	7.1	11	11		
Corporate and other								
External sales[(1)]	.7	14.5	14.8	1.8	3	3	5	5
Intersegment sales	.4	11.5	8.9	1.1	2	2		
Total operating revenue	1.1	26.0	23.7	2.9	5	5		
Total operating revenue before intersegment eliminations	356.1	555.5	535.6	64.7	100%	100%		
Elimination of intersegment sales	(114.4)	(224.0)	(217.1)	(26.2)				
Consolidated operating revenues	241.7	331.5	318.5	38.5			100%	100%

(1) Includes other operating revenues. See note 29 to the consolidated financial statements for other operating revenues of each of our operating segments.

The following table lists operating revenues, operating expenses and operating income by segment before elimination of intersegment transactions for the periods indicated.

	Year Ended December 31,			
	1999	2000	2001	2001
	RMB	RMB	RMB	US$
	(in billions)			
Exploration and Production				
Total operating revenues	32.9	59.9	60.6	7.3
Total operating expenses	(28.6)	(34.5)	(37.4)	(4.5)
Total operating income	4.3	25.4	23.2	2.8
Refining				
Total operating revenues	138.6	233.1	209.1	25.3
Total operating expenses	(132.5)	(231.7)	(207.0)	(25.0)
Total operating income	6.1	1.4	2.1	0.3
Marketing and distribution				
Total operating revenues	120.8	175.6	183.3	22.1
Total operating expenses	(118.2)	(169.2)	(180.9)	(21.9)
Total operating income	2.6	6.4	2.4	0.2
Chemicals				
Total operating revenues	62.7	60.9	58.9	7.1
Total operating expenses	(59.0)	(58.5)	(59.6)	(7.2)
Total operating income/(loss)	3.7	2.4	(0.7)	(0.1)
Corporate and other services				
Total operating revenues	1.1	26.0	23.7	2.9
Total operating expenses	(1.9)	(26.1)	(23.4)	(2.8)
Total operating (loss)/income	(0.8)	(0.1)	0.3	0.1

Exploration and Production Segment

Our exploration and production segment consists of our activities related to exploring for and developing, producing and selling of crude oil and natural gas.

Year Ended December 31, 2001 Compared with Year Ended December 31, 2000

Operating revenues for the exploration and production segment in 2001 were RMB 60.6 billion (US$7.3 billion), up 1.2% compared with RMB 59.9 billion (US$7.2 billion) in 2000. Despite the lower average realized crude oil price, operating revenues increased in 2001 largely due to:

- Increased sales volumes of crude oil and natural gas in 2001; and

- Other operating revenues in 2000 were reported net of associated operating expenses, whereas in 2001 other operating revenues are reported on a gross basis and the related operating expenses are reported separately in operating expenses. Had we reported the 2000 other operating revenues on a gross basis, the year to year comparison of the change in other operating revenues would not be significant.

We sold 36.01 million tonnes of crude oil in 2001 (inclusive of 2.46 million tonnes sold by Sinopec National Star), up 2.6% compared with 35.1 million tonnes sold in 2000 (inclusive of 2.04 million tonnes sold by Sinopec National Star). We also sold 3.084 billion cubic meters of natural gas in 2001 (inclusive of 1.5 billion cubic meters sold by Sinopec National Star), up 12% compared with 2.76 billion cubic meters in 2000 (inclusive of 1.3 billion cubic meters sold by Sinopec National Star). Increase in the sales volumes of crude oil and natural gas were largely due to the increase in our production of crude oil and natural gas.

Our average realized price of crude oil in 2001 was RMB 1,373 (US$165.9) per tonne, down 14% compared with RMB 1,598 (US$193.1) per tonne in 2000. Decline in the average realized crude oil price reflected the downward trend of the international crude oil prices in 2001.

Our average realized price of natural gas in 2001 was RMB 561 (US$67.8) per thousand cubic meters, slightly decreased by 2% from RMB 571 (US$69.0) per thousand cubic meters in 2000.

Operating expenses for the exploration and production segment in 2001 were RMB 37.4 billion (US$4.5 billion), up 8.4% compared with RMB 34.5 billion (US$4.2 billion) in 2000. The increase was largely because:

- We implemented our strategy of expanding resources and increased exploration and production expenditures, causing the exploration expenses (including dry holes) to increase by 26.7% from RMB 3 billion (US$0.4 billion) in 2000 to RMB 3.8 billion (US$0.5 billion) in 2001;

- Depreciation, depletion and amortization expenses increased by 18.5% from RMB 6.6 billion (US$0.8 billion) in 2000 to RMB 8.1 billion (US$1.0 billion) in 2001, as we added more oil and gas properties in 2001 as a result of our various capital expenditure programmes; and

- The purchase expense in relation to the other operating revenues increased in 2001 as such expenses and the other operating revenues were separately reported.

In addition, compared with 2000, as a result of our cash operating costs of crude oil and natural gas production decreased by 1% from US$6.21 per barrel in 2000 to US$6.15 per barrel.

Operating income for the exploration and production segment in 2001 was RMB 23.2 billion (US$2.8 billion), down 8.7% compared with RMB 25.4 billion (US$3.1 billion) in 2000.

Our exploration and production segment consists of our activities related to exploring for and developing, producing and selling of crude oil and natural gas.

Year Ended December 31, 2000 Compared with Year Ended December 31, 1999

Operating revenues from our exploration and production segment increased by 82.1% from RMB32.9 billion (US$4.0 billion) in 1999 to RMB59.9 billion (US$7.2 billion) in 2000. The increase in operating revenues was primarily due to:

- an increase of approximately 67% in average realized prices of crude oil for external sales to approximately RMB 1,430 (US$172.8) per tonne in 2000; and

- an increase of approximately 65% in average realized prices of crude oil for intersegment sales to RMB 1,640 (US$198.1) per tonne in 2000.

These price increases reflected steeply rising international crude oil prices in 2000 and, to a lesser extent for intersegment sales, the change in our intersegment transfer pricing policy effective January 1, 2000. This crude oil transfer pricing policy provides that sales of similar grades of crude oil are to be made at substantially the same prices as those for external sales of the same products. As a result of this new policy, substantially all of the external and intersegment sales of this segment are based on market prices. Total sales volume of crude oil increased slightly in 2000 compared to 1999.

Overall operating expenses increased by 20.6% in 2000 compared with 1999 for the exploration and production segment, primarily due to the higher depreciation, depletion and amortization expenses in 2000 as a result of the increased capital expenditure that we spent on exploration and production to take advantage of the high international crude oil price. As a result of our increased exploration and production activities, exploration expenses, including dry holes expenses, was up by RMB 0.7 billion (US$87.1 million), or 31.2%, to RMB 3.0 billion (US$0.4 billion) in 2000.

Operating income in 2000 increased significantly compared to 1999 primarily as a result of high crude oil prices prevailing in 2000.

Refining Segment

Our refining segment consists of our operations related to purchasing crude oil from our exploration and production segment and from third parties, processing of crude oil into refined products, selling refined products principally to our marketing and distribution segment and to domestic and overseas customers.

Year Ended December 31, 2001 Compared with Year Ended December 31, 2000

To operate more efficiently as an integrated company with distinct refining and marketing and distribution segments, substantially all the refining segment's sales of gasoline, diesel, kerosene and jet fuel, other than for exports, are made to the marketing and distribution segment in 2001, and the other refined products are sold to domestic and overseas customers.

Operating revenues of the refining segment in 2001 were RMB 209.1 billion (US$25.3 billion), down 10.3% compared with RMB 233.1 billion (US$28.2 billion) in 2000. The decline was largely due to the reduction in the refining throughput as the market demand slowed down in 2001, and apart from the slight increase in the sales volume of diesel and chemical feedstocks due to adjustment of the output ratio between diesel and gasoline, sales volumes of gasoline and other refined products all decreased. In addition, under the impact of the falling prices of crude oil and refined oil products on the international markets, and particularly the irregular lower-than-crude gasoline prices in Singapore from June to August 2001, the realized prices of refined products decreased in 2001. Sales of gasoline, diesel, chemical feedstocks in 2001 accounted for approximately 81% of the operating revenues of the refining segment and amounted to RMB 170 billion (US$20.5 billion), down 8.3% compared with RMB 185.3 billion (US$22.4 billion) in 2000.

- In 2001, the refining segment sold 18.72 million tonnes of gasoline at an average realized price of RMB 2,387 (US$288.4) per tonne, revenue from sales of gasoline was RMB 44.7 billion (US$5.4 billion), representing approximately 21% of total operating revenues of the refining segment. Whereas in 2000, the refining segment sold 19.76 million tonnes of gasoline at an average realized price of RMB 2,581 (US$311.8) per tonne, revenue from sales of gasoline was RMB 51 billion (US$6.2 billion), representing approximately 22% of the total operating revenues of the refining segment.

- In 2001, the refining segment sold 38.08 million tonnes of diesel at an average realized price of RMB 2,200 (US$265.8) per tonne, revenue from sales of diesel was RMB 83.8 billion (US$10.1 billion), representing approximately 40% of the total operating revenues of the refining segment. Whereas in 2000, the refining segment sold 37.38 million tonnes of diesel at an average realized price of RMB 2,426 (US$293.1) per tonne, revenue from sales of diesel was RMB 90.7 billion (US$11.0 billion), representing approximately 39% of the total operating revenues of the refining segment.

- In 2001, the refining segment sold 21.25 million tonnes of chemical feedstocks at an average realized price of RMB 1,957 (US$236.4) per tonne, revenue from sales of chemical feedstocks was RMB 41.6 billion (US$5.0 billion), representing approximately 20% of the total operating revenues of the refining segment. Whereas in 2000, the refining segment sold 20.59 million tonnes of chemical feedstocks at an average realized price of RMB 2,118 (US$255.9) per tonne, revenue from sales of chemical feedstocks was RMB 43.6 billion (US$5.3 billion), representing approximately 19% of the total operating revenues of the refining segment.

Operating expenses of the refining segment in 2001 were RMB 207.0 billion (US$25.0 billion), down 10.7% compared with RMB 231.7 billion (US$28.0 billion) in 2000. The decline was largely due to the decrease in the purchase expenses of crude oil, feedstocks, catalysts and other ancillary materials and a lower cash operating cost.

In 2001, the refining segment purchased a total of 101.04 million tonnes of crude oil; the average purchase cost of crude oil was RMB 1,618 (US$195.5) per tonne, and the total cost of crude oil was RMB 163.5 billion (US$19.8 billion), representing 79% of the total operating expenses of the refining segment. Whereas in 2000, the refining segment purchased 104.88 million tonnes of crude oil; the average purchase cost of crude oil was RMB 1,793 (US$216.6) per tonne, and total cost of crude oil was RMB 188 billion (US$22.7 billion), representing 81% of the total operating expenses of the refining segment.

In 2001, our refining margin (defined as sales revenue less crude oil expenses, feedstock expenses and taxes other than income tax; divided by the volume of crude oil and feedstocks processed) was US$3.57 per barrel slightly declined when compared 2000. Prior to October 17, 2001, prices of domestic refined products in the PRC were determined and announced on a monthly basis with reference to the FOB prices of similar refined products on the Singapore market. Due to the excess refining capacity in Asia, prices of gasoline on the Singapore market from June to August 2001 were lower than crude oil prices, which depressed our refining margin. After October 17, 2001, domestic prices of gasoline and diesel have instead been benchmarked against three international markets, namely, Singapore, Rotterdam and New York. The new pricing scheme has a positive impact on our refining margin. After 11 September 2001, global demands for refined products have been adversely affected to different extents, and despite improvements in November and December 2001, our refining margin did not improve in 2001 compared with 2000.

Our cash operating cost (defined as the segment's operating expenses less the sum of purchased crude oil and feedstocks expenses, depreciation and amortization, taxes other than income tax and other operating expenses and adjustments, divided by the volume of crude oil and feedstocks processed) in 2001 was US$2.07 per barrel, down US$0.07 per barrel compared with US$2.14 per barrel in 2000, which decrease was largely due to the implementation of the various cost reduction measures.

Operating income of the refining segment in 2001 was RMB 2.1 billion (US$0.3 billion), up 50% compared with RMB 1.4 billion (US$0.2 billion) in 2000. The increase was largely due to the reduction in cash operating cost and a decrease in inventory of refined products that were sold to marketing and distribution segment at the end of 2001.

Year Ended December 31, 2000 Compared with Year Ended December 31, 1999

Operating revenues from our refining segment increased by approximately 68% from RMB 138.6 billion in 1999 to RMB 233.1 billion (US$28.2 billion) in 2000. The increase in operating revenue was principally due to increases in sales revenues from the sale of diesel and, to a lesser extent, gasoline and chemical feedstock.

Sales of diesel, which constitutes approximately 39% of our refining segment's operating revenue, went up in 2000 by 75% to approximately RMB 90.7 billion (US$11.0 billion). The increase in sales revenues for diesel was due to:

- an increase of approximately 43% and 33% in the average realized price for intersegment sales and external sales, respectively, to approximately RMB 2,439 (US$294.7) and RMB 2,238 (US$270.4) per tonne; and

- an increase of approximately 23% in the consolidated sales volume for external and intersegment sales to approximately 37.4 million tonnes.

Sales of gasoline, which constitutes approximately 22% of our refining segment's operating revenue, went up in 2000 by 76% to approximately RMB 51.0 billion (US$6.2 billion). The increase in sales revenues for gasoline was due to:

- an increase of approximately 39% and 38% in the average realized price for intersegment sales and external sales, respectively, to approximately RMB 2,611 (US$315.4) and RMB 2,237 (US$270.3) per tonne; and

- an increase of approximately 25% in the consolidated sales volume for external and intersegment sales to approximately 20 million tonnes.

Sales of chemical feedstock, which constitutes approximately 19% of our refining segment's operating revenue, went up in 2000 by 87% to approximately RMB 43.6 billion (US$5.3 billion). The increase in sales revenues for chemical feedstock was due to significant increases in both the volume and the average realized prices in 2000 compared with 1999.

Intersegment sales accounted for approximately 70% of the refining segment's operating revenue in 2000, compared with approximately 63% in 1999. Among the intersegment sales, sales of gasoline and diesel to the marketing and distribution segment accounted for approximately 55% of the refining segment's operating revenue.

In 2000, we have significantly redirected most of the gasoline and diesel sales, other than to certain special customers and exports, to our marketing and distribution segment. External sales volumes of gasoline in 2000, other than export sales, were down approximately 38% from 1999 to approximately 1.36 million tonnes, while intersegment sales volumes were up by approximately 34% to approximately 16.4 million tonnes in 2000. External sales volume of diesel in 2000, other than export sales, was down by approximately 54% to approximately 2.4 million tonnes while intersegment sales volumes increased by approximately 40% to approximately 34.9 million tonnes.

Our operating expenses increased by RMB 99.2 billion, or 74.9%, to RMB 231.7 billion (US$28.0 billion) in 2000 from 1999. The increase was principally due to an increase in our purchased crude oil expenses, which accounted for approximately 81% of our total operating expenses for the refining segment in 2000. The average realized price we paid for crude oil in 2000 increased significantly compared to 1999 reflecting the higher international crude oil prices prevailing in 2000 and our new transfer pricing policy between our exploration and production segment and our refining segment. Our crude oil transfer pricing policy, effective January 1, 2000, provides that all sales of similar grades of crude oil and other liquids are to be made at substantially the same prices as those for external sales of the same products. As a result of this new policy, substantially all of the external and intersegment purchases of crude oil of the refining segment are now made at substantially market prices. As a consequence, our crude oil expenses for the refining segment increased in 2000 because this new pricing policy had the effect of increasing the cost of intersegment sales of crude oil to the refining segment. Our purchased crude oil expenses also increased because we purchased and expensed approximately 16.8 million tonnes more crude oil in 2000 than 1999, primarily sourced from the international crude oil market. In 2000, we significantly improved our crude oil distillation capacity utilization rate and distilled a record amount of crude oil.

Operating income was down by 77% to RMB 1.4 billion (US$169.1 million) in 2000. This decline was largely due to the faster growth rate in the segment's costs of crude oil than in the segment's product prices for its major products such as gasoline, diesel and jet fuel, especially in the first four months in 2000. The price of crude oil in China has been reflecting movements of prices in the international market since June 1998. These prices have generally been rising since late 1999. However, gasoline and diesel prices were infrequently adjusted prior to June 1, 2000, and thus did not fully and timely reflect the increased crude cost. Beginning June 2000, gasoline and diesel prices have been adjusted monthly with reference to FOB Singapore prices. As a result, our operating income improved significantly in the second half of 2000 compared with the first half of 2000.

Our gross refining margin (defined as the difference between sales revenues and crude oil expenses, divided by the volume of crude oil refined and expensed) declined in 2000 compared with 1999. This decline was largely due to increases in our crude oil expenses partially offset by increases in our average realized sales prices of gasoline and diesel. Our cash operating cost (defined as the segment's operating expense less the sum of purchased crude oil and feedstocks expenses, depreciation and amortization, taxes other than income tax, other operating expenses and adjustments, and divided by the volume of crude oil and feedstocks processed) was US$2.14 per barrel in 2000, down from US$2.87 per barrel in 1999.

Marketing and Distribution Segment

Our marketing and distribution segment consists of our operations related to purchasing refined petroleum products from the refining segment and third parties, and marketing, selling and distributing refined products wholesale to large bulk customers, independent distributors and special customers such as the military and the railroad, and retail through our retail distribution network.

Year Ended December 31, 2001 Compared with Year Ended December 31, 2000

Operating revenues of our marketing and distribution segment in 2001 were RMB 183.3 billion (US$22.1 billion), up 4.4% compared with RMB 175.6 billion (US$21.2 billion) in 2000. The increase was largely due to:

- Sales volumes of gasoline, diesel and kerosene including jet fuel increased by approximately 3%, 9% and 396% from 2000, to 20.27 million tonnes, 42.55 million tonnes and 3.75 million tonnes, respectively;

- Sales of gasoline, diesel and kerosene including jet fuel to special customers have been redirected from our refining segment to the marketing and distribution segment since the beginning 2001; and

- Retail sales of gasoline and diesel as a percentage of the marketing and distribution segment's total sales revenues further increased and the percentage of wholesale in the total sales revenues further decreased. Revenue from wholesale of gasoline and diesel in 2001 accounted for approximately 53% of the operating revenues of the marketing and distribution segment, compared with 61% in 2000. Revenue from retail sales of gasoline and diesel in 2001 accounted for approximately 40% of the operating revenues of the marketing and distribution segment, compared with 33% in 2000. The increase in the respective proportion of retail sales volume and retail sales revenue of gasoline and diesel was largely due to the continued expansion of our retail distribution network in 2001 with more service stations brought into service. As at the end of 2001, we operated 24,062 service stations, representing 3,803 more service stations than the 20,259 service stations as at the end of 2000.

In 2001, sales revenue of gasoline was RMB 55.7 billion (US$6.7 billion), down 4% compared with RMB 57.8 billion (US$7.0 billion) in 2000. In particular:

- Wholesale volume (including direct sales to special customers) in 2001 was approximately 9.44 million tonnes, down 19% compared with 11.68 million tonnes in 2000. The average realized wholesale price was RMB 2,536 (US$306.4) per tonne, down 12% compared with RMB 2,867 (US$346.4) per tonne in 2000; and

- Retail sales volume increased to approximately 10.84 million tonnes in 2001, up 37% compared with 7.92 million tonnes in 2000. The average realized retail price was RMB 2,935 (US$354.6) per tonne, down 4.5% compared with RMB 3,073 (US$371.3) per tonne in 2000.

In 2001, sales revenue of diesel was RMB 103.8 billion (US$12.5 billion), similar to RMB 103.9 billion (US$12.6 billion) in 2000. In particular:

- Wholesale volume (including direct sales to special customers) was approximately 26.73 million tonnes, down 3% compared with 27.51 million tonnes in 2000. The average realized wholesale price was RMB 2,352 (US$284.2) per tonne, down 9% compared with RMB 2,587 (US$312.6) per tonne in 2000; and

- Retail sales volume increased to approximately 15.82 million tonnes in 2001, up 37% compared with 11.55 million tonnes in 2000. The average realized retail price was RMB 2,591 (US$313.1) per tonne, down 8% compared with RMB 2,830 (US$341.9) per tonne in 2000.

Sales revenue of jet fuel and kerosene in 2001 increased to approximately RMB 10.3 billion (US$1.2 billion), representing an increase of approximately 390% compared with RMB 2.1 billion (US$0.3 billion) in 2000. The increase was largely because the direct sales to special customers of gasoline, diesel, jet fuel and kerosene jet fuel have been redirected from the refining segment to the marketing and distribution segment since the beginning of 2001.

Operating expenses of the marketing and distribution segment in 2001 increased to RMB 180.9 billion (US$21.9 billion), up approximately 7% compared with RMB 169.2 billion (US$20.4 billion) in 2000. The purchase expenses of gasoline and diesel in 2001 accounted for approximately 83% of the operating expenses of the marketing and distribution segment. While the average realized prices expensed for gasoline and diesel in 2001 were down 1% and 4% from 2000, respectively, to RMB 2,579 (US$311.6) per tonne and RMB 2,303 (US$278.3) per tonne, respectively, the purchased volumes of gasoline and diesel were up 3% and 9%, respectively, from 2000 to 2,027 tonnes and 4,255 tonnes, respectively.

The marketing and distribution segment's cash operating cost (defined as operating expenses less the purchased products expenses, taxes other than income tax and depreciation and amortization, divided by sales volume) in 2001 was RMB 163 (US$19.7) per tonne, down 9.9% compared with RMB 181 (US$21.9) per tonne in 2000. The decrease was partly because, while sales volumes increased as the direct sales of refined products to special customers have been redirected from the refining segment to the marketing and distribution segment since the beginning of 2001, cash operating cost did not increase correspondingly. The decrease was also due to our effective implementation of cost saving measures.

Operating income of the marketing and distribution segment in 2001 was RMB 2.4 billion (US$0.3 billion), representing a reduction of RMB 4 billion (US$0.5 billion) from RMB 6.4 billion (US$0.8 billion) in 2000.

Year Ended December 31, 2000 Compared with Year Ended December 31, 1999

Operating revenues of our marketing and distribution segment increased by approximately 45.4% to RMB 175.6 billion (US$21.2 billion) in 2000 from 1999. More than 90% of such operating revenues were from sales of gasoline and diesel in 2000 and substantially all of the operating revenues were from external sales. The increase in operating revenues was principally due to increased sales revenues from sales of diesel and, to a lesser extent, gasoline and fuel oil.

Sales revenue for diesel increased by approximately 55% to approximately RMB 103.9 billion (US$12.6 billion) in 2000, due to:

- an increase of approximately 35% in the average realized wholesale prices, including prices for direct sales made to special customers, to approximately RMB 2,587 (US$312.5) per tonne;

- an increase of approximately 32% in the average realized retail price to approximately RMB 2,830 (US$341.9) per tonne; and

- an increase of approximately 109% in retail sales volume to approximately 11.5 million tonnes.

Sales revenue for gasoline increased by approximately 39% to approximately RMB 57.8 billion (US$7.0 billion) in 2000, due to:

- an increase of approximately 43% in the average realized wholesale prices, including prices for direct sales made to special customers, to approximately RMB 2,867 (US$346.5) per tonne;

- an increase of approximately 28% in the average realized retail price to approximately RMB 3,073 (US$371.3) per tonne; and

- an increase of approximately 41% in retail sales volume to approximately 7.9 million tonnes.

Sales revenue for fuel oil increased by approximately 239% to approximately RMB 2.1 billion (US$0.3 billion) in 2000, due to:

- an increase of approximately 144% in total sales volume to approximately 1.4 million tonnes;

- an increase of approximately 39% in the average realized price to approximately RMB 1,559 (US$188.3) per tonne.

Compared to 1999, wholesale sales volume of gasoline and diesel, including direct sales made to special customers, declined by approximately 17% and 5%, respectively, to approximately 11.7 million tonnes and approximately 27.5 million tonnes, respectively, in 2000. Wholesale sales of gasoline and diesel accounted for approximately 59% of the operating revenues of the marketing and distribution segment in 2000, compared to 69% for 1999. Retail sales of gasoline and diesel accounted for approximately 32% of operating revenues of the marketing and distribution segment in 2000, compared to 21% in 1999. Retail sales volume and revenues as a percentage of total sales volume and revenues of gasoline and diesel increased primarily as a result of the addition to our distribution network of over 8,800 service stations in 2000.

Average realized sales prices of gasoline and diesel increased with the rising international gasoline and diesel prices in 2000 compared with 1999, primarily as a result of the overall upward movement of the retail guidance prices which were published by the State Development Planning Commission in November 1999, February and each month after May 2000 with reference to the Singapore market prices.

Operating expenses of our marketing and distribution segment increased by approximately 43.2% to RMB 169.2 billion (US$20.4 billion), in 2000 from 1999. Purchased gasoline and diesel expenses constituted approximately 85% of our marketing and distribution segment's operating expenses in 2000. The average realized prices we expensed for gasoline and diesel in 2000 increased by 42% and 38%, respectively, to approximately RMB 2,600 (US$314.1) per tonne and approximately RMB 2,396 (US$289.5) per tonne, respectively, compared with 1999.

The marketing and distributon segment's cash operating cost (defined as operating expense less the purchased products expense, taxes other than income tax and depreciation and amortization, and divided by the sales volume) was RMB 181 (US$21.9) per tonne of gasoline, diesel, jet fuel and kerosene in 2000, compared with RMB 177 (US$21.4) in 1999, primarily due to the increased transportation expenses associated with our expanded retail distribution network.

Operating income for the marketing and distribution segment increased by RMB 3.8 billion (US$0.5 billion) to RMB 6.4 billion (US$0.8 billion) in 2000 from 1999, reflecting the foregoing factors.

Chemicals Segment

Our chemicals segment consists of producing, marketing, selling and distributing petrochemical and inorganic chemical products.

Year Ended December 31, 2001 Compared with Year Ended December 31, 2000

Operating revenues of the chemicals segment in 2001 were RMB 58.9 billion (US$7.1 billion), down 3.3% compared with RMB 60.9 billion (US$7.4 billion) in 2000. The decline was largely due to the the lower average realized prices of chemical products other than chemical fertilizers in 2001 as the global economy slowed down and chemical products prices fell on the international market. The decline in prices was partially offset by the increase in sales volumes of most chemical products other than synthetic fibers and chemical fertilizers. Sales revenues from our six major chemical products (i.e., intermediate petrochemicals, synthetic resins, synthetic fibers, synthetic fiber monomers and polymers, chemical fertilizers) amounted to

RMB 49.7 billion (US$6.0 billion), down 9% compared with RMB 53.9 billion (US$6.5 billion) in 2000, and accounted for 84% of the operating revenues of the chemicals segment. The table below sets forth our sales volumes and average realized prices of each major chemical product category for the periods indicated and the respective rate of change from 2000 to 2001.

	Sales Volume		Rate of Change in 2001 from 2000	Average Realized Prices		Rate of Change in 2001 from 2000
	2001	2000		2001	2000	
	(in million tonnes)		(Percent)	(RMB/tonne)		(Percent)
Intermediate petrochemicals	4.829	3.046	58.5%	2,384.3	3,543.0	(32.7%)
Synthetic resins	2.671	2.596	2.9	5,550.3	6,289.4	(11.8)
Synthetic rubbers	0.415	0.293	41.6	6,175.6	6,942.7	(11.1)
Synthetic fibers	1.084	1.085	(0.1)	8,512.4	9,969.7	(14.6)
Synthetic fiber monomers and polymers	1.699	1.425	19.2	5,220.6	7,199.6	(27.5)
Chemical fertilizers	2.729	3.793	(28.1)	995.9	974.7	2.2

Other operating revenues were RMB 4.4 billion (US$0.5 billion), representing an increase of RMB 3.1 billion (US$0.4 billion) compared with RMB 1.3 billion (US$0.2 billion) in 2000. The increase was largely because the other operating revenues in 2000 were reported net of certain associated operating expenses whereas in 2001 other operating revenues are reported on a gross basis and the related operating expenses are reported separately in operating expenses.

Operating expenses of the chemicals segment in 2001 were RMB 59.6 billion (US$7.2 billion), up 2% compared with RMB 58.5 billion (US$7.1 billion) in 2000. The increase was largely due to:

- As sales volumes of most chemical products other than chemical fertilizers and synthetic fibers increased considerably in 2001, the associated expenses in ancillary materials, fuel and power increased; and

- The purchase expense in relation to the other operating revenues increased in 2001 as such expenses and the other operating revenues were separately reported.

The chemical segment had an operating loss of RMB 0.7 billion (US$0.1 billion) in 2001, representing a reduction of RMB 3.1 billion (US$0.4 billion) compared with an operating income of RMB 2.4 billion (US$0.3 billion) in 2000. The operating loss was a combined result of the decline in operating revenues and the increase in operating expenses.

Year Ended December 31, 2000 Compared with Year Ended December 31, 1999

Operating revenues decreased in 2000 by RMB 1.8 billion (US$0.2 billion), or 3%, to RMB 60.9 billion (US$7.3 billion) from 1999. The decline was a result of lower sales volume of some of our principal chemical products in 2000 compared to 1999, partially offset by higher realized sales prices for most of the chemical products other than chemical fertilizers. The decline in sales volume was primarily due to the segregation and distribution of certain petrochemical operations, which were retained by Sinopec Group Company in the reorganization but were included in our historical financial statements prior to January 1, 2000, to Sinopec Group Company on December 31, 1999. If these operations were excluded as of January 1, 1999, our operating revenues would have increased by 25% in 2000 as compared to 1999, due to:

- an increase in external sales volume for most of our principal petrochemical products other than synthetic rubber and chemical fertilizers; and
- an increase in average realized prices for most of our principal petrochemical products other than chemical fertilizers.

Our operating expenses slightly decreased by RMB 0.5 billion (US$58 million) to RMB 58.5 billion (US$7.1 billion) in 2000 from 1999. Purchased petrochemical feedstock expenses including naphtha expenses accounted for RMB 33.2 billion (US$4.0 billion), or 57%, of the operating expenses. If those operations retained by Sinopec Group Company were excluded as of January 1, 1999, our operating expenses would have gone up by 36% primarily due to the increased purchased petrochemical feedstock expenses and increased selling, general and administrative expenses, despite that we improved our ethylene yield by 0.19 percentage point.

Operating income decreased by RMB 1.3 billion (US$0.2 billion) to RMB 2.4 billion (US$0.3 billion) in 2000 from 1999 as the decline in operating revenues outpaced the decline in operating expenses. Operating income decreased significantly in the last six months in 2000 compared with the first six months in 2000, primarily because we were unable to pass along all the increases in our petrochemical feedstock costs to the realized sales prices of certain of our chemical products including chemical fertilizers.

Corporate and Others

Our corporate and others principally involves trading activities of the import and export subsidiaries and our research and development activities.

Year Ended December 31, 2001 Compared with Year Ended December 31, 2000

Operating revenues from the corporate and others segment in 2001 were RMB 23.7 billion (US$2.9 billion), down 8.8% compared with RMB 26 billion (US$3.1 billion) in 2000. Operating expenses of the segment were RMB 23.4 billion (US$2.8 billion), down 10.3% compared with RMB 26.1 billion (US$3.2 billion) in 2000. Decrease in the operating revenues and the operating expenses was largely due to the decreased sales and the associated decreases in purchased crude oil, products or operating supplies and expenses of our trading subsidiaries including Sinopec (Hong Kong) Company Limited and Unipec.

Operating income from the corporate and others segment was RMB 0.3 billion (US$36.2 million), up RMB 0.4 billion (US$48.3 million) compared with the operating loss of approximately RMB 0.1 billion (US$12.1 million) in 2000.

Year Ended December 31, 2000 Compared with Year Ended December 31, 1999

Operating revenues from our corporate and others segment increased significantly from RMB 1.1 billion in 1999 to RMB 26.0 billion (US$3.2 billion) in 2000. Our operating expenses also increased significantly from RMB 1.9 billion in 1999 to RMB 26.1 billion (US$3.2 million) in 2000. The significant increases in both operating revenues and operating expenses are primarily resulted from the increased sales and the associated increases in purchased crude oil, products or operating supplies and expenses of our trading subsidiaries including Sinopec (Hong Kong) Co. and Unipec. We increased our equity interest in Unipec to 70% at the end of 1999 which resulted in our accounting for it as a consolidated subsidiary for the whole year in 2000.

We reduced the segment's operating loss from RMB 0.8 billion in 1999 to RMB 0.1 billion (US$12.1 million) in 2000.

B. LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of funding have been cash provided by operating activities and short and long-term borrowings and our primary uses of funds have been for working capital, capital expenditures and repayment of short-term and long-term borrowings.

As of December 31, 2001, our short-term debts (including short-term loans from Sinopec Group Company and its affiliates) were RMB 49.2 billion (US$5.9 billion) (including the current portion of long-term debts which was RMB 11.3 billion (US$1.4 billion)) and accounted for 42.3% of our total short-term and long-term debts (which long-term debts include interest free subordinated loan from Sinopec Group Company due in 2020). Our interest coverage ratio, calculated by dividing our operating income before depreciation, depletion and amortization by our interest expense, was 10.6 times for the year ended December 31, 2001.

The following table sets forth a condensed summary of the statements of cash flows for the periods indicated.

	For the Year Ended December 31,			
	1999	2000	2001	2001
	RMB	RMB (in billions)	RMB	US$
Net cash generated from operating activities:				
Net cash provided by operations[(1)]	37.4	58.9	51.5	6.2
Changes in working capital and other assets and liabilities[(2)]	(1.1)	(15.9)	13.6	1.6
Net interest and cash tax (paid)[(3)]	(10.4)	(13.8)	(9.8)	(1.2)
Total	25.9	29.2	55.3	6.7
Cash flows from investing activities:				
Capital expenditure	(34.6)	(45.7)	(55.9)	(6.8)
Purchase of investments net of proceeds from disposal of investments	(1.3)	(1.7)	(3.1)	(0.4)
Net increase in time deposits	—	(17.3)	20.0	2.4
Net changes in other activities[(4)]	0.2	0.4	0.5	0.1
Total	(35.7)	(64.3)	(38.5)	(4.7)
Cash flows from financing activities:				
Proceeds from public offering, net of issuing expenses	—	24.3	11.6	1.4
Cash provided by bank and other loans, net of repayments	13.0	10.7	(13.5)	(1.6)
Cash provided by issuance of shares of subsidiaries and contribution from minority interest, net of distributions to minority interests	1.1	(0.6)	(0.4)	(0.0)
Cash from issuance of convertible bonds and debentures, net of maturities	1.5	(0.7)	—	—
Cash contributions from/(distributions to) Sinopec Group Company	0.5	(0.1)	(6.4)	(0.8)
Cash and cash equivalents distributed to Sinopec Group Company in connection with Reorganization	(11.8)	—	—	
Divended paid	—	(0.6)	(6.7)	(0.8)
Total	4.3	33.0	(15.4)	(1.8)
Net increase/(decrease) in cash and cash equivalent	(5.5)	(2.1)	1.4	(0.2)
Selected consolidated balance sheet items (as of year-end)				
Cash and cash equivalents	21.8	19.6	21.0	2.5
Time deposits with financial institutions[(5)]	4.6	21.9	1.8	0.2

(1) Represents income/(loss) before income tax and minority interests as adjusted for depreciation, depletion and amortization, dry hole cost, income from associates and jointly controlled entities, investment income, interest income, interest expense, unrealized foreign exchange (gains)/losses, loss on allocation of staff quarters and property, plant and equipment, impairment losses on long-lived assets, reversal of impairment losses on long-lived assets net of depreciation effect and gains from issuance of shares by subsidiaries.

(2) Represents decreases/(increases) in current assets, increases/(decreases) in current liabilities and increases in other assets, net of other liabilities.

(3) Represents interest received, interest paid, investment income received, income tax paid, and tax refunds received.

(4) Represents proceeds from disposal of staff quarters and property, plant and equipment, repayments from associates and jointly controlled entities, net of advances to associates and jointly controlled entities.

(5) Represents time deposits with financial institutions with an initial term of three months or more and such deposits are not considered as cash equivalents.

Net Cash Generated from Operating Activities

Primarily as a result of declines in average realized sales prices of refined products, petrochemical products and crude oil, net cash provided by operations decreased from 2000 to 2001. The net cash provided by operations decreased from RMB 58.9 billion in 2000 to RMB 51.5 billion (US$6.2 billion) in 2001. Net cash provided by working capital and other assets was RMB 13.6 billion (US$1.6 billion) increased significantly from 2000 partly due to the reduction of inventory in 2001. Net cash provided by operations, working capital and other assets was partially offset by the net interest and tax paid of RMB 9.8 billion (US$1.2 billion). Net interest and tax paid in 2001, consisted primarily of RMB 5.1 billion (US$0.6 billion) of interest payments and RMB 6.3 billion (US$0.8 million) of income tax paid, offset by RMB 1.2 billion (US$0.1 billion) of cash interest received.

Cash Flows from Investing Activities

Our cash outflows for capital expenditure projects amounted to RMB 34.6 billion, RMB 45.7 billion and RMB 55.9 billion (US$6.8 billion) in 1999, 2000 and 2001, respectively.

In 2001, capital expenditures for the exploration segment were RMB 20.3 billion (US$2.5 billion), and as a result, we increased crude oil production and significantly increased the production of natural gas. In some of the oil fields with better prospects, a number of high-yield oil and gas wells and areas with sizeable reserves have been discovered. Despite the decline of crude oil prices in 2001 over 2000, we have successfully achieved a larger than 100% reserve replacement ratio for five consecutive years. Capital expenditures for the refining segment were RMB 9.0 billion (US$1.1 billion). Fourteen refining facilities commenced operation during 2001, thereby increased the hydrogenation refining capacity and the processing capacity for sour crude oil. In addition, the purchase of certain depots is expected to help the optimization of the deployment of crude oil resources and the reduction of CIF-factory cost of crude oil. Capital expenditures for the chemicals segment were RMB 11.9 billion (US$1.4 billion). Eighteen petrochemical facilities commenced operation during 2001, adding production capacities of 210,000 tonnes of ethylene, 200,000 tonnes of synthetic resins, 60,000 tonnes of synthetic fiber feedstocks and polymers, 155,000 tonnes of synthetic fibers. Capital expenditures for the marketing and distribution segment were RMB 17.3 billion (US$2.1 billion), including RMB 3.0 billion (US$0.4 billion) in respect of the acquisitions of service stations that were contracted in 2000 and recorded as prepayments and recorded as fixed assets in 2001 after the finalization of the legal documents. Other capital expenditures for the marketing and distribution segment were mainly used for the acquisition or building of 4,090 service stations and renovation of 920 service stations and acquisition, building and renovation of refined products distribution terminals which resulted in an increased storage capacity of 494,000 cubic meters.

We made investments of RMB 1.6 billion, RMB 1.8 billion and RMB 3.4 billion (US$0.4 billion) in 1999, 2000 and 2001, respectively, in a variety of joint ventures. We also realized RMB 0.4 billion, RMB 0.4 billion and RMB 0.7 billion (US$0.1 billion) in 1999, 2000 and 2001, respectively, from the disposal of investments, staff quarters and property, plant and equipment.

Cash flow from investing activities also include RMB 20.0 billion (US$2.4 billion) in maturity of time deposits net of increase in time deposits.

Cash Flows from Financing Activities

Despite that we received net proceeds of RMB 11.6 billion (US$1.4 billion) from our public offering of A shares in China in 2001, net cash generated from financing activities decreased significantly from RMB 33 billion in 2000 to RMB (15.4) billion (US$(1.7) billion) in 2001. The decrease was in part because repayment of bank and other loans exceeded proceeds from bank and other loans by RMB 13.5 billion (US$1.6 billion) in 2001. The decrease was also due to the dividend paid in 2001 of RMB6.7 billion (US$0.8 billion) and the distribution of RMB 6.4 billion (US$0.8 billion) to Sinopec Group Company as consideration for acquisition of Sinopec Group Company as consideration for acquisition of Sinopec National Star.

Cash and cash equivalents as of December 31, 2001 were RMB 21.0 billion (US$2.5 billion) as compared to RMB 19.6 billion as of December 31, 2000. Time deposits with financial institutions as of December 31, 2001 were RMB 1.8 billion (US$0.2 billion) compared to RMB 21.9 billion as of December 31, 2000.

Contractual Obligations and Commercial Commitments

The following table sets forth our obligations and commitments to make future payments under contracts and under contingent commitments as of December 31, 2001.

		As of December 31, 2001			
		Payment due by period			
	Total	less than 1 year	1-3 years	4-5 years	After 5 years
		(RMB million)			
Contractual obligations[1]					
Short-term debt	**37,915**	37,915	—	—	
Long-term debt	**78,297**	11,296	17,933	7,058	42,010
Total contractual obligations	**116,212**	**49,211**	**17,933**	**7,058**	**42,010**
Other commercial commitments[2]					
Standby credit facilities[3]	**96,000**	96,000	—	—	—
Operating lease commitment	**98,620**	2,844	5,299	5,109	85,368
Capital commitment	**21,636**	21,636	—	—	—
Exploration and production licenses	**535**	43	90	118	284
Guarantees[4] & [5]	**868**	868	—	—	—
Total commercial obligations	**217,659**	**121,391**	**5,389**	**5,227**	**85,652**

(1) Contractual obligations represent on-balance sheet contractual liabilities as of the balance sheet date.
(2) Other commercial commitments represent off-balance sheet contingent liabilities, and other potential cash outflows (as of the balance sheet date) which may result from contingent events.
(3) Standby credit facilities represent standby loan facilities available to Sinopec Corp. as of the balance sheet date. As of December 31, 2001, Sinopec Corp. outstanding borrowings under these facilities totalled 22,765 which are included in short-term bank loans. These facilities expire at various dates in 2002 and contain no financial covenants.
(4) Guarantee is not limited by time, therefore specific payment due period is not applicable.
(5) In February 2002, Sinopec Corp. made further guarantees of RMB 6,999 to banks in respect of banking facilities granted to a jointly controlled entity.

Historical and Planned Capital Expenditures

The following table sets forth our capital expenditures by segment for each of the years ended December 31, 1998, 1999 and 2000 and the capital expenditures in each segment as a percentage of our total capital expenditures for such year.

	1999		2000		2001		Total	
	RMB	Percent	RMB	Percent	RMB	Percent	RMB	Percent
	(in billions, except percentage data)							
Exploration and production	10.5	30%	14.8	34%	20.3	35%	45.6	33%
Refining	6.9	20	5.5	13	9.0	0.5	21.4	16
Marketing and distribution	3.2	10	16.1	38	17.3	29	36.6	27
Chemicals	12.9	37	6.2	15	11.9	20	31.0	23
Corporate	1.1	3	0.3	—	0.4	1	1.8	1
Total	34.7	100%	42.9	100%	58.8	100%	136.4	100%

In 2002, we plan to spend RMB 34.5 billion (US$4.2 billion) in capital expenditure, of which:

- RMB 16.5 billion on crude oil and natural gas exploration and development to discover new reserves and to keep our crude oil and natural gas production relatively stable.
- RMB 4.9 billion on our refining segment, to renovate our refineries to improve quality of gasoline and diesel produced. In addition, we plan to speed up our construction of crude oil pipelines to reduce crude oil transportation cost.
- RMB 4.5 billion on our marketing and distribution segment to construct more refined products pipelines in our principal market and to acquire construct and renovate more service stations and oil storage facilities to further expand our market share of refined products.
- RMB 8.3 billion on our chemical segment to construct, expand and renovate a few major ethylene facilities to increase our ethylene production capacity and to renovate a few facilities to produce more higher value-added products.

We plan to fund the capital and related expenditures principally through cash provided by operating activities, short and long-term debts and a part of available cash and cash equivalents. Our capital expenditure plans are subject to a number of risks and uncertainties, and our actual capital expenditures may vary significantly from these planned amounts due to various factors. See "Item 3 — Key Information — Risk Factors — Our development plans have significant capital expenditure and financing requirements, which are subject to a number of risks and uncertainties".

Inflation

Inflation in the PRC has not had a significant impact on our results of operations in recent years.

US GAAP Reconciliation

Our consolidated financial statements are prepared in accordance with IAS which differs in certain material respects from US GAAP. These differences, as they apply to our consolidated financial statements, relate primarily to:

- the US GAAP requirement that payments made by Sinopec Group Company to employees that were transferred to and subsequently terminated by Sinopec Group Company are charged to current earnings, whereas under IAS, such payments are not recorded in earnings;

- the US GAAP requirement that investments accounted for by the equity method while the investee has activities in progress necessary to commence its planned operations are considered as qualifying assets for which interest is capitalized, whereas under IAS, such investments are not considered as qualifying assets for which interest is capitalized;

- the US GAAP requirement that foreign exchange differences on funds borrowed for property, plant and equipment be expensed, rather than capitalized as is allowed under IAS;

- the US GAAP requirement that property, plant and equipment be carried at historical cost, whereas under IAS revalued property can be carried in the consolidated financial statements at the revalued amount and depreciated; and

- the US GAAP requirement that an impairment loss be recognized on an asset when the sum of the expected undiscounted future cash flows resulting from the use of the asset and its eventual disposition is less than the carrying amount of the asset and the requirement that such impairment loss cannot be reversed, rather than the IAS standard which involves the asset's discounted future expected cash flows and which permits, in some circumstances, the reversal of amounts previously written down.

See note 31 to the consolidated financial statements for further information.

C. RESEARCH AND DEVELOPMENT

We have six research and development institutes at corporate level, one of which focuses on our exploration and production business, one of which focuses on safety production and occupational sanitary research and four of which focus on our refining and chemical business. In addition, we have approximately 100 research and development departments in our subsidiaries. The objectives of our research and development institutes and departments are to develop new exploration and recovery technologies, to discover new products, processes, technologies and equipment for our businesses and to improve existing products and processes. Our research and development institutes and departments also focus on improving efficiency, safety and environmental protection.

Our expenditures for research and development were approximately RMB 1.1 billion, RMB 1.7 billion and RMB 1.3 billion (US$0.2 billion) for the years 1999, 2000 and 2001, respectively.

D. TREND INFORMATION

See "Item 5 — Operating and Financial Review and Prospects — Operating Results."

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND SENIOR MANAGEMENT

Our board of directors consists of twelve directors, three of whom are independent non-executive directors. Seven of our directors are affiliated with Sinopec Group Company. The functions and duties conferred on the board of directors include:

- convening shareholders' meetings and to report its work to the shareholders' meetings;
- implementing the resolutions of the shareholders' meetings;
- determining our business plans and investment plans;
- formulating our annual budget and final accounts;
- formulating our proposals for dividend and bonus distributions and for the increase or reduction of capital; and
- exercising other powers, functions and duties as conferred by our articles of association.

The PRC Company Law requires a joint stock company with limited liability to establish a board of supervisors. This requirement is reflected in our articles of association. The board of supervisors consists of eight supervisors, seven of whom are shareholders' representatives who are elected and who may be removed by the shareholders in a general meeting and one of whom is an employees' representative who is elected and who may be removed by our staff. In addition, we also have one independent supervisor. Seven of our supervisors are affiliated with Sinopec Group Company. An elected supervisor cannot concurrently hold the position of a director, manager or financial controller. The functions and powers conferred on the board of supervisors include:

- verifying financial reports and other financial information which have been prepared by the board of directors and which are proposed to be presented at shareholders' meetings, and
- overseeing our directors, president, vice presidents and other senior officers in order to prevent such persons from abusing their authority or infringing upon our interest.

In the case of any conflict of interest between Sinopec Corp. and any of our directors, supervisors shall confer with or initiate legal proceedings against such directors on our behalf. A resolution proposed at any meeting of the board of supervisors shall be adopted only if it is approved by two-thirds or more of our supervisors.

Directors

The table and discussion below set forth certain information concerning our directors. All of the following directors other than Mr. Ho Tsu Kwok Charles, Mr. Wang Yi and Mr. Zhang Enzhao were duly elected at our inaugural meeting on February 22, 2000, and Mr. Ho Tsu Kwok Charles was duly elected at our extraordinary meeting of shareholders on June 9, 2000. Mr. Wang Yi and Mr. Zhang Enzhao were elected at our extraordinary meeting of shareholders on August 24, 2001. Our directors will serve the current term until February, 2003 or until the election of their respective successors.

Name	Age	Positions with the Company
Li Yizhong	56	Chairman of the Board of Directors
Chen Tonghai	53	Vice Chairman of the Board of Directors
Wang Jiming	59	Director; President
Mou Shuling	57	Director; Vice President
Zhang Jiaren	57	Director; Vice President and Chief Financial Officer
Cao Xianghong	56	Director; Vice President
Wang Yi	45	Director
Zhang Enzhao	55	Director
Chen Qingtai	64	Independent Non-executive Director
Liu Guoguang	78	Independent Non-executive Director
Ho Tsu Kwok Charles	52	Independent Non-executive Director
Huang Min	58	Employee Representative Director

Li Yizhong, 56, is Chairman of the Board of Directors of Sinopec Corp. Mr. Li is also President of Sinopec Group Company. Mr. Li graduated from Beijing Petroleum Institute in 1966 specializing in refining engineering. Mr. Li is a professor level senior engineer and has over 30 years' management experience in China's petroleum and petrochemical industry. From January 1985 to October 1987, Mr. Li was President of Qilu Petrochemical Company under Old Sinopec. From October 1987 to August 1997, Mr. Li was a Vice President and then Managing Vice President of Old Sinopec. From August 1997 to April 1998, Mr. Li served as Chairman and President of China East United Petrochemical Group Limited, and Chairman of Yizheng Chemical Fibre Company Limited. Mr. Li has been President of Sinopec Group Company since April 1998.

Chen Tonghai, 53, is a Vice Chairman of the Board of Directors of Sinopec Corp. Mr. Chen is also a Vice President of Sinopec Group Company. Mr. Chen graduated from Northeastern Petroleum Institute in 1976 specializing in exploration engineering. Mr. Chen is a senior economist and a senior level administrator with extensive management experience in petrochemical industry and macro-economic control. From March 1983 to December 1986, Mr. Chen was Head of Zhenhai Petroleum and Petrochemical Plant. From 1986 to 1994, Mr. Chen served as a Deputy Mayor, Acting Mayor and Mayor of Ningbo City, Zhejiang Province. From 1994 to 1998, Mr. Chen served as a Vice Minister of the State Development and Planning Commission. Mr. Chen served as a Vice President of Sinopec Group Company since April 1998.

Wang Jiming, 59, is President of Sinopec Corp. Mr. Wang graduated from China Eastern Petrochemical Institute in 1964 specializing in petroleum refining. Mr. Wang is a professor level senior engineer with over 30 years' management experience in petroleum and petrochemical industry. From 1984 to 1993, Mr. Wang served as a Vice President, Acting President and President of Shanghai Petrochemical General Plant. Mr. Wang served as Chairman and President of Shanghai Petrochemical Company Limited from June 1993 and served as a Vice President of Old Sinopec and Chairman of Shanghai Petrochemical Company from February 1994 to April 1998. Mr. Wang served as a Vice President of Sinopec Group Company from April 1998 to February 2000.

Mou Shuling, 57, is a Vice President of Sinopec Corp. Mr. Mou graduated from Beijing Petroleum Institute in 1968 specializing in petroleum exploration engineering. Mr. Mou is a professor level senior engineer and has over 30 years' management experience in China's petroleum industry. From February 1992 to April 1997, Mr. Mou served as a Deputy Director and Director of Petroleum Exploration Bureau of Jiangsu Province. From April 1997 to April 1998, Mr. Mou served as Director of Shengli Petroleum Administration Bureau. Mr. Mou has been a Vice President of Sinopec Group Company from April 1998 to February 2000.

Zhang Jiaren, 57, is a Vice President and Chief Financial Officer of Sinopec Corp. Mr. Zhang graduated from Hefei Industrial University in 1966 specializing in electrical engineering. Mr. Zhang is a professor level senior economist with over 30 years' management experience in petrochemical industry. From August 1987 to July 1994, Mr. Zhang served as a Vice President and President of Zhenhai Petroleum and Petrochemical Plant, a subsidiary of Old Sinopec. In July 1994, Mr. Zhang served as Chairman and President of Zhenhai Refining and Petrochemical Company. Mr. Zhang served as a Vice President of Sinopec Group Company from April 1998 to February 2000.

Cao Xianghong, 56, is a Vice President of Sinopec Corp. Mr. Cao graduated from Nanjing Petrochemical Institute in 1967 specializing in high polymer chemistry. Mr. Cao is a professor level senior engineer and an Academician of China Academy of Engineering. Mr. Cao has over 30 years' management experience in China's petrochemical industry. From July 1984 to August 1997, Mr. Cao served as a Vice President and Chief Engineer of Beijing Yanshan Petrochemical Company, a subsidiary of Old Sinopec. From August 1997 to February 2000, Mr. Cao served as President, Vice Chairman and Chairman of Beijing Yanshan Petrochemical Company Limited and Chairman of Beijing Yanhua Petrochemical Company Limited.

Wang Yi, 45, is a director of Sinopec Corp. Mr. Wang graduated from Peking University majoring in Chinese history in July 1982. He also obtained a postgraduate degree from Peking University in contemporary Chinese history in November 1984. In January 1998, Mr. Wang obtained a doctorate degree in economics from Southwest Finance University. Mr. Wang was engaged in policy research, financial securities administration and management over a significant period of time, and has accumulated extensive experience in these areas. From October 1985 to September 1992, he was Secretary of Bureau of Government Offices Administration of the State Council. From September 1992 to October 1995, he was Deputy Director of Office of Securities Commission under the State Council. From October 1995 to January 1999, he was Vice Chairman of China Securities Regulatory Commission ("CSRC"). He has been Vice President of China Development Bank since January 1999.

Zhang Enzhao, 55, is a director of Sinopec Corp. Mr. Zhang graduated from Fudan University majoring in Finance in July 1984. He is a senior economist. Mr. Zhang has been working in the financial management field for many years, and has accumulated extensive experience in the area. From July 1984 to January 1986, he was Vice President of China Investment Bank Shanghai Branch. From January 1986 to June 1987, he was the Vice President of China Construction Bank Shanghai Branch. From June 1987 to September 1999, he was President of China Construction Bank Shanghai Branch. From September 1999 to January 2002, he was Vice President of China Construction Bank. He has been President of China Construction Bank since January 2002.

Chen Qingtai, 64, is an independent non-executive director of Sinopec Corp. Mr. Chen graduated from Tsinghua University in 1964 specializing in power and dynamics engineering. Mr. Chen is a researcher and a well-known economist in China. From October 1982 to July 1992, Mr. Chen was Chief Engineer, President and Chairman of China No. 2 Automobile Works. From July 1992 to April 1993, Mr. Chen served as a Deputy Director of the State Council Economic and Trade Office. From April 1993 to March 1998, Mr. Chen served as a Vice Minister of State Economic and Trade Commission. Mr. Chen has been a Vice Minister of the State Council Development and Research Center since March 1998.

Liu Guoguang, 78, is an independent non-executive director of Sinopec Corp. Mr. Liu was elected as an independent non-executive director of Sinopec Corp. in February, 2000. Mr. Liu is a well-known economist in China and is a Standing Committee Member of the 8th National People's Congress. Mr. Liu graduated in 1946 from National Southwestern United University specializing in economics. He later attended and graduated from the Graduate School of Moscow National Institute of Economics in 1955, where he was a research fellow and doctorate degree candidate. From 1955 to 1982, Mr. Liu served as a research fellow and Vice President of China Academy of Social Science. Mr. Liu also served as a Deputy Director of the National Statistics Bureau. From 1982 to 1983 Mr. Liu served as Dean of Economics at the Institute of China Academy of Social Science and as a Vice President of the Academy. Since 1993, Mr. Liu has been a special consultant to China Academy of Social Science.

Ho Tsu Kwok Charles, 52, is an independent non-executive director of Sinopec Corp. Mr. Ho was elected as an independent non-executive director of Sinopec Corp. in June 2000. Mr. Ho is the President and a director of Hong Kong Tobacco Company Limited, a cigarette manufacturer and distributor in the Asia Pacific. Mr. Ho is also the Chairman and a director of Global China Investments Limited, a joint-venture with a Canadian provincial government pension fund, the Ontario Municipal Employees Retirement System, and he is responsible for devising investment and management strategies of Global China Investments Limited. Mr. Ho is the Honorary Chairman and a non-executive director of Sing Tao Holdings Limited, and a non-executive director of China National Aviation Company Limited, each listed on the Hong Kong Stock Exchange. Mr. Ho is also a member of the Chinese People's Political Consultative Conference and a member of Economic Consultative Advisor to the Shandong Provincial Government. He is a Trustee of the University of International Business and Economics of China and an Honorary Trustee of Peking University and the Chinese University of Hong Kong.

Huang Min, 58, is a director and the employee representative on the Board of Directors of Sinopec Corp. Ms. Huang was elected as a director of Sinopec Corp. in February 2000. Ms. Huang is a professor level economist. Ms. Huang graduated from Beijing Petroleum Institute in 1968 specializing in petroleum exploration engineering. Ms. Huang has extensive experience in personnel management and labor matters in petroleum industry. Ms. Huang has been President of the Trade Union at Shengli Petroleum Administration Bureau since December 1992.

Supervisors

The table and discussion below set forth certain information concerning our supervisors. All of our supervisors other than Mr. Cui Jianmin were duly elected at our inaugural meeting on February 22, 2000, and Mr. Cui Jianmin was duly elected at our extraordinary meeting of shareholders on April 30, 2000. Our supervisors will serve the current term until February, 2003 or until the election of their respective successors.

Name	Age	Position with the Company
Yu Qingbo	64	Chairman of the Board of Supervisors
Wang Zuoran	51	Supervisor
Zhang Chongqing	57	Supervisor
Wang Peijun	56	Supervisor
Wang Xianwen	57	Supervisor
Hou Shaojian	59	Supervisor
Jiang Baoxing	56	Employee Representative Supervisor
Cui Jianmin	69	Independent Supervisor

Yu Qingbo, 64, is Chairman of the Supervisory Committee of Sinopec Corp. Mr. Yu is a professor level senior economist. Mr. Yu graduated from Harbin Military Engineering Institute in 1964 specializing in automation. He has extensive experience in supervising management and employees. Mr. Yu previously served as a Deputy Director of the General Administrative Office and Deputy Secretary General of the Department of Central Organization. Since 1995, Mr. Yu has been Director of Disciplinary Supervision Committee at Old Sinopec and Sinopec Group Company.

Wang Zuoran, 51, is a professor level economist. Mr. Wang graduated from Shandong Economic Administration Institute in 1994 specializing in economic administration. From July 1994 to February 2000, Mr. Wang served as a Deputy Director and chief officer of Shengli Petroleum Administration Bureau. Since February 2000, Mr. Wang has been an assistant to the President of Sinopec Group Company.

Zhang Chongqing, 57, is a professor level economist. Mr. Zhang graduated from China University of Science and Technology in 1967 specializing in polymer chemistry. From April 1991 to February 1993, Mr. Zhang served as a Deputy President of Planning Institute of Old Sinopec. From February 1993 to December 1998, Mr. Zhang served as a Deputy Director and Director of General Administrative Office of Old Sinopec. Mr. Zhang has been Director of General Administrative Office of Sinopec Group Company since December 1998.

Wang Peijun, 56, is a professor level senior economist. Mr. Wang graduated from Northeastern Petroleum Institute in 1970 specializing in oil and gas field engineering. From June 1989 to August 1991, Mr. Wang was Head of Qilu Petroleum and Petrochemical Company of Old Sinopec. From August 1990 to December 1998, he served as a Deputy Director and Director of the Human Resource Department of Old Sinopec. Since December 1998, Mr. Wang has been Director of the Human Resource Department of Sinopec Group Company.

Wang Xianwen, 57, is a professor level senior economist. Mr. Wang graduated from Jilin University in 1968 specializing in chemistry. From April 1984 to March 1990, Mr. Wang served as a Deputy Manager of Jinzhou Petrochemical Company of Old Sinopec. From March 1990, Mr. Wang served as Deputy Director and Director of Old Sinopec's Auditing Bureau. Mr. Wang has been Director of Sinopec Group Company's Auditing Bureau since December 1998.

Hou Shaojian, 59, is a professor level senior economist. Mr. Hou graduated from Shandong University in 1967 specializing in chemistry. Mr. Hou previously served as Deputy Director of Lanzhou Chemical Industrial Company and President of Urumqi Petrochemical Works. From March 1997 to March 2001, Mr. Hou was Deputy Director of Disciplinary Supervision Committee and Director of Supervisory Bureau of Old Sinopec and Sinopec Group Company. Since March 2001, Mr. Hou has been a researcher in the Supervisory Bureau of Sinopec Corp.

Jiang Baoxing, 56, is the employee representative on the Supervisory Committee of Sinopec Corp. Mr. Jiang is a senior economist. Mr. Jiang graduated in 1987 from Shanghai Television University specializing in political science and administration. Mr. Jiang was Chairman of the Trade Union of Shanghai Petrochemical General Plant from August 1990 to June 1993. Mr. Jiang has been Chairman of the Trade Union and an executive director of Shanghai Petrochemical Company Limited, a subsidiary of Sinopec Corp. since June 1993.

Cui Jianmin, 69, is an independent supervisor of Sinopec Corp. Mr. Cui graduated from the People's University of China in 1962 specializing in planning. Mr. Cui is a senior auditor and has extensive management experience in audit and finance fields. From June 1983 to April 1985, Mr. Cui served as Director of Industry and Transportation Bureau of State Audit Office. Since April 1985, Mr. Cui has served as a Deputy Auditor-General and Managing Deputy Auditor-General of State Audit Office. Mr. Cui is now Chairman of Chinese Certified Public Accountants Association.

Other Executive Officers

Wang Tianpu, 39, is a Vice President of Sinopec Corp. Mr. Wang graduated from Qingdao Chemical Institute specializing in fundamental organic chemistry in July 1985. He then graduated from Dalian Science and Technology University in July 1996 and obtained a master's degree in business administration. He is a professor level senior engineer, and has accumulated extensive experience in production management in petrochemical industry. From March 1999 to February 2000, he was Vice President of Qilu Petroleum and Petrochemical Company under Old Sinopec. From February 2000 to September 2000, he was Vice President of Sinopec Corp.'s Qilu branch company. From September 2000 to August 2001, he was President of Sinopec Corp.'s Qilu branch company. Mr. Wang was appointed as Vice President of Sinopec Corp. in August 2001.

Zhang Honglin, 59, is secretary to the Board of Directors of Sinopec Corp. Mr. Zhang graduated from Nanjing Petrochemical Institute in 1967 specializing in petrochemical engineering. Mr. Zhang is a professor level senior economist. From August 1986 to August 1988, Mr. Zhang served as Head of Research Institute of Petroleum and Petrochemical Industrial Science of Old Sinopec. From August 1988 to May 1997, Mr. Zhang served as a Deputy Director of Enterprise Management Department at Old Sinopec and President of Shanlong Economic Development Company, a subsidiary of Old Sinopec. From May 1997 to November 1997, Mr. Zhang was Director of Old Sinopec's Assets Operation and Management Department. From November 1997 to December 1998, he served as a director and Vice President of China Eastern United Petrochemical Group Limited. Mr. Zhang has been Director of Sinopec Group Company's Assets Operation and Management Department and Enterprise Reforming Department since December 1998. Mr. Zhang was appointed company secretary to the Board of Directors of Sinopec Corp. in February 2000.

B. COMPENSATION

Directors' and Supervisors' Compensation

We were incorporated on February 25, 2000. Prior to our incorporation as part of the reorganization of Sinopec Group Company, we did not exist as a separate legal entity and our operations were conducted by Sinopec Group Company and its various affiliates. The following compensation information of our directors, supervisors and certain other employees prior to our incorporation was derived on the basis of a reorganization under common control and was stated at historical amounts as if our current structure had been in existence throughout the relevant periods.

The aggregate amount of salaries and performance bonuses paid by us to our directors (not including our independent non-executive directors) during the three years ended December 31, 1999, 2000 and 2001 was approximately RMB 495,100, RMB754,743 and RMB 743,978 (US$89,852), respectively.

The aggregate amount of salaries and performance bonuses paid by us to our supervisors (not including our independent supervisors) during the three years ended December 31, 1999, 2000 and 2001 was approximately RMB 320,000, RMB 545,376 and RMB 626,366 (US$75,708), respectively.

The aggregate amount of salaries and and performance bonuses paid by us to our executive officers other than our directors during the three years ended December 31, 1999, 2000 and 2001 was approximately RMB 33,400, RMB 72,300 and RMB 167,366 (US$20,213), respectively.

During the three years ended December 31, 1999, 2000 and 2001, we contributed an aggregate amount of RMB70,526, RMB 82,400 and RMB115,658 (US$13,968), respectively, to provide pension, retirement and other similar benefits to our directors (not including our non-executive directors), supervisors (not including our non-executive supervisors) and executive officer.

Independent non-executive directors Mr. Chen Qingtai, Mr. Liu Guoguang, Mr. Ho Tsu Kwok Charles and independent supervisor Mr. Cui Jianmin each received RMB16,000 director's fee in 2001. Directors Mr. Wang Yi and Mr. Zhang Enzhao are not paid any emolument by us.

C. BOARD PRACTICE

Audit and Other Committees

We have established an audit committee to review and supervise our financial reporting process. Mr. Chen Qingtai, an independent director, is the chairman of our audit committee. Our audit committee does not, and is not required to, comply with the New York Stock Exchange's corporate governance standards regarding the establishment and composition of an audit committee.

We have also established a compensation committee and a strategic planning committee.

D. EMPLOYEES

As of December 31, 1999, 2000 and 2001, we had approximately 511,839, 508,168 and 443,808 employees. The following table sets forth the number of our employees by our business segments as of December 31, 2001.

	Number of Employees	Percentage of Total
Exploration and Production	155,035	35.0%
Refining	86,564	19.5
Marketing and Distribution	95,778	21.6
Chemicals	101,353	22.8
Corporate and Others	5,078	1.1
Total	443,808	100.0%

We have trade unions that protect employee rights, organize educational programs, assist in the fulfillment of economic objectives, encourage employee participation in management decisions, and assist in mediating disputes between us and individual employees. We have not been subjected to any strikes or other labor disturbances that have interfered with our operation, and we believe that our relations with our employees are good.

The total remuneration of our employees includes salary, performance bonuses and allowances. Employees also receive certain subsidies in housing, health services, education and other miscellaneous items.

In accordance with applicable PRC regulations, we currently participate in pension contribution plans organized by municipal and provincial governments, under which we contribute at rates ranging from 16%

to 30% of our employees' salaries, bonuses and certain allowances. The contributions vary from region to region. Our pension contributions for the year ended December 31, 2001 were RMB 1.4 billion (US$0.2 billion). Other than the contributions, we have no other material obligation for the payment of pension benefits associated with these plans.

E. SHARE OWNERSHIP

Our directors, senior officers and supervisors do not have share ownership in us.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

The following table sets forth information regarding our major shareholers as of March 31, 2002.

Shareholder	Number of Shares Owned (in millions)	Percentage
Sinopec Group Company	47,743	55.06%
China Development Bank	8,776	10.12
China Xinda Asset Management Corporation	8,721	10.05

As at March 31, 2002, we had 67,121,951,000 state-owned shares, 16,780,488,000 H shares and 2,800,000,000 A shares outstanding. As at March 31, 2002, we had 6,969,717 ADRs outstanding, which represented underlying ownership of 696,971,700 H shares and were beneficially owned by approximately 7,000 record owners.

B. RELATED PARTY TRANSACTIONS

Sinopec Group Company owns 55.06% of our outstanding equity as of March 31, 2002. Sinopec Group Company will be able to exercise all the rights of a controlling shareholder, including the election of directors and voting in respect of amendments to our articles of association. Sinopec Group Company, as our controlling shareholder, will be subject to certain minority shareholder protection provisions under our articles of association.

We have engaged from time to time and will continue to engage in a variety of transactions with Sinopec Group Company and various members of Sinopec Group, which provide a number of services to us, including ancillary supply, transport, educational and community services. The nature of our transactions with Sinopec Group Company and members of Sinopec Group are governed by a number of service and other contracts between Sinopec Group Company and us. A discussion of these agreements and arrangements is set forth on pages 93 through 98 under the heading "Item 7 — Major Shareholders and Related Party Transactions — Related Party Transactions" in our 2000 annual report on Form 20-F filed with the Securities and Exchange Commission on April 17, 2001, which discussion is hereby incorporated by reference. Please also see note 27 to our consolidated financial statements included elsewhere in this annual report.

C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

See page F-1 to F-61 following Item 19.

Legal Proceedings

We are involved in certain judicial and arbitral proceedings before Chinese courts or arbitral bodies concerning matters arising in connection with the conduct of our businesses. We believe, based on currently available information, that the results of such proceedings, in the aggregate, will not have a material adverse effect on our financial condition or results of operations.

Dividend Distribution Policy

Our board of directors will determine the payment of dividends, if any, with respect to our shares on a per share basis. Any final dividend for a financial year shall be subject to shareholders' approval. The board may declare interim and special dividends at any time under general authorization by a shareholders' ordinary resolution. A decision to declare or to pay any dividends in the future, and the amount of any dividends, will depend on our results of operations, cash flows, financial condition, the payment by our subsidiaries of cash dividends to us, future prospects and other factors which our directors may determine are important.

For holders of our H shares, cash dividend payments, if any, shall be declared by our board of directors in renminbi and paid in HK dollars. The depositary will convert the HK dollar dividend payments and distribute them to holders of ADSs in US dollars, less expenses of conversion.

In addition to cash, dividends may be distributed in the form of shares. Any distribution of shares, however, must be approved by special resolution of the shareholders. Dividends in the form of shares will be distributed to the depositary and, except as otherwise described in the Deposit Agreement, will be distributed by the depositary in the form of additional ADSs, to holders of ADSs.

Dividends may be paid only out of our distributable profits (less allocations to the statutory funds which generally range from 15% to 20% of our net income determined in accordance with PRC GAAP) and may be subject to PRC withholding tax. Our articles of association limit our distributable profits to the lower of the amount determined in accordance with PRC GAAP and IAS. Subject to the above, we currently expect that we will distribute as dividends up to 40% of our distributable profits.

Our board of directors proposed a dividend of RMB 0.08 per ordinary share for the year ended December 31, 2001, which is equivalent to RMB 8.0 (US$0.97) per ADS. This proposal is subject to approval by the shareholders' general meeting.

B. SIGNIFICANT CHANGES

None.

ITEM 9. THE OFFER AND LISTING

Not applicable, except for Item 9A (4) and Item 9C.

Our H Shares have been listed on the stock Exchange of Hong Kong Stock (Code: 0386), and our ADSs, each representing 100 H Shares, have been listed on the New York Stock Exchange and the London Stock Exchange under the symbol "SNP", since we completed our initial public offering on October 19, 2000. Prior to that time, there was no public market for our H Shares. The Stock Exchange of Hong Kong is the principal non-U.S. trading market for our H Shares.

The following table sets forth, for the periods indicated, the high and low closing prices per H Share, as reported on the Stock Exchange of Hong Kong, and per ADSs, as reported on the New York Stock Exchange.

		The Stock Exchange of Hong Kong		The New York Stock Exchange	
Period		**High**	**Low**	**High**	**Low**
	Past 6 Months	**(HK$)**		**(US$)**	
2002	April (1-15)	1.39	1.30	17.82	16.26
	March	1.30	1.18	16.68	15.50
	February	1.24	1.14	16.08	14.50
	January	1.17	1.05	14.90	13.50
2001	December	1.13	1.02	14.79	12.83
	November	1.56	1.00	15.40	14.20
	October (19-31)	1.65	1.14	15.55	13.47
	Quarterly Data				
2002	First Quarter	1.30	1.05	16.68	13.50
2001	Fourth Quarter	1.21	1.02	15.55	12.83
	Third Quarter	1.56	1.00	20.05	12.80
	Second Quarter	1.65	1.14	21.00	14.50
	First Quarter	1.32	1.06	16.80	14.00
2000	Period from October 19, 2000 to December 31, 2000	1.70	1.19	21.4375	14.875
	Annual Data				
2001		1.65	1.00	21.00	12.80
2000	(October 19 to December 31)	1.70	1.19	21.4375	14.875

Source: Bloomberg

ITEM 10. ADDITIONAL INFORMATION

A. SHARE CAPITAL

Not applicable.

B. MEMORANDUM AND ARTICLES OF ASSOCIATION

Incorporated by reference to the information under the heading "Description of the Shares" in our registration statement on Form F-1 (Registration No. 333-12502).

C. MATERIAL CONTRACTS

A discussion of our material contracts is set forth on pages 93 through 98 under the heading "Item 7 — Major Shareholders and Related Party Transactions — Related Party Transactions" in our 2000 annual report on Form 20-F filed with the Securities and Exchange Commission on April 17, 2001, which discussion is hereby incorporated by reference.

D. EXCHANGE CONTROLS

The existing foreign exchange regulations have significantly reduced government foreign exchange controls for transactions under the current account, including trade and service related foreign exchange transactions and payment of dividends. We may undertake current account foreign exchange transactions without prior approval from the State Administration of Foreign Exchange by producing commercial documents evidencing such transactions, provided that they are processed through Chinese banks licensed to engage in foreign exchange transactions. The PRC government has stated publicly that it intends to make the renminbi freely convertible in the future. However, we cannot predict whether the PRC government will continue its existing foreign exchange policy and when the PRC government will allow free conversion of renminbi to foreign currency.

Foreign exchange transactions under the capital account, including principal payments in respect of foreign currency-denominated obligations, continue to be subject to significant foreign exchange controls and require the approval of the State Administration of Foreign Exchange. These limitations could affect our ability to obtain foreign exchange through debt or equity financing, or to obtain foreign exchange for capital expenditures.

Since 1994, the conversion of renminbi into Hong Kong and United States dollars has been based on rates set by the People's Bank of China, which are set daily based on the previous day's PRC interbank foreign exchange market rate and current exchange rates on the world financial markets. Although the renminbi to US dollar exchange rate has been relatively stable since 1994, we cannot predict nor give any assurance of its future stability. Fluctuations in exchange rates may adversely affect the value, translated or converted into US dollars or Hong Kong dollars, of our net assets, earnings and any declared dividends. We cannot give any assurance that any future movements in the exchange rate of the renminbi against the US dollar and other foreign currencies will not adversely affect our results of operations and financial condition. We do not currently hedge exchange rate fluctuations between the renminbi and the US dollar or other currencies and currently have no plans to do so. For further information on our foreign exchange risks, foreign exchange rates, our hedging activities and our historical foreign currency requirements, see "Currencies Exchange Rates" and "Item 11 — Qualitative and Quantitative Disclosure about Market Risk — Foreign Exchange Rate Risk."

E. TAXATION

PRC Taxation

The following discussion addresses the principal PRC tax consequences of investing in the H shares or ADSs.

Taxation of Dividends

Individual Investors

According to the current PRC tax regulations, dividends paid by PRC companies are ordinarily subject to a PRC withholding tax levied at a flat rate of 20%. However, such withholding tax is not applicable with respect to those PRC companies which have their shares listed on an overseas stock exchange, such as H shares and ADSs, because of an exemption issued first in 1993 and then confirmed in 1994. The relevant tax authority has not collected withholding tax on dividend payments on H shares or ADSs.

In the event that the exemption is no longer available or is withdrawn, a 20% tax may be withheld on dividends in accordance with the PRC individual income tax law. Such withholding tax may be reduced under an applicable treaty on the avoidance of double taxation.

Enterprises

According to the current PRC tax regulations, dividends paid by PRC companies to enterprises are ordinarily subject to a PRC withholding tax levied at a flat rate of 20%. However, foreign enterprises with no permanent establishment in China receiving dividends paid with respect to a PRC company's H shares or ADSs have been temporarily exempted from the 20% withholding tax. If such withholding tax becomes applicable in the future, the rate could be reduced under an applicable treaty on the avoidance of double taxation.

Tax Treaties

Holders resident in countries which have entered into avoidance of double taxation treaties with the PRC may be entitled to a reduction of the withholding tax imposed on the payment of dividends. The PRC currently has avoidance of double taxation treaties with a number of other countries, which include Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States.

Under a tax treaty between United States and China, China may tax dividends paid by Sinopec Corp. to eligible US Holders up to a maximum of 10% of the gross amount of such dividend. Under the tax treaty, an eligible US Holder is a person who, by reason of domicile, residence, place of head office, place of incorporation or any other criterion of similar nature is liable to tax in the United States, subject to a detailed "treaty shopping" provision.

Taxation of Capital Gains

A PRC tax regulation provides that gains realized upon the sale of overseas shares by foreign enterprises and individuals are not subject to tax on capital gains. However, the Provision for Implementing of the Individual Income Tax Law of the PRC (the "Detailed Implementing Rules"), promulgated on January 28, 1994, imposes income tax of 20% on gains derived from the sale of equity shares by an individual. A notice issued in 1998 by the Ministry of Finance and State Administration of Tax states that no capital gains tax will be imposed on gains from the sale of shares by individuals from 1997. If such tax exemption relief is no longer available, individual holders of H shares or ADSs may be subject to a 20% capital gains tax unless such tax is reduced or eliminated by an applicable double taxation treaty. As the Amendments and the Detailed Implementing Rules only relate to individual income tax, the tax exemption for foreign enterprises under the PRC tax regulation should still be valid.

PRC Stamp Tax Considerations

Under the current PRC tax regulation, the PRC stamp tax is not imposed on the transfer of H shares and ADSs of PRC companies publicly listed outside China.

United States Federal Income Tax Considerations

The following is a summary of United States federal income tax considerations that are anticipated to be material for US Holders (as defined below) who purchase H shares or ADSs in this offering. This summary is based upon existing United States federal income tax law, which is subject to change, possibly with retroactive effect. This summary does not discuss all aspects of United States federal income taxation which may be important to particular investors in light of their individual investment circumstances, such as investors subject to special tax rules including: financial institutions, insurance companies, broker-dealers, tax-exempt organizations, and, except as described below, non-US Holders, or to persons that will hold H shares or ADSs as part of a straddle, hedge, conversion, or constructive sale transaction for United States federal income tax purposes or that have a functional currency other than the United States dollar, all of whom may be subject to tax rules that differ significantly from those summarized below. In addition, this summary does not discuss any foreign, state, or local tax considerations. This summary assumes that investors will hold their H shares or ADSs as "capital assets" (generally, property held for investment) under the United States Internal Revenue Code. Each prospective investor is urged to consult its tax advisor regarding the United States federal, state, local, and foreign income and other tax considerations of the purchase, ownership, and disposition of H shares or ADSs.

For purposes of this summary, a US Holder is a beneficial owner of H shares or ADSs that is for United States federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation, partnership or other entity created in or organized under the laws of, the United States or any State or political subdivision thereof;
- an estate the income of which is includible in gross income for United States federal income tax purposes regardless of its source;
- a trust the administration of which is subject to the primary supervision of a United States court and which has one or more United States persons who have the authority to control all substantial decisions of the trust; or
- a trust that was in existence on August 20, 1996, was treated as a United States person, for United States federal income tax purposes, on the previous day and elected to continue to be so treated.

A beneficial owner of the H shares or ADSs that is not a US Holder is referred to herein as a "Non-US Holder."

A foreign corporation will be treated as a "passive foreign investment company" (a "PFIC"), for United States federal income tax purposes, if 75% or more of its gross income consists of certain types of "passive" income or 50% or more of its assets are passive. Sinopec Corp. presently believes that it is not a PFIC and does not anticipate becoming a PFIC. This is, however, a factual determination made on an annual basis and is subject to change. The following discussion assumes that Sinopec Corp. will not be subject to treatment as a PFIC for United States federal income tax purposes.

US Holders

For United States federal income tax purposes, a US Holder of an ADS will be treated as the owner of the proportionate interest of the H shares held by the depositary that is represented by an ADS and evidenced by such ADS. Accordingly, no gain or loss will be recognized upon the exchange of an ADS for the holder's proportionate interest in the H shares. A US Holder's tax basis in the withdrawn H shares will be the same as the tax basis in the ADS surrendered therefor, and the holding period in the withdrawn H shares will include the period during which the holder held the surrendered ADS.

Dividends

Any cash distributions paid by Sinopec Corp. out of earnings and profits, as determined under United States federal income tax principles, will be subject to tax as ordinary dividend income and will be includible in the gross income of a US Holder upon receipt. Cash distributions paid by Sinopec Corp. in excess of its earnings and profits will be treated as a tax-free return of capital to the extent of the US Holder's adjusted tax basis in its shares or ADSs, and after that as gain from the sale or exchange of a capital asset. Dividends paid in Hong Kong dollar will be includible in income in a United States dollar amount based on the United States dollar - Hong Kong dollar exchange rate prevailing at the time of receipt of such dividends by the depositary, in the case of ADSs, or by the US Holder, in the case of H shares held directly by such US Holder. Dividends received on H shares or ADSs will not be eligible for the dividends received deduction allowed to corporations.

Dividends received on H shares or ADSs will be treated, for United States federal income tax purposes, as foreign source income. A US Holder may be eligible, subject to a number of complex limitations, to claim a foreign tax credit in respect of any foreign withholding taxes imposed on dividends received on H shares or ADSs. US Holders who do not elect to claim a foreign tax credit for foreign income tax withheld may instead claim a deduction, for United States federal income tax purposes, in respect of such withholdings, but only for a year in which the US Holder elects to do so for all creditable foreign income taxes. In certain circumstances, a US Holder may not claim a foreign tax credit (and instead may claim a deduction) for foreign taxes imposed on the payment of a dividend if the US Holder:

- has not held the H shares or ADSs for at least 16 days in the 30-day period beginning 15 days before the ex-dividend date, during which it is not protected from risk of loss;
- is obligated to make payments related to the dividends; or
- subject to the promulgation of future Treasury regulations that are anticipated to be retroactively applied, holds the H shares or ADSs in an arrangement in which the expected economic profit of the US Holder is insubstantial compared to the value of the foreign tax credit expected to be obtained as a result of the arrangement.

In addition, the United States Treasury has expressed concerns that parties to whom depositary shares are pre-released may be taking actions that are inconsistent with the claiming of foreign tax credits by the holders of ADSs. Accordingly, the analysis of the creditability of foreign withholding taxes could be affected by future actions that may be taken by the United States Treasury.

A distribution of additional shares of Sinopec Corp.'s stock to US Holders with respect to their H shares or ADSs that is pro rata to all Sinopec Corp.'s shareholders may not be subject to United States federal income tax. The tax basis of such additional shares will be determined by allocating the US Holders' adjusted tax basis in the H shares or ADSs between the H shares or ADSs and the additional shares, based on their relative fair market values on the date of distribution.

Sale or Other Disposition of H shares or ADSs

A US Holder will recognize capital gain or loss upon the sale or other disposition of H shares or ADSs in an amount equal to the difference between the amount realized upon the disposition and the US Holder's adjusted tax basis in such H shares or ADSs, as each is determined in US dollars. Any capital gain or loss will be long-term if the H shares or ADSs have been held for more than one year and will generally be United States source gain or loss. The claim of a deduction in respect of a capital loss, for United States federal income tax purposes, may be subject to limitations.

PFIC Considerations

If Sinopec Corp. were to be classified as a PFIC in any taxable year, a U.S. Holder would be subject to special rules generally intended to reduce or eliminate any benefits from the deferral of United States federal income tax that a U.S. Holder could derive from investing in a foreign company that does not distribute all of its earnings on a current basis. In such event, a U.S. Holder of the H shares or ADSs may be subject to tax at ordinary income tax rates on (i) any gain recognized on the sale of the H shares or ADSs and (ii) any "excess distribution" paid on the H shares or ADSs (generally, a distribution in excess of 125% of the average annual distributions paid by Sinopec Corp. in the three preceding taxable years). In addition, a U.S. Holder may be subject to an interest charge on such gain or excess distribution.

Non-US Holders

An investment in H shares or ADSs by a Non-US Holder will not give rise to any United States federal income tax consequences unless:

- the dividends received or gain recognized on the sale of H shares or ADSs by such person is treated as effectively connected with the conduct of a trade or business by such person in the United States as determined under United States federal income tax law; or
- in the case of gains recognized on a sale of H shares or ADSs by an individual, such individual is present in the United States for 183 days or more and certain other conditions are met.

In order to avoid back-up withholding on dividend payments made in the United States, a Non-US Holder of the H shares or ADSs may be required to complete, and provide the payor with, an Internal Revenue Service Form W-8, or other documentary evidence, certifying that such holder is an exempt foreign person.

F. DIVIDENDS AND PAYING AGENTS

Not applicable.

G. STATEMENT BY EXPERTS

Not applicable.

H. DOCUMENTS ON DISPLAY

We filed with the Securities and Exchange Commission in Washington, D.C. a Registration Statement on Form F-1 (Registration No. 333-12502) under the Securities Act in connection with the ADSs offered in the global offering. The Registration Statement contains exhibits and schedules. Any statement in this annual report about any of our contracts or other documents is not necessarily complete. If the contract or document is filed as an exhibit to the Registration Statement, the contract or document is deemed to modify the description contained in this annual report. You must review the exhibits themselves for a complete description of the contract or documents.

You may inspect and copy our registration statements, including their exhibits and schedules, and the reports and other information we file with the Securities and Exchange Commission in accordance with the Exchange Act at the public reference facilities maintained by the Securities and Exchange Commission at Judiciary Plaza, 450 Fifth Street, Room 1024, N.W., Washington, D.C. 20549 and at the regional offices of the Securities and Exchange Commission located at 7 World Trade Center, 13th Floor, New York, N.Y. 10048 and at Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. You may also inspect the registration statements, including their exhibits and schedules, at the office of the New York Stock Exchange, Wall Street, New York, New York 10005. Copies of such material may also be obtained from the Public Reference Section of the Securities and Exchange Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. You may obtain information regarding the Washington D.C. Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330 or by contacting the Securities and Exchange Commission over the internet at its website at http://www.sec.gov.

I. SUBSIDIARY INFORMATION

Not applicable.

ITEM 11. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary market risk exposures are to fluctuations in oil and gas prices, exchange rates and interest rates.

Commodity Price Risk

We are exposed to fluctuations in prices of crude oil, refined products and petrochemicals whose prices are volatile. We purchase substantial volumes of crude oil from domestic and international suppliers and sell substantial volumes of refined products and petrochemicals to domestic buyers. We do not enter into commodity derivative instruments or futures to hedge the potential price fluctuations of these products or for other purposes. Therefore, fluctuations of prices of crude oil, refined products and petrochemicals have a significant effect on our operating expenses and net profits.

Foreign Exchange Rate Risk

A portion of the our renminbi revenues are converted into other currencies to meet foreign currency financial instrument obligations and to pay for imported materials and equipment. Foreign currency payments for imported equipment represented 6.3%, 4.6% and 6.9% of our total capital expenditure in 1999, 2000 and 2001, respectively. Foreign currency payments for other imports, principally crude oil, represented 19.9%, 39.9% and 34.3% of our purchased crude oil, products and operating supplies and expenses in 1999, 2000 and 2001, respectively.

The renminbi is not a freely convertible currency. Actions taken by the PRC government could cause future exchange rates to vary significantly from current or historical exchange rates. Although the renminbi to US dollar exchange rate has been relatively stable since 1994, we cannot predict nor give any assurance of its future stability. Fluctuations in exchange rates may adversely affect the value, translated or converted into US dollars or Hong Kong dollars, of our net assets, earnings and any declared dividends. We cannot give any assurance that any future movements in the exchange rate of the renminbi against the US dollar and other foreign currencies will not adversely affect our results of operations and financial condition. However, we believe that significant depreciation in the renminbi against major foreign currencies may have a material adverse impact on our capital expenditure program.

The following presents various market risk information regarding market-sensitive financial instruments that we held or issued as of December 31, 2001 and 2000. All financial instruments that we held or issued were for purposes other than trading purposes. We conduct our business primarily in renminbi, which is also our functional and reporting currency.

The following tables provide information regarding instruments that are sensitive to foreign exchange rates as of December 31, 2001 and 2000. For debt obligations, the table presents cash flows and related weighted average rates by expected maturity dates.

As of December 31, 2001:

	Expected maturity							
	2002	**2003**	**2004**	**2005**	**2006**	**thereafter**	**Total**	**Fair value**
	(RMB equivalent in millions, except interest rates)							
Assets								
Cash and cash equivalents								
In United States dollar	901	—	—	—	—	—	901	901
In Hong Kong dollar	2,312	—	—	—	—	—	2,312	2,312
In Deutsche marks	6	—	—	—	—	—	6	6
In Japanese yen	17	—	—	—	—	—	17	17
In Great British pound	3	—	—	—	—	—	3	3
In Swiss francs	1	—	—	—	—	—	1	1
In French francs	29	—	—	—	—	—	29	29
Time deposits with financial institutions								
In United States dollar	57	—	—	—	—	—	57	57
In Hong Kong dollar	20	—	—	—	—	—	20	20
Liabilities								
Debts in United States dollar								
Fixed rate	741	300	282	256	256	551	2,386	2,429
Average interest rate	6.5%	6.6%	6.5%	6.7%	6.7%	6.7%		
Variable rate	2,381	488	303	218	173	372	3,935	3,935
Average interest rate (1)	3.4%	3.8%	3.9%	4.2%	4.6%	5.0%		
Debts in Japanese yen								
Fixed rate	167	193	191	151	149	1,115	1,966	2,441
Average interest rate	5.2%	4.9%	4.6%	4.3%	4.2%	2.6%		
Variable rate	73	73	73	72	72	72	435	435
Average interest rate (1)	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%		
Debts in Deutsche marks								
Fixed rate	31	31	31	31	27	—	151	162
Average interest rate	6.6%	6.6%	6.6%	6.6%	6.6%	—		
Debts in Dutch guilders								
Fixed rate	—	—	28	—	—	—	28	31
Average interest rate	—	—	7.9%	—	—	—		
Debts in Hong Kong dollar								
Variable rate	4	3	3	2	2	—	14	14
Average interest rate (1)	5.5%	5.5%	5.5%	5.5%	5.5%	—		
Debts in French Francs								
Fixed rate	—	—	—	8	—	7	15	19
Average interest rate	—	—	—	1.8%	—	8.1%		

(1) The average interest rates for variable rate loans are calculated based on the rates reported as of December 31, 2001.

As of December 31, 2000:

	Expected maturity							
	2001	**2002**	**2003**	**2004**	**2005**	**thereafter**	**Total**	**Fair value**
	(RMB equivalent in millions, except interest rates)							
Assets								
Cash and cash equivalents								
In United States dollar	1,638	—	—	—	—	—	1,638	1,638
In Hong Kong dollar	24	—	—	—	—	—	24	24
In Deutsche marks	6	—	—	—	—	—	6	6
In Japanese yen	1	—	—	—	—	—	1	1
In Great British pound	277	—	—	—	—	—	277	277
In Swiss francs	1	—	—	—	—	—	1	1
In French francs	31	—	—	—	—	—	31	31
Time deposits with financial institutions								
In United States dollar	4,731	—	—	—	—	—	4,731	4,731
In Hong Kong dollar	15,214	—	—	—	—	—	15,214	15,214
Liabilities								
Debts in United States dollar								
Fixed rate	424	362	294	276	576	881	2,813	2,856
Average interest rate	6.5%	6.5%	6.6%	6.5%	6.8%	6.4%		
Variable rate	1,467	1,024	600	275	231	835	4,432	4,432
Average interest rate (1)	7.2%	7.0%	7.2%	6.6%	6.9%	6.0%		
Debts in Japanese yen								
Fixed rate	327	180	225	199	178	1,373	2,482	2,869
Average interest rate	5.5%	5.2%	4.6%	4.5%	4.3%	2.8%		
Variable rate	83	83	83	83	83	169	584	584
Average interest rate (1)	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%		
Debts in Deutsche marks								
Fixed rate	31	31	31	31	31	36	191	207
Average interest rate	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%		
Debts in Dutch guilders								
Fixed rate	—	—	—	41	—	—	41	36
Average interest rate	—	—	—	7.9%	—	—		
Debts in Hong Kong dollar								
Variable rate	4	4	3	3	3	2	19	19
Average interest rate (1)	9.8%	9.8%	9.8%	9.8%	9.8%	9.8%		
Debts in French Francs								
Fixed rate	3	—	—	8	—	7	18	21
Average interest rate	8.1%	—	—	1.8%	—	8.1%		

(1) The average interest rates for variable rate loans are calculated based on the rates reported as of December 31, 2000.

Interest Rate Risk

We are exposed to interest rate risk resulting from fluctuations in interest rates on our short and long-term debt. Upward fluctuations in interest rates increase the cost of new debt and the interest cost of outstanding floating rate borrowings.

Our debts consist of fixed and variable rate debt obligations with original maturities ranging from 1 to 30 years. Fluctuations in interest rates can lead to significant fluctuations in the fair values of our debt obligations.

The following tables present principal cash flows and related weighted average interest rates by expected maturity dates of our interest rate sensitive financial instruments as of December 31, 2001 and 2000.

As of December 31, 2001:

	Expected maturity							
	2002	**2003**	**2004**	**2005**	**2006**	**thereafter**	**Total**	**Fair value**
	(RMB equivalent in millions, except interest rates)							
Assets								
Cash and cash equivalents								
In renminbi	17,754	—	—	—	—	—	17,754	17,754
In United States dollar	901	—	—	—	—	—	901	901
In Hong Kong dollar	2,312	—	—	—	—	—	2,312	2,312
In Deutsche marks	6	—	—	—	—	—	6	6
In Japanese yen	17	—	—	—	—	—	17	17
In Great British pound	3	—	—	—	—	—	3	3
In Swiss francs	1	—	—	—	—	—	1	1
In French francs	29	—	—	—	—	—	29	29
Time deposits with financial institutions								
In renminbi	1,754	—	—	—	—	—	1,754	1,754
In United States dollar	57	—	—	—	—	—	57	57
In Hong Kong dollar	20	—	—	—	—	—	20	20
Liabilities								
Debts in Renminbi								
Fixed rate	6,774	6,796	6,494	2,964	2,535	39,494	65,057	64,759(1)
Average interest rate	5.5%	5.6%	4.9%	5.9%	5.9%	0.6%		
Variable rate	39,040	2,499	145	121	21	399	42,225	42,225
Average interest rate (2)	5.2%	5.1%	5.9%	6.2%	6.2%	6.2%		
Debts in United States dollar								
Fixed rate	741	300	282	256	256	551	2,386	2,429
Average interest rate	6.5%	6.6%	6.5%	6.7%	6.7%	6.7%		
Variable rate	2,381	488	303	218	173	372	3,935	3,935
Average interest rate (2)	3.4%	3.8%	3.9%	4.2%	4.6%	5.0%		
Debts in Japanese yen								
Fixed rate	167	193	191	151	149	1,115	1,966	2,441
Average interest rate	5.2%	4.9%	4.6%	4.3%	4.2%	2.6%		
Variable rate	73	73	73	72	72	72	435	435
Average interest rate (2)	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%		
Debts in Deutsche marks								
Fixed rate	31	31	31	31	27	—	151	162
Average interest rate	6.6%	6.6%	6.6%	6.6%	6.6%	—		
Debts in Dutch guilders								
Fixed rate	—	—	28	—	—	—	28	31
Average interest rate	—	—	7.9%	—	—	—		
Debts in Hong Kong dollar								
Variable rate	4	3	3	2	2	—	14	14
Average interest rate (2)	5.5%	5.5%	5.5%	5.5%	5.5%	—		
Debts in French Francs								
Fixed rate	—	—	—	8	—	7	15	19
Average interest rate	—	—	—	1.8%	—	8.1%		

(1) Carrying amounts are used for loans from Sinopec Group Company and its affiliates as it is not practicable to estimate their fair values because the cost of obtaining discount and borrowing rates for comparable borrowings would be excessive.
(2) The average interest rates for variable rate loans are calculated based on the rates reported as of December 31, 2001.

As of December 31, 2000:

	Expected maturity							
	2001	2002	2003	2004	2005	thereafter	Total	Fair value
	(RMB equivalent in millions, except interest rates)							
Assets								
Cash and cash equivalents								
In renminbi	17,643	—	—	—	—	—	17,643	17,643
In United States dollar	1,638	—	—	—	—	—	1,638	1,638
In Hong Kong dollar	24	—	—	—	—	—	24	24
In Deutsche marks	6	—	—	—	—	—	6	6
In Japanese yen	1	—	—	—	—	—	1	1
In Great British pound	277	—	—	—	—	—	277	277
In Swiss francs	1	—	—	—	—	—	1	1
In French francs	31	—	—	—	—	—	31	31
Time deposits with financial institutions								
In renminbi	1,915	—	—	—	—	—	1,915	1,915
In United States dollar	4,731	—	—	—	—	—	4,731	4,731
In Hong Kong dollar	15,214	—	—	—	—	—	15,214	15,214
Liabilities								
Debts in Renminbi								
Fixed rate	2,571	4,491	5,459	3,519	868	39,743	56,651	56,625(1)
Average interest rate	5.8%	5.7%	5.2%	4.2%	6.7%	0.6%		
Variable rate	54,199	4,083	1,836	593	585	1,587	62,883	62,883
Average interest rate (2)	6.2%	6.1%	6.1%	5.9%	6.1%	6.3%		
Debts in United States dollar								
Fixed rate	424	362	294	276	576	881	2,813	2,856
Average interest rate	6.5%	6.5%	6.6%	6.5%	6.8%	6.4%		
Variable rate	1,467	1,024	600	275	231	835	4,432	4,432
Average interest rate (2)	7.2%	7.0%	7.2%	6.6%	6.9%	6.0%		
Debts in Japanese yen								
Fixed rate	327	180	225	199	178	1,373	2,482	2,869
Average interest rate	5.5%	5.2%	4.6%	4.5%	4.3%	2.8%		
Variable rate	83	83	83	83	83	169	584	584
Average interest rate (2)	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%		
Debts in Deutsche marks								
Fixed rate	31	31	31	31	31	36	191	207
Average interest rate	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%		
Debts in Dutch guilders								
Fixed rate	—	—	—	41	—	—	41	36
Average interest rate	—	—	—	7.9%	—	—		
Debts in Hong Kong dollar								
Variable rate	4	4	3	3	3	2	19	19
Average interest rate (2)	9.8%	9.8%	9.8%	9.8%	9.8%	9.8%		
Debts in French Francs								
Fixed rate	3	—	—	8	—	7	18	21
Average interest rate	8.1%	—	—	1.8%	—	8.1%		

(1) Carrying amounts are used for loans from Sinopec Group Company and its affiliates as it is not practicable to estimate their fair values because the cost of obtaning discount and borrowing rates for comparable borrowings would be excessive.

(2) The average interest rates for variable rate loans are calculated based on the rates reported as of December 31, 2000.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

A. MATERIAL MODIFICATIONS TO THE RIGHTS TO SECURITIES HOLDERS

None

B. USE OF PROCEEDS

The following use of proceeds information relates to the registration statement on Form F-1 (Registration No. 333-12502) filed by us in connection with the global offering of American depositary shares underlying our H shares, which went effective on October 11, 2000.

The aggregate net offering proceeds to us from the sale of our H shares registered pursuant to the registration statement were approximately US$2,938.8 million. As of December 31, 2001, we have used approximately RMB4.5 billion (US$0.5 billion) from the net offering proceeds to repay our borrowings from third party financial institutions, and approximately RMB 13.74 billion (US$1.66 billion) to fund our capital expenditures.

ITEM 15. [RESERVED]

ITEM 16. [RESERVED]

PART III

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

See page F-1 to F-57 following Item 19.

ITEM 19. EXHIBITS

1.1* Articles of Association of the Registrant, amended and adopted by the shareholders' meeting on June 5, 2001 (English version).

4.1 Contract for Services between China Petroleum & Chemical Corporation and its specified directors incorporated by reference to Exhibit 4.1 to our annual report on Form 20-F filed with the Securities and Exchange Commission on April 17, 2001.

4.2 Contract for Services between China Petroleum & Chemical Corporation and its specified superviors incorporated by reference to Exhibit 4.2 to our annual report on Form 20-F filed with the Securities and Exchange Commission on April 17, 2001.

4.3 Reorganization Agreement between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 3, 2000 (including English translation), incorporated by reference to Exhibit 10.1 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502).

4.4 Agreement for Mutual Provision of Products and Ancillary Services between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 3, 2000 (including English translation), incorporated by reference to Exhibit 10.3 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502).

4.5 Agreement for Provision of Cultural, Educational, Hygiene and Community Services between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 3, 2000 (including English translation), incorporated by reference to Exhibit 10.4 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502).

4.6 Trademark License Agreement between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 3, 2000 (including English translation), incorporated by reference to Exhibit 10.6 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502).

4.7 Patents and Proprietary Technology License Contract between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 3, 2000 (including English translation), incorporated by reference to Exhibit 10.7 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502).

4.8 Computer Software License Contract between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 3, 2000 (including English translation), incorporated by reference to Exhibit 10.8 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502).

4.9 Asset Swap Agreement between China Petrochemical Corporation and China Petroelum & Chemical Corporation dated June 3, 2000 (including English translation), incorporated by reference to Exhibit 10.9 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502).

4.10 Land Use Rights Leasing Contract between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 3, 2000 (including English translation), incorporated by reference to Exhibit 10.10 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502).

4.12 Property Leasing Contract between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 3, 2000 (including English translation), incorporated by reference to Exhibit 10.11 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502).

4.13 Accounts Receivables Agreement between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated August 16, 2000 (including English translation), incorporated by reference to Exhibit 10.17 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502).

4.14 Loan Transfer and Adjustment Agreement between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated August 16, 2000 (including English translation), incorporated by reference to Exhibit 10.18 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502).

8 A list of the Registrant's subsidiaries, incorporated by reference to Exhibit 8 to our annual report on Form 20-F filed with Securities and Exchange Commission on April 17, 2001.

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* Filed as part of this annual report.

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders of
China Petroleum & Chemical Corporation:

We have audited the accompanying consolidated balance sheets of China Petroleum & Chemical Corporation and subsidiaries (the "Group") as of December 31, 2000 and 2001, and the related consolidated statements of income, cash flows and shareholders' equity for each of the years in the three-year period ended December 31, 2001, all expressed in Renminbi. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and Hong Kong. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of China Petroleum & Chemical Corporation and subsidiaries as of December 31, 2000 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2001, in conformity with International Accounting Standards.

International Accounting Standards vary in certain significant respects from accounting principles generally accepted in the United States of America. Application of accounting principles generally accepted in the United States of America would have affected results of operations for each of the years in the three-year period ended December 31, 2001 and shareholders' equity as of December 31, 2000 and 2001, to the extent summarized in note 31 to the consolidated financial statements.

The accompanying consolidated financial statements as of and for the year ended December 31, 2001 have been translated into United States dollars solely for the convenience of the reader. We have audited the translation, and in our opinion, the consolidated financial statements expressed in Renminbi have been translated into United States dollars on the basis set forth in Note 1 to the consolidated financial statements.

KPMG
Hong Kong, China
March 28, 2002

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 1999, 2000 AND 2001
(Amounts in millions, except per share data)

	Note	Years ended December 31, 1999	2000	2001	2001
		RMB	RMB	RMB	US$
Operating revenues					
Sale of goods		239,081	325,340	304,347	36,772
Other operating revenues	3	2,590	6,236	14,124	1,706
		241,671	331,576	318,471	38,478
Operating expenses					
Purchased crude oil, products and operating supplies and expenses		(161,168)	(226,533)	(220,313)	(26,619)
Selling, general and administrative expenses		(18,558)	(19,519)	(17,138)	(2,071)
Depreciation, depletion and amortization		(18,431)	(20,781)	(22,430)	(2,710)
Exploration expenses, including dry holes		(2,309)	(3,030)	(3,775)	(456)
Personnel expenses	4	(12,696)	(13,264)	(12,889)	(1,557)
Employee reduction expenses	5	—	—	(2,546)	(308)
Taxes other than income tax	6	(9,536)	(12,220)	(11,887)	(1,436)
Other operating expenses, net	7	(3,261)	(718)	(193)	(23)
Total operating expenses		(225,959)	(296,065)	(291,171)	(35,180)
Operating income		15,712	35,511	27,300	3,298
Finance costs					
Interest expense	8	(10,132)	(6,663)	(4,706)	(569)
Interest income		1,258	861	1,183	143
Foreign exchange losses		(1,502)	(85)	(222)	(27)
Foreign exchange gains		94	951	593	72
Net finance costs		(10,282)	(4,936)	(3,152)	(381)
Gains from issuance of shares by subsidiaries	9	607	—	—	—
Investment income		596	191	199	24
Income from associates and jointly controlled entities		218	270	320	39
Income before income tax and minority interests		6,851	31,036	24,667	2,980
Income tax	10	(351)	(9,638)	(8,029)	(970)
Income before minority interests		6,500	21,398	16,638	2,010
Minority interests		(1,577)	(1,814)	(613)	(74)
Net income		4,923	19,584	16,025	1,936
Basic earnings per share	11	0.07	0.27	0.19	0.02
Weighted average number of shares	11	68,800	71,936	85,168	85,168

See accompanying notes to consolidated financial statements.

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2000 AND 2001
(Amounts in millions)

	Note	December 31, 2000	December 31, 2001	December 31, 2001
		RMB	RMB	US$
ASSETS				
Current assets				
Cash and cash equivalents		19,621	21,023	2,540
Time deposits with financial institutions		21,860	1,831	221
Trade accounts receivable, net	12	13,072	11,082	1,339
Bills receivable		2,719	3,542	428
Inventories	13	50,513	46,194	5,582
Prepaid expenses and other current assets	14	28,388	26,123	3,156
Total current assets		136,173	109,795	13,266
Non-current assets				
Property, plant and equipment, net	15	193,868	219,872	26,565
Construction in progress	16	16,638	26,450	3,196
Investments	17	2,765	3,282	397
Interests in associates and jointly controlled entities	18	2,535	5,172	625
Deferred tax assets	19	1,155	769	93
Other assets		1,608	1,369	165
Total non-current assets		218,569	256,914	31,041
Total assets		354,742	366,709	44,307
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Short-term debts	20	50,896	45,349	5,479
Loans from Sinopec Group Company and its affiliates	20	8,214	3,862	467
Trade accounts payable	21	19,554	16,793	2,029
Bills payable		11,203	26,022	3,144
Accrued expenses and other payables	22	32,565	29,876	3,610
Income tax payable		2,721	2,809	339
Total current liabilities		125,153	124,711	15,068
Non-current liabilities				
Long-term debts	20	34,197	30,876	3,730
Loans from Sinopec Group Company and its affiliates	20	36,807	36,125	4,365
Deferred tax liabilities	19	1,775	2,981	360
Other liabilities		446	806	98
Total non-current liabilities		73,225	70,788	8,553
Total liabilities		198,378	195,499	23,621
Minority interests		23,210	23,541	2,844
Shareholders' equity				
Share capital	23	83,902	86,702	10,476
Reserves	24	49,252	60,967	7,366
		133,154	147,669	17,842
Total liabilities and shareholders' equity		354,742	366,709	44,307

See accompanying notes to consolidated financial statements.

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 1999, 2000 AND 2001
(Amounts in millions)

	Note	Years ended December 31, 1999	2000	2001	2001
		RMB	RMB	RMB	US$
Net cash generated from operating activities	(a)	25,902	29,180	55,279	6,679
Cash flows from investing activities					
Capital expenditure		(34,560)	(45,669)	(55,935)	(6,758)
Purchase of investments		(1,558)	(1,843)	(3,375)	(408)
Proceeds from disposal of investments		217	126	307	37
Proceeds from disposal of staff quarters and property, plant and equipment		158	270	374	45
Repayments from associates and jointly controlled entities		39	158	117	14
Repayments of loans from/advances to associates and jointly controlled entities		(14)	(52)	—	—
Increase in time deposits with financial institutions		(1,156)	(23,292)	(18,698)	(2,259)
Maturity of time deposits with financial institutions		1,174	5,983	38,727	4,679
Net cash used in investing activities		(35,700)	(64,319)	(38,483)	(4,650)
Cash flows from financing activities					
Proceeds from public offering, net of issuing expenses		—	24,326	11,648	1,407
Proceeds from bank and other loans		100,059	131,900	258,928	31,284
Repayments of bank and other loans		(87,074)	(121,168)	(272,410)	(32,913)
Proceeds from issuance of shares by subsidiaries, net of issuing expenses		1,327	—	—	—
Proceeds from issuance of convertible bonds and debentures		1,500	—	—	—
Maturity of debentures		—	(683)	—	—
Distributions to minority interests		(187)	(642)	(682)	(82)
Contributions from minority interests		—	—	287	35
Cash contributions from Sinopec Group Company		467	—	—	—
Dividend paid		—	(579)	(6,712)	(811)
Cash and cash equivalents distributed to Sinopec Group Company		(11,773)	(151)	(6,446)	(779)
Net cash generated from/(used in) financing activities		4,319	33,003	(15,387)	(1,859)
Net (decrease)/increase in cash and cash equivalents		(5,479)	(2,136)	1,409	170
Effect of foreign exchange rate		4	(2)	(7)	(1)
Cash and cash equivalents at beginning of year		27,234	21,759	19,621	2,371
Cash and cash equivalents at end of year		21,759	19,621	21,023	2,540

See accompanying notes to consolidated financial statements.

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 1999, 2000 AND 2001 (Amounts in millions)

(a) **Reconciliation of income before income tax and minority interests to net cash generated from operating activities**

The reconciliation of income before income tax and minority interests to net cash generated from operating activities is as follows:

	Years ended December 31,			
	1999	2000	2001	2001
	RMB	RMB	RMB	US$
Income before income tax and minority interests	6,851	31,036	24,667	2,980
Depreciation, depletion and amortization	18,431	20,781	22,430	2,710
Dry hole cost	737	1,944	1,770	214
Income from associates and jointly controlled entities	(218)	(270)	(320)	(39)
Investment income	(596)	(191)	(199)	(24)
Interest income	(1,258)	(861)	(1,183)	(143)
Interest expense	10,132	6,663	4,706	569
Unrealized foreign exchange losses/(gains)	1,343	(365)	(413)	(50)
Loss on disposal of staff quarters and property, plant and equipment	1,940	928	67	8
Impairment losses on long-lived assets	1,206	187	—	—
Reversal of impairment losses on long-lived assets, net of depreciation effect	(593)	(936)	—	—
Gains from issuance of shares by subsidiaries	(607)	—	—	—
Decrease/(increase) in trade accounts receivable	1,744	(5,328)	1,990	240
Decrease/(increase) in bills receivable	1,163	(343)	(823)	(99)
(Increase)/decrease in inventories	(2,709)	(21,983)	4,319	522
(Increase)/decrease in prepaid expenses and other current assets	(5,215)	(8,743)	718	87
Increase in other assets	(1,379)	(283)	(43)	(5)
(Decrease)/increase in trade accounts payable	(497)	9,104	(2,761)	(334)
Increase in bills payable	1,286	8,575	14,819	1,790
Increase/(decrease) in accrued expenses and other payables	4,495	3,387	(4,972)	(601)
Increase/(decrease) in other liabilities	47	(348)	360	44
Cash flow from operating activities	36,303	42,954	65,132	7,869
Interest received	1,314	1,171	1,237	150
Interest paid	(11,363)	(8,221)	(5,057)	(611)
Investment income received	898	125	293	35
Income tax paid	(2,364)	(6,849)	(6,326)	(764)
Income tax refunds received	1,114	—	—	—
Net cash generated from operating activities	25,902	29,180	55,279	6,679

See accompanying notes to consolidated financial statements.

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 1999, 2000 AND 2001

(Amounts in millions, except per share data)

	Share capital	Capital reserve	Share premium	Revaluation reserve	Other reserves	Retained earnings/ (deficit)	Total shareholder's equity
	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Shareholders' equity at January 1, 1999	—	—	—	—	75,265	(1,206)	74,059
Net income	—	—	—	—	—	4,923	4,923
Appropriations	—	—	—	—	1,988	(1,988)	—
Transfer from retained earnings to other reserves	—	—	—	—	251	(251)	—
Cash contributions from Sinopec Group Company	—	—	—	—	467	—	467
Net assets contributed from Sinopec Group Company (Note i)	—	—	—	—	6,982	—	6,982
Elimination of net deferred tax assets (Note 19)	—	—	—	—	(2,072)	—	(2,072)
Revaluation surplus after adjusting for the amount attributable to minority interests (Note ii and 15)	—	—	—	32,320	—	—	32,320
Net assets distributed to Sinopec Group Company in connection with the Reorganization (Note 1)	—	—	—	—	(26,802)	—	(26,802)
Shareholders' equity at December 31, 1999	—	—	—	32,320	56,079	1,478	89,877
Revaluation surplus of Sinopec National Star after adjusting for the amount attributable to minority interests (Note ii and 15)	—	—	—	1,136	—	—	1,136
Dividend paid	—	—	—	—	—	(579)	(579)
Capitalization as share capital upon legal establishment of the Company (Note 1)	68,800	(14,579)	—	—	(53,322)	(899)	—
Issue of shares, net of issuing expenses of RMB1,476	15,102	—	9,224	—	—	—	24,326
Transfer from retained earnings to other reserves	—	—	—	—	580	(580)	—
Elimination of net deferred tax assets (Note 19)	—	—	—	—	(34)	—	(34)
Net assets distributed to Sinopec Group Company in connection with the Acquisition	—	—	—	—	(1,156)	—	(1,156)
Net income	—	—	—	—	—	19,584	19,584
Appropriations	—	—	—	—	3,230	(3,230)	—
Revaluation surplus realized	—	—	—	(199)	—	199	—
Shareholders' equity at December 31, 2000	83,902	(14,579)	9,224	33,257	5,377	15,973	133,154
Dividend paid	—	—	—	—	—	(6,712)	(6,712)
Issue of shares, net of issuing expenses of RMB 168	2,800	—	8,848	—	—	—	11,648
Net income	—	—	—	—	—	16,025	16,025
Appropriations	—	—	—	—	2,804	(2,804)	—
Consideration for Acquisition of Sinopec National Star (Note 1)	—	—	—	—	(6,446)	—	(6,446)
Transfer from other reserves to capital reserve	—	(4,299)	—	—	4,299	—	—
Revaluation surplus realized	—	—	—	(232)	—	232	—
Shareholders' equity at December 31, 2001	86,702	(18,878)	18,072	33,025	6,034	22,714	147,669
US Dollars equivalent	10,476	(2,281)	2,184	3,991	727	2,745	17,842

Notes:

(i) Represent net assets contributed from Sinopec Group Company for no monetary consideration. The net assets contributed from Sinopec Group Company during the years presented primarily represent 1) assets and liabilities transferred to and from ancillary, social, and supporting operations that were retained by Sinopec Group Company in connection with the Reorganization and 2) the assumption of the Group's debt to third parties by Sinopec Group Company. Such transactions are recorded at historical cost and are reflected as changes in the shareholders' equity in the year the transactions occurred.

(ii) Net gains and losses not recognized in the income statement represent revaluation surplus after adjusting for the amount attributable to minority interests. For the years ended December 31, 1999, 2000 and 2001, net gains and losses not recognized in the income statement were 32,320, 1,136 and nil, respectively.

See accompanying notes to consolidated financial statements.

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in millions of Renminbi, except share data)

1. PRINCIPAL ACTIVITIES, ORGANIZATION AND BASIS OF PRESENTATION

Principal activities

China Petroleum & Chemical Corporation ("the Company") is an oil and energy company that, through its subsidiaries (hereinafter collectively referred to as "the Group"), engages in fully integrated oil and gas and chemical operations in the People's Republic of China ("the PRC"). Oil and gas operations consist of exploring for, developing and producing crude oil and natural gas; transporting crude oil, natural gas and products by pipelines; refining crude oil into finished petroleum products; and marketing crude oil, natural gas and refined petroleum products. Chemical operations include the manufacture and marketing of a wide range of chemicals for industrial uses.

Organization

The Company was established in the PRC on February 25, 2000 as a joint stock limited company as part of the reorganization ("the Reorganization") of China Petrochemical Corporation ("Sinopec Group Company"), the ultimate holding company of the Group and a ministry-level enterprise under the direct supervision of the State Council of the PRC. Prior to the incorporation of the Company, the oil and gas and chemical operations of the Group were carried on by oil administration bureaux, petrochemical and refining production enterprises and sales and marketing companies of Sinopec Group Company.

As part of the Reorganization, certain of Sinopec Group Company's core oil and gas and chemical operations and businesses together with the related assets and liabilities that were to be transferred to the Company were segregated such that the operations and businesses were separately managed beginning December 31, 1999. On February 25, 2000, in consideration for Sinopec Group Company transferring such oil and gas and chemical operations and businesses and the related assets and liabilities to the Company, the Company issued 68.8 billion domestic stated-owned ordinary shares with a par value of RMB 1.00 each to Sinopec Group Company. The shares issued to Sinopec Group Company on February 25, 2000 represented the entire registered and issued share capital of the Company at that date. The oil and gas and chemical operations and businesses transferred to the Company related to (i) the exploration, development and production of crude oil and natural gas, (ii) the refining, transportation, storage and marketing of crude oil and petroleum products, and (iii) the production and sale of chemicals (collectively the "Predecessor Operations"). Sinopec Group Company retained certain refining and production enterprises and facilities that were not considered strategically competitive with the Company's oil and gas and chemical operations. In addition, Sinopec Group Company retained units providing certain social services, government functions and other ancillary and supporting services.

Basis of presentation

As Sinopec Group Company controlled the businesses and operations transferred to the Company before the Reorganization and continues to control the Company after the Reorganization, the accompanying financial statements have been prepared as a reorganization of businesses under common control in a manner similar to a pooling-of-interests. Accordingly, the assets and liabilities transferred to the Company have been stated at historical amounts.

The consolidated financial statements for the year ended December 31, 1999 present the results of the Company and its subsidiaries as if the Group had been in existence throughout the year ended December 31, 1999 and as if the Predecessor Operations were transferred to the Company from Sinopec Group Company as of the earliest date presented. In addition, the consolidated financial statements include the results of certain other operations that were historically associated with the Predecessor Operations but were retained by Sinopec Group Company. Pursuant to the Reorganization, certain assets and liabilities relating principally to refining and production operations and marketing and distribution operations, and other individual assets and liabilities that were historically associated with the Predecessor Operations, were not transferred to the Company and were retained by Sinopec Group Company. These assets and liabilities were primarily related to certain refining and petrochemical complexes, individual production plants and service stations and as of December 31, 1999 consisted of the following:

(All amounts in millions of Renminbi, except share data)

	RMB
Current assets	36,890
Property, plant and equipment, net	27,758
Construction in progress	11,576
Investments	7,587
Interests in associates and jointly controlled entities	1,080
Other assets	5,678
Current liabilities	(37,509)
Long-term debt and other liabilities	(26,459)
Net assets distributed to Sinopec Group Company in connection with the Reorganization	26,601

The consolidated financial statements for the year ended December 31, 1999 have been prepared to include the assets, liabilities, revenues and expenses that are applicable to the Predecessor Operations and the assets, liabilities, revenues and expenses of the operations retained by Sinopec Group Company that were historically associated with the Predecessor Operations as described above. As a result of the segregation and separate management beginning December 31, 1999 of the core oil and gas and chemical operations and businesses that were to be transferred to the Company, the assets and liabilities retained by Sinopec Group Company, as set out in the table above, are reflected as a distribution to Sinopec Group Company in the accompanying consolidated statement of shareholders' equity as of December 31, 1999.

Management believes that all historical costs of operations have been reflected in the consolidated financial statements for the year ended December 31, 1999. Expenses that could be specifically identified to the Predecessor Operations and the other operations that are included in the consolidated financial statements for the year ended December 31, 1999 but were retained by Sinopec Group Company, include the following:

- purchases, services and other
- personnel expenses
- exploration expenses
- depreciation, depletion and amortization
- taxes other than income tax
- exchange gains and losses
- interest expense

(All amounts in millions of Renminbi, except share data)

For the year ended December 31, 1999, the allocation of those expenses for which a specific identification method was not practical was made as a percentage of the historical number of employees or revenues as appropriate. The number of employees and revenue data used to allocate expenses represented historical operating data that existed during the year for which they are being used to allocate costs. Expenses related to ancillary, social and supporting services that are attributable to the businesses and operations included in the consolidated financial statements for the year ended December 31, 1999 were allocated to the Group primarily based on the total historical number of employees. Selling, general and administrative expenses not specifically identifiable to the Predecessor Operations and the other operations that are included in the consolidated financial statements for the year ended December 31, 1999 which were retained by Sinopec Group Company were principally allocated on the following basis:

	Basis
Transportation and storage	Revenues
Promotion	Revenues
Staff training and education	Number of employees
Medical and insurance	Number of employees
Office expenses	Number of employees

The allocation methodology used for each operating segment of the Group is the same as that used to allocate costs from Sinopec Group Company to the Group. Management believes that the foregoing presents a reasonable basis of estimating what the Group's expenses would have been on a stand alone basis for the year ended December 31, 1999.

Pursuant to the resolution passed at the Extraordinary General Meeting held on August 24, 2001, the Company acquired the entire equity interest of Sinopec National Star Petroleum Company ("Sinopec National Star") from Sinopec Group Company for a consideration of RMB 6.45 billion (hereinafter referred to as the "Acquisition").

As the Group and Sinopec National Star are under the common control of Sinopec Group Company, the Acquisition is considered a "combination of entities under common control" which is accounted in a manner similar to a pooling-of-interests ("as-if pooling-of-interests accounting"). Accordingly, the assets and liabilities of Sinopec National Star acquired have been accounted for at historical cost and the financial statements of the Group for periods prior to the combination have been restated to include the accounts and results of operations of Sinopec National Star on a combined basis. The consideration paid by the Group has been treated as an equity transaction.

(All amounts in millions of Renminbi, except share data)

The results of operations and the accounts previously reported by the separate enterprises and the combined amounts as of December 31, 2000 and for the years ended December 31, 1999 and 2000 presented in the accompanying consolidated financial statements are summarized below.

	The Group without Sinopec National Star	Sinopec National Star	Combined
	RMB	RMB	RMB
1999			
Results of operations:			
Operating revenue	239,999	1,672	241,671
Net income	4,672	251	4,923
Basic earnings per share	0.07	0.00	0.07
2000			
Results of operations:			
Operating revenue	328,901	2,675	331,576
Net income	19,004	580	19,584
Basic earnings per share	0.26	0.01	0.27
Financial condition:			
Current assets	134,208	1,965	136,173
Total assets	347,409	7,333	354,742
Current liabilities	123,673	1,480	125,153
Total liabilities	194,556	3,822	198,378
Net assets	129,871	3,283	133,154

These financial statements have been prepared in accordance with International Accounting Standards ("IAS") adopted by the International Accounting Standards Board ("IASB"), and interpretations adopted by the International Financial Reporting Interpretations Committee of the IASB, and are prepared on the historical cost basis as modified by the revaluation of certain property, plant and equipment. Significant differences between IAS and accounting principles generally accepted in the United States of America ("US GAAP") and their effect on the net income for each of the years ended December 31, 1999, 2000 and 2001, and on the shareholders' equity as of December 31, 2000 and 2001, are set forth in Note 31.

The preparation of financial statements in accordance with IAS and US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

These financial statements are expressed in Renminbi ("RMB"), the national currency of the PRC. Solely for the convenience of the reader, the December 31, 2001 consolidated financial statements have been translated into United States dollars at the noon buying rate in New York City on December 31, 2001 for cable transfers in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York of US$1.00 = RMB 8.2766. No representation is made that the Renminbi amounts could have been, or could be, converted into United States dollars at that rate or at any other certain rate on December 31, 2001, or at any other certain date.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries. Subsidiaries are those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries are included in the consolidated statements of income from the date that control effectively commences until the date that control effectively ceases, and the share attributable to minority interests is deducted from or added to the income before minority interests. All significant intercompany balances and transactions, and any unrealized gains arising from intercompany transactions, have been eliminated on consolidation.

The particulars of the Group's principal subsidiaries are set out in Note 30.

(b) Translation of foreign currencies

The functional and reporting currency of the Group is Renminbi. Foreign currency transactions during the year are translated into Renminbi at the applicable rates of exchange quoted by the People's Bank of China ("PBOC rates") prevailing on the transaction dates. Foreign currency monetary assets and liabilities are translated into Renminbi at the applicable PBOC rates at the balance sheet date.

Exchange differences, other than those capitalized as construction in progress, are recognized as income or expenses in the consolidated statements of income. Net exchange losses capitalized amounted to RMB 226 for the year ended December 31, 1999 and nil for the years ended December 31, 2000 and 2001.

(c) Cash and cash equivalents

Cash equivalents consist of time deposits with financial institutions with an initial term of less than three months.

(d) Trade accounts receivable

Trade accounts receivable are stated at cost less allowance for doubtful accounts. An allowance for doubtful accounts is provided based upon the evaluation of the recoverability of these accounts at the balance sheet date.

(e) Inventories

Inventories, other than spare parts and consumables, are stated at the lower of cost and net realizable value. Cost includes the cost of purchase computed using the weighted average method and, in the case of work in progress and finished goods, direct labor and an appropriate proportion of production overheads. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Spare parts and consumables are stated at cost less any provision for obsolescence.

(f) Property, plant and equipment

Property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition and location for its intended use. Subsequent to the revaluation (Note 15), which was based on depreciated replacement costs, property, plant and equipment are carried at revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses. Revaluations are performed periodically to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. Expenditure incurred after the asset has been put into operation is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is charged to the consolidated statements of income in the period in which it is incurred.

Gains or losses arising from the retirement or disposal of property, plant and equipment, other than oil and gas properties, are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized as income or expense in the consolidated statements of income on the date of retirement or disposal. On disposal of a revalued asset, the related revaluation surplus is transferred from the revaluation reserve to retained earnings.

Depreciation is provided to write off the cost/revalued amount of each asset, other than oil and gas properties, over its estimated useful life on a straight-line basis, after taking into account its estimated residual value, as follows:

Buildings	15 to 45 years
Plant, machinery, equipment and others	4 to 18 years
Oil depots, storage tanks and service station equipment	8 to 14 years

Land and buildings use rights are amortized on a straight-line basis over the respective periods of the rights.

(g) Oil and gas properties

The Group uses the successful efforts method of accounting for its oil and gas producing activities. Under this method, costs of development wells and the related support equipment are capitalized. The cost of exploratory wells is initially capitalized as construction in progress pending determination of whether the well has found proved reserves. The impairment of exploratory well costs occurs upon the determination that the well has not found proved reserves. Exploratory wells that find oil and gas reserves in any area requiring major capital expenditure are expensed unless the well has found a sufficient quantity of reserves to justify its completion as a producing well if the required capital expenditure is made, and drilling of the additional exploratory wells is under way or firmly planned for the near future. However, in the absence of a determination of the discovery of proved reserves, exploratory well costs are not carried as an asset for more than one year following completion of drilling. If, after one year has passed, a determination of the discovery of proved reserves cannot be made, the exploratory well costs are impaired and charged to expense. All other exploration costs, including geological and geophysical costs, other dry hole costs and annual lease rentals, are expensed as incurred. Capitalized costs relating to proved properties are amortized at the field level on a unit-of-production method. The amortization rates are determined based on oil and gas reserves estimated to be recoverable from existing facilities over the shorter of the economic lives of crude oil and natural gas reservoirs and the terms of the relevant production licenses.

Gains and losses on the disposal of proved oil and gas properties are not recognized unless the disposal encompasses an entire property. The proceeds on such disposals are credited to the carrying amounts of oil and gas properties.

Future dismantlement, restoration and abandonment costs are estimated taking into account the anticipated method of dismantlement and restoration, and are provided using the unit-of-production method.

(h) Construction in progress

Construction in progress represents buildings, oil and gas properties, various plant and equipment under construction and pending installation, and is stated at cost less impairment losses. Cost comprises direct costs of construction as well as interest charges, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges, during the periods of construction.

Construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

(i) Investments

Investments in unlisted equity securities are stated at cost less provision for impairment losses. A provision is made where, in the opinion of management, there is an impairment in the value of an investment.

(j) Interests in associates and jointly controlled entities

An associate is a company, not being a subsidiary, in which the Group exercises significant influence in its management. A jointly controlled entity is an entity over which the Group can exercise joint control with other venturers. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control over those policies. Joint control is the contractually agreed sharing of control over an economic activity.

The consolidated statements of income include the Group's share of the results of its associates and jointly controlled entities for the period. In the consolidated balance sheets, interests in associates and jointly controlled entities are stated at the Group's attributable share of net assets.

(k) Provision

A provision is recognized in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(l) Revenue recognition

Revenues associated with the sale of crude oil, natural gas, petroleum and chemical products and all other items are recorded when the customer accepts the goods and the significant risks and rewards of ownership and title have been transferred to the buyer. Revenue from the rendering of services is recognized in the consolidated statements of income upon performance of the services. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due, the possible return of goods, or when the amount of revenue and the costs incurred or to be incurred in respect of the transaction cannot be measured reliably.

Interest income is recognized on a time apportioned basis that takes into account the effective yield on the asset.

Gains arising from the issuance of shares by subsidiaries are recognized in the consolidated statements of income. Further information is set out in Note 9.

(m) Borrowing costs

Borrowing costs are expensed in the consolidated statements of income in the period in which they are incurred, except to the extent that they are capitalized as being attributable to the construction of an asset which necessarily takes a period of time to get ready for its intended use.

(n) Repairs and maintenance expenditure

Repairs and maintenance expenditure, including cost of major overhaul, is expensed as incurred.

(o) Environmental expenditures

Environmental expenditures that relate to current ongoing operations or to conditions caused by past operations are expensed as incurred.

Liabilities related to future remediation costs are recorded when environmental assessments and/or cleanups are probable and the costs can be reasonably estimated. As facts concerning environmental contingencies become known to the Group, the Group reassesses its position both with respect to accrued liabilities and other potential exposures.

(p) Research and development costs

Research and development costs are recognized as expenses in the period in which they are incurred. Research and development costs amounted to RMB 1,107, RMB 1,742 and RMB 1,290 for the years ended December 31, 1999, 2000 and 2001, respectively.

(q) Operating leases

Operating lease payments are charged to the consolidated statements of income on a straight-line basis over the period of the respective leases. Operating lease charges amounted to RMB 399, RMB 2,900 and RMB 2,832 for the years ended December 31, 1999, 2000 and 2001, respectively.

(r) Retirement benefits

The contributions payable under the Group's retirement plans are charged to the consolidated statements of income according to the contribution determined by the plans. Further information is set out in Note 28.

(s) Impairment loss

The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value. The amount of the reduction is recognized as an expense in the consolidated statements of income unless the asset is carried at revalued amount for which an impairment loss is recognized directly against any related revaluation reserve to the extent that the impairment loss does not exceed the amount held in the revaluation reserve for that same asset.

The Group assesses at each balance sheet date whether there is any indication that an impairment loss recognized for an asset in prior years may no longer exist. An impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. A subsequent increase in the recoverable amount of an asset, when the circumstances and events that led to the write-down or write-off cease to exist, is recognized as income unless the asset is carried at revalued amount. Reversal of an impairment loss on a revalued asset is credited to the revaluation reserve except for impairment loss which was previously recognized as an expense in the consolidated statements of income; a reversal of such impairment loss is recognized as income. The reversal is reduced by the amount that would have been recognized as depreciation had the write-down or write-off not occurred.

(t) Income tax

Income tax comprises current and deferred tax. Current tax is calculated on taxable income by applying the applicable tax rates. Tax refunds received are recorded as a reduction of income tax expense.

Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is calculated on the basis of the enacted tax rates that are expected to apply in the period when the asset is realized or the liability is settled. The effect on deferred tax of any changes in tax rates is charged or credited to the consolidated statements of income.

(All amounts in millions of Renminbi, except share data)

The tax value of losses expected to be available for utilization against future taxable income is set off against the deferred tax liability within the same legal tax unit and jurisdiction to the extent appropriate, and is not available for set-off against the taxable profit of another legal tax unit. Net deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(u) Dividends

Dividends are recognized as a liability in the period in which they are declared.

(v) Segmental reporting

A business segment is a distinguishable component of the Group that is engaged in providing products or services and is subject to risks and rewards that are different from those of other segments.

3. OTHER OPERATING REVENUES

Other operating revenues represent:

	Years ended December 31,		
	1999	**2000**	**2001**
	RMB	**RMB**	**RMB**
Sale of ancillary materials	1,198	4,930	12,303
Income from rendering of services	544	596	638
Rental income	263	216	176
Others	585	494	1,007
	2,590	6,236	14,124

For the years ended December 31, 1999 and 2000, other operating revenues were reported net of related expenses whereas for the year ended December 31, 2001, other operating revenues were reported on a gross basis and the related expenses were reported separately in operating expenses. The impact of reporting other operating revenues on a net basis for the years ended December 31, 1999 and 2000 was not significant to total revenues or expenses in the accompanying consolidated financial statements.

4. PERSONNEL EXPENSES

Personnel expenses represent:

	Years ended December 31,		
	1999	**2000**	**2001**
	RMB	**RMB**	**RMB**
Wages and salaries	9,180	9,697	9,402
Staff welfare	1,291	1,317	1,311
Contribution to retirement schemes	1,332	1,387	1,358
Social security contributions	893	863	818
	12,696	13,264	12,889

(All amounts in millions of Renminbi, except share data)

5. EMPLOYEE REDUCTION EXPENSES

In accordance with the Group's voluntary employee reduction plan, the Group recorded employee reduction expenses of RMB 2,546 during the year ended December 31, 2001 in respect of the voluntary termination and the transfer to Sinopec Group Company totalling approximately 68,000 employees. The RMB 2,546 expense included approximately RMB 1,245 paid to employees that accepted offers to transfer to Sinopec Group Company. As of December 31, 2001, all payments to these employees have been made by the Group. For employees that were transferred to Sinopec Group Company, the employees were entitled to receive termination benefits from Sinopec Group Company to the extent that their employment was subsequently terminated.

6. TAXES OTHER THAN INCOME TAX

Taxes other than income tax represent:

	Years ended December 31,		
	1999	2000	2001
	RMB	RMB	RMB
Consumption tax	7,324	9,260	9,025
City construction tax	1,220	1,673	1,615
Education surcharge	516	713	707
Resources tax	396	382	406
Business tax	62	108	110
Others	18	84	24
	9,536	12,220	11,887

Consumption tax is levied on producers of gasoline and diesel based on a tariff rate applied to the volume of sales. City construction tax is levied on an entity based on its total amount of value-added tax, consumption tax and business tax.

7. OTHER OPERATING EXPENSES, NET

Other operating expenses, net represent:

	Years ended December 31,		
	1999	2000	2001
	RMB	RMB	RMB
Fines, penalties and compensations	80	28	80
Donations	66	123	62
Loss on disposal of staff quarters and property, plant and equipment	1,940	928	67
Impairment losses on long-lived assets	1,206	187	—
Reversal of impairment losses on long-lived assets, net of depreciation effect	(593)	(936)	—
Others	562	388	(16)
	3,261	718	193

Loss on allocation of staff quarters

Pursuant to the housing reform policy in the PRC, the Group allocated certain staff quarters to eligible employees for nominal consideration. The losses represent the difference between the net book value of the staff quarters allocated and the consideration received by the Group, and include losses in this respect incurred by Sinopec Group Company on the Group's behalf. In accordance with the relevant PRC regulations, the allocation of staff quarters under the housing reform policy ceased after December 31, 1999. The loss on disposal of staff quarters amounted to RMB 1,428 for the year ended December 31, 1999.

Asset impairment

There were no impairment losses and reversal of impairment losses recognised on long-lived assets for the year ended December 31, 2001.

The factors resulting in the exploration and production ("E&P") segment impairment losses of RMB 824 and RMB 92 for the years ended December 31, 1999 and 2000, respectively, were unsuccessful development drilling and high operating and development costs for certain oil fields. The carrying values of these E&P properties, including construction in progress assets, were written down to a recoverable value which was determined based on the present values of the expected future cash flows of the assets. The oil and gas pricing was a factor used in the determination of the present values of the expected future cash flows of the assets and had an impact on the recognition of the asset impairment.

Reversal of impairment losses on long-lived assets of the E&P segment of nil for the year ended December 31, 1999 and RMB 936 for the year ended December 31, 2000, represent the reversal of impairment losses previously recognized primarily as a result of the increase in crude oil prices used in determining the recoverable value.

Impairment losses recognized on long-lived assets of the refining segment of RMB 296 and RMB 95 for the years ended December 31, 1999 and 2000, primarily relate to write-downs of certain refining production facilities including construction in progress assets to their recoverable values which were determined based on the present value of estimated future cash flows. These write-downs were primarily the result of insufficient cash flows expected to be generated by these facilities.

Impairment losses recognized on long-lived assets of the chemicals segment of RMB 33 for the year ended December 31, 1999 and nil for the year ended December 31, 2000, relate to write-downs of certain chemical production facilities including construction in progress assets to their recoverable values which were determined based on the present value of estimated future cash flows. These write-downs were primarily the result of insufficient cash flows expected to be generated by these facilities.

Impairment losses recognized on long-lived assets of the marketing and distribution segment of RMB 53 for the year ended December 31, 1999 and nil for the year ended December 31, 2000, relate to write-downs of certain under utilized oil depots and service stations. In measuring the amounts of impairment charges, the carrying amounts of these assets were compared to the present value of the expected future cash flows of the assets, as well as information about sales and purchases of similar properties in the same geographic area.

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts in millions of Renminbi, except share data)

8. INTEREST EXPENSE

Interest expense represents:

	Years ended December 31,		
	1999	2000	2001
	RMB	RMB	RMB
Interest expense incurred	10,963	7,265	5,692
Less: Interest expense capitalized*	(831)	(602)	(986)
Interest expense	10,132	6,663	4,706
*Interest rates per annum at which borrowing costs were capitalized for construction in progress	5.9% to 11.7%	4.5% to 9.7%	3.4% to 8.0%

9. GAINS FROM ISSUANCE OF SHARES BY SUBSIDIARIES

There were no issuances of shares by subsidiaries during the years ended December 31, 2000 and 2001. For the year ended December 31,1999, the gains represent the increase in the Company's share of net assets of the subsidiaries after the issuance of shares by the subsidiaries. The Group has not provided any deferred tax expense on the gains from the issuance of shares by subsidiaries because the current and existing tax laws and regulations of the PRC provide that the reported amounts in these subsidiaries can be recovered tax-free. The Group has not repurchased any shares of its subsidiaries during each of the years ended December 31, 1999, 2000 and 2001.

Details of shares issued during the year ended December 31, 1999 are as follows:

Name of company	Principal activities	Type of transaction	No. of shares issued	Price per share	Amount of gross proceeds	Percentage of ownership before issuance	Percentage of ownership after issuance	Gains
					RMB			RMB
Sinopec Kantons Holdings Limited	Trading of crude oil and petroleum products	Initial public offering	287,500,000	HK$1.02	314	100.00%	72.29%	70
Zhongyuan Petroleum Company Limited	Exploration and production of crude oil and natural gas	Initial public offering of A shares	170,000,000	RMB 4.89	831	100.00%	75.00%	475
Shijiazhuang Refining - Chemical Company Limited	Manufacturing of intermediate petrochemical products and petroleum products	Placement of A shares	74,444,333	RMB 3.30	246	83.33%	79.73%	62
								607

(All amounts in millions of Renminbi, except share data)

10. INCOME TAX

Income tax in the consolidated statements of income represents:

	Years ended December 31,		
	1999	2000	2001
	RMB	RMB	RMB
Provision for PRC income tax			
— the Group	2,039	8,994	6,414
— associates and jointly controlled entities	37	21	23
Deferred taxation (Note 19)	(611)	623	1,592
	1,465	9,638	8,029
Tax refund (Note)	(1,114)	—	—
	351	9,638	8,029

Note: The Group received tax refunds of RMB 1,114 for the year ended December 31, 1999, pursuant to various notices and orders issued by the Ministry of Finance.

A reconciliation of the expected tax with the actual tax expense is as follows:

	Years ended December 31,		
	1999	2000	2001
	RMB	RMB	RMB
Income before income tax and minority interests	6,851	31,036	24,667
Expected PRC income tax expense at a statutory tax rate of 33%	2,261	10,242	8,140
Non-deductible expenses	270	648	370
Non-taxable income	(353)	(383)	(261)
Special allowance relating to exploration and production activities (Note i)	(549)	—	—
Gains from issuance of shares by subsidiaries	(200)	—	—
Differential tax rate on subsidiaries' income (Note ii)	(581)	(924)	(390)
Tax losses not recognized for deferred tax	638	87	142
Others	(21)	(32)	28
Tax refund	(1,114)	—	—
Income tax	351	9,638	8,029

Notes:

(i) The special allowance relating to exploration and production activities represents additional tax allowances on expenditure that have already been capitalized as tax deductible oil and gas properties. Accordingly, these deductions represent permanent differences between the tax and accounting bases. Such special allowance granted to the Predecessor Operations ceased upon the legal formation of the Company on February 25, 2000.

(ii) The provision for PRC current income tax is based on a statutory rate of 33% of the assessable income of the Group as determined in accordance with the relevant income tax rules and regulations of the PRC during each of the years in the three-year period ended December 31, 2001, except for certain subsidiaries of the Company, which are taxed at a preferential rate of 15%.

(All amounts in millions of Renminbi, except share data)

11. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net income of RMB 4,923, RMB 19,584 and RMB 16,025 and the weighted average number of shares in issue during the year of 68,800,000,000, 71,936,025,585 and 85,168,192,425, for the years ended December 31, 1999, 2000 and 2001 respectively, as if the 68,800,000,000 shares issued and outstanding upon the legal formation of the Company on February 25, 2000 had been outstanding as of January 1, 1999. The weighted average number of shares for the year ended December 31, 2000 reflects the issuance of 15,102,439,000 shares in October 2000 in connection with the Company's initial public offering (Note 23). The weighted average number of shares for the year ended December 31, 2001 reflects the issuance of 2,800,000,000 shares in July 2001 in connection with the Company's public offering of domestically listed ordinary shares in the Shanghai Stock Exchange (Note 23).

The amount of diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence for the three years ended December 31, 2001.

12. TRADE ACCOUNTS RECEIVABLE, NET

Trade accounts receivable are analyzed as follows:

	December 31,	
	2000	2001
	RMB	RMB
Third parties	12,441	10,049
Sinopec Group Company and its affiliates	3,436	3,503
Associates and jointly controlled entities	119	10
	15,996	13,562
Less: Allowance for doubtful accounts	(2,924)	(2,480)
	13,072	11,082

The allowance for doubtful accounts is analyzed as follows:

	Years ended December 31,		
	1999	2000	2001
	RMB	RMB	RMB
At beginning of year	2,674	2,750	2,924
Provision for the year	583	369	331
Written-off/back	(164)	(195)	(775)
Less: Amount distributed to Sinopec Group Company in connection with the Reorganization	(343)	—	—
At end of year	2,750	2,924	2,480

Sales are generally on a cash term. Credit are generally only available for major customers with well-established trading records. Amounts due from Sinopec Group Company and its affiliates are repayable under the same terms.

(All amounts in millions of Renminbi, except share data)

13. INVENTORIES

Inventories represent:

	December 31,	
	2000	2001
	RMB	RMB
Crude oil and other raw materials	18,923	17,749
Work in progress	5,828	5,050
Finished goods	23,534	20,442
Spare parts and consumables	3,077	3,555
	51,362	46,796
Less: Allowance for diminution in value of inventories	(849)	(602)
	50,513	46,194

The allowance for diminution in value of inventories is analyzed as follows:

	Years ended December 31,		
	1999	2000	2001
	RMB	RMB	RMB
At beginning of year	645	736	849
Provision for the year	174	182	106
Written-off/back on disposal	(83)	(69)	(353)
At end of year	736	849	602

The carrying amount of inventories carried at net realizable value amounted to RMB 1,931 and RMB 1,924 as of December 31, 2000 and 2001, respectively.

The cost of inventories recognized as an expense in the consolidated statements of income amounted to RMB 187,306, RMB 252,873 and RMB 249,700 for the years ended December 31, 1999, 2000 and 2001, respectively.

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(All amounts in millions of Renminbi, except share data)

14. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets represent:

	December 31, 2000	December 31, 2001
	RMB	RMB
Advances to third parties	6,502	6,618
Amounts due from Sinopec Group Company and its affiliates	10,563	9,421
Other receivables	3,430	3,390
Purchase deposits	2,305	2,426
Prepayments in connection with construction work and equipment purchases	3,036	1,543
Prepaid value-added tax (“VAT”) and customs duty	2,232	2,284
Interest receivable	70	16
Amounts due from associates and jointly controlled entities	204	373
Prepaid rental	46	52
	28,388	26,123

15. PROPERTY, PLANT AND EQUIPMENT, NET

By segment:

	Exploration and production	Refining	Marketing and distribution	Chemicals	Corporate and others	Total
	RMB	RMB	RMB	RMB	RMB	RMB
Cost/valuation:						
Balance at January 1, 2001	122,979	87,272	28,077	104,589	1,348	344,265
Additions	259	1,804	7,183	933	270	10,449
Transferred from construction in progress	19,660	4,871	5,791	8,180	66	38,568
Disposals	(544)	(590)	(368)	(1,220)	(27)	(2,749)
Balance at December 31, 2001	142,354	93,357	40,683	112,482	1,657	390,533
Accumulated depreciation:						
Balance at January 1, 2001	60,705	34,854	5,286	49,222	330	150,397
Depreciation charge for the year	8,071	5,863	1,636	6,477	101	22,148
Written back on disposals	(458)	(332)	(134)	(942)	(18)	(1,884)
Balance at December 31, 2001	68,318	40,385	6,788	54,757	413	170,661
Net book value at December 31, 2001	74,036	52,972	33,895	57,725	1,244	219,872
Net book value at December 31, 2000	62,274	52,418	22,791	55,367	1,018	193,868

(All amounts in millions of Renminbi, except share data)

By asset class:

	Land and buildings	Oil and gas properties	Oil depots, storage tanks and service stations	Plant, machinery, equipment and others	Total
	RMB	RMB	RMB	RMB	RMB
Cost/valuation:					
Balance at January 1, 2001	35,935	109,393	24,248	174,689	344,265
Additions	1,176	84	5,119	4,070	10,449
Transferred from construction in progress	1,562	16,494	5,358	15,154	38,568
Reclassification	(2,516)	(726)	(1,227)	4,469	—
Disposals	(353)	(126)	(177)	(2,093)	(2,749)
Balance at December 31, 2001	35,804	125,119	33,321	196,289	390,533
Accumulated depreciation:					
Balance at January 1, 2001	13,149	57,183	4,822	75,243	150,397
Depreciation charge for the year	1,747	6,108	1,373	12,920	22,148
Reclassification	(1,451)	(525)	(247)	2,223	—
Written back on disposals	(219)	(90)	(46)	(1,529)	(1,884)
Balance at December 31, 2001	13,226	62,676	5,902	88,857	170,661
Net book value at December 31, 2001	22,578	62,443	27,419	107,432	219,872
Net book value at December 31, 2000	22,786	52,210	19,426	99,446	193,868

As required by the relevant PRC regulations with respect to the Reorganization, the property, plant and equipment of the Group as of September 30, 1999 were valued for each asset class by China United Assets Appraisal Corporation, Beijing Zhong Zheng Appraisal Company, CIECC Assets Appraisal Corporation and Zhong Fa International Properties Valuation Corporation (collectively, the "PRC valuers"), independent valuers registered in the PRC, on a depreciated replacement cost basis. The value of property, plant and equipment has been determined at RMB 159,788. The surplus on revaluation of RMB 32,320, net of amounts allocated to minority interests, has been incorporated in the accounts of the Group as of December 31, 1999. In connection with the Acquisition, the property, plant and equipment of Sinopec National Star were revalued at December 31, 2000, by a firm of independent valuers and approved by the Ministry of Finance. The value of property, plant and equipment of Sinopec National Star pursuant to the valuation, based on a depreciated replacement cost basis, was determined at RMB 4,373, resulting in a surplus on revaluation of RMB 1,136, net of amounts allocated to minority interests.

(All amounts in millions of Renminbi, except share data)

16. CONSTRUCTION IN PROGRESS

	Exploration and production	Refining	Marketing and distribution	Chemicals	Corporate and others	Total
	RMB	RMB	RMB	RMB	RMB	RMB
Balance at January 1, 2001	2,806	4,319	4,440	4,586	487	16,638
Additions	21,787	7,188	10,073	11,014	88	50,150
Dry hole costs written off	(1,770)	—	—	—	—	(1,770)
Transferred to fixed assets	(19,660)	(4,871)	(5,791)	(8,180)	(66)	(38,568)
Balance at December 31, 2001	3,163	6,636	8,722	7,420	509	26,450

17. INVESTMENTS

	December 31, 2000	December 31, 2001
	RMB	RMB
Unlisted investments, at cost	2,975	3,463
Less: Provision for impairment losses	(210)	(181)
	2,765	3,282

Provision for impairment losses is analyzed as follows:

	Years ended December 31, 1999	2000	2001
	RMB	RMB	RMB
At beginning of year	1,600	172	210
Provision for the year	115	73	18
Written-off/back on disposal	(38)	(35)	(47)
Less: Amount distributed to Sinopec Group Company in connection with the Reorganization	(1,505)	—	—
At end of year	172	210	181

Unlisted investments represent the Group's interests in PRC domiciled enterprises which are mainly engaged in non oil and gas activities and operations. The Group has no investments in marketable securities.

(All amounts in millions of Renminbi, except share data)

18. INTERESTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

	December 31,	
	2000	2001
	RMB	RMB
Share of net assets	2,418	5,172
Loans to associates and jointly controlled entities	117	—
	2,535	5,172

The Group's investments in associates and jointly controlled entities are with companies primarily engaged in the oil and gas and chemical operations in the PRC. These investments are individually and in the aggregate not material to the Group's financial condition or results of operations for all periods presented. The principal investments in associates and jointly controlled entities, all of which are incorporated in the PRC, are as follows:

Name of company	Form of business structure	Particulars of issued and paid up capital	Percentage of equity held by the Company	Percentage of equity held by the Subsidiary	Principal activities
			%	%	
Shengli Oil Field Dynamic Company Limited ("Dynamic")*	Incorporated	303,356,340 ordinary shares of RMB 1.00 each	26.33	—	Exploration of crude oil and distribution of petrochemical products
Sinopec Shandong Taishan Petroleum Company Limited ("Taishan")*	Incorporated	480,793,320 ordinary shares of RMB 1.00 each	38.68	—	Trading of petroleum products and decoration of service gas stations
Sinopec Finance Company Limited	Incorporated	Registered capital RMB 2,500,000,000	32.00	8.22	Provision of non-banking financial services within the Group
Shanghai Petroleum National Gas Corporation	Incorporated	Registered capital RMB 900,000,000	30.00	—	Exploration and production of crude oil and natural gas
BASF-YPC Company Limited	Incorporated	Registered capital RMB 8,793,000,000	30.00	10.00	Manufacturing and distribution of chemical products
Shanghai Secco Petrochemical Company Limited	Incorporated	Registered capital USD 901,440,964	30.00	20.00	Manufacturing and distribution of chemical products

* Shares of Dynamic and Taishan are listed on the Shenzhen Stock Exchange. Shares held by the Company are domestic state-owned A shares which are not admitted for trading in any stock exchange in the PRC. The aggregate value of the investments in Dynamic and Taishan based on the quoted market price are RMB 1,074 and RMB 1,465 respectively at December 31, 2001.

(All amounts in millions of Renminbi, except share data)

19. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and deferred tax liabilities are attributable to the items detailed in the table below:

	Assets		Liabilities		Net balance	
	December 31,		December 31,		December 31,	
	2000	2001	2000	2001	2000	2001
	RMB	RMB	RMB	RMB	RMB	RMB
Current						
Provisions, primarily for receivables and inventories	1,023	432	—	—	1,023	432
Non-current						
Property, plant and equipment	42	35	(388)	(788)	(346)	(753)
Accelerated depreciation	—	—	(1,329)	(2,185)	(1,329)	(2,185)
Tax value of losses carried forward, net of valuation allowances	18	173	—	—	18	173
Other assets	47	33	(10)	—	37	33
Others	25	96	(48)	(8)	(23)	88
Deferred tax assets/(liabilities)	1,155	769	(1,775)	(2,981)	(620)	(2,212)

A valuation allowance on deferred tax assets is recorded if it is more likely than not that some portion or all of the deferred tax assets will not be realized through the recovery of taxes previously paid and/or future taxable income. The allowance is subject to ongoing adjustments based on changes in circumstances that affect the Group's assessment of the realizability of the deferred tax assets. The Group has reviewed its deferred tax assets as of December 31, 1999, 2000 and 2001. Based on this review, valuation allowances of RMB 638, RMB 87 and RMB 142 were provided for the years ended December 31, 1999, 2000 and 2001, respectively in respect of the tax value of losses. The Group determined the valuation allowance relating to the tax value of losses based on management's assessment of the probability that taxable profit will be available against which the tax losses can be utilized. In assessing the probability, both positive and negative evidence was considered, including whether it is more likely than not that the operations will have taxable profits before the tax losses expire, whether the operations have sufficient taxable temporary differences relating to the same tax authority and whether the tax losses result from identifiable causes which are unlikely to recur. Based on this assessment, a valuation allowance was provided for the tax value of losses to reduce the deferred tax asset to the amount that is more likely than not to be realized. No valuation allowance was established for the other deferred tax assets as management believes that the amount of these deferred tax assets as of December 31, 2000 and 2001 is more likely than not to be realized.

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The valuation allowance is analyzed as follows:

	Years ended December 31,		
	1999	2000	2001
	RMB	RMB	RMB
At beginning of year	5,042	—	87
Allowance during the year	638	87	142
Less: Amount distributed to Sinopec Group Company in connection with the Reorganization	(5,680)	—	—
At end of year	—	87	229

Movements in temporary differences between calculations of certain items for accounting and for taxation purposes can be specified as follows:

	Balance at January 1, 1999	Recognized in consolidated statements of income	Recognized in shareholders' equity	Balance at December 31, 1999
	RMB	RMB	RMB	RMB
Current				
Provisions, primarily for receivables and inventories	2,731	540	(3,097)	174
Non-current				
Property, plant and equipment	8,735	900	(9,931)	(296)
Accelerated depreciation	(7,276)	(1,116)	8,496	104
Tax value of losses carried forward, net of valuation allowances	1,749	(127)	(1,556)	66
Other assets	747	(31)	(713)	3
Others	320	445	(779)	(14)
Net deferred tax assets/(liabilities).	7,006	611	(7,580)	37
		(Note 10)		

(All amounts in millions of Renminbi, except share data)

As a result of the September 30, 1999 revaluation as part of the Reorganization, certain property, plant and equipment were adjusted for both financial and tax purposes. Accordingly, certain temporary differences that gave rise to net deferred tax assets in the amount of RMB 2,072 were eliminated. The reduction in net deferred tax assets as of September 30, 1999 was reflected as a reduction in shareholders' equity. In addition, net deferred tax assets of RMB 5,508 were included in the net assets distributed to Sinopec Group Company in connection with the Reorganization.

	Balance at January 1, 2000	Recognized in consolidated statements of income	Recognized in shareholders' equity	Balance at December 31, 2000
	RMB	RMB	RMB	RMB
Current				
Provisions, primarily for receivables and inventories	173	911	(61)	1,023
Non-current				
Property, plant and equipment	(297)	(340)	291	(346)
Accelerated depreciation	104	(1,282)	(151)	(1,329)
Tax value of losses carried forward, net of valuation allowances	67	70	(119)	18
Other assets	3	36	(2)	37
Others	(13)	(18)	8	(23)
Net deferred tax assets/(liabilities)	37	(623)	(34)	(620)
		(Note 10)		

As a result of the December 31, 2000 revaluation of the assets and liabilities of Sinopec National Star in connection with the Acquisition, the tax base of Sinopec National Star's assets and liabilities have been adjusted to the related financial statement carrying amounts. Accordingly, temporary differences that gave rise to net deferred tax assets in the amount of RMB 34 were eliminated. The reduction in net deferred tax assets at December 31, 2000 was reflected as a decrease in shareholders' equity.

	Balance at January 1, 2001	Recognized in consolidated statements of income	Balance at December 31, 2001
	RMB	RMB	RMB
Current			
Provisions, primarily for receivables and inventories	1,023	(591)	432
Non-current			
Property, plant and equipment	(346)	(407)	(753)
Accelerated depreciation	(1,329)	(856)	(2,185)
Tax value of losses carried forward, net of valuation allowances	18	155	173
Other assets	37	(4)	33
Others	(23)	111	88
Net deferred tax liabilities	(620)	(1,592)	(2,212)
	(Note 10)		

(All amounts in millions of Renminbi, except share data)

20. SHORT-TERM AND LONG-TERM DEBTS AND LOANS FROM SINOPEC GROUP COMPANY AND ITS AFFILIATES

Short-term debts represent:

	December 31,	
	2000	**2001**
	RMB	**RMB**
Third parties' debts		
Short-term bank loans	42,637	34,424
Short-term other loans	289	43
	42,926	34,467
Current portion of long-term bank loans	7,569	10,140
Current portion of long-term other loans	401	742
	7,970	10,882
	50,896	45,349
Loans from Sinopec Group Company and its affiliates		
Short-term loans	8,017	3,448
Current portion of long-term loans	197	414
	8,214	3,862
	59,110	49,211

The Group's weighted average interest rate on short-term loans was 5.8% and 5.1% as of December 31, 2000 and 2001, respectively.

As of December 31, 2001, the Company had standby credit facilities with several PRC financial institutions which allowed the Company to borrow up to 96,000 on an unsecured basis, at rates ranging from 5.1% to 5.3%. As of December 31, 2001, the Company's outstanding borrowings under these facilities totalled 22,765 which are included in short-term bank loans. These facilities expire at various dates in 2002 and contain no financial covenants.

(All amounts in millions of Renminbi, except share data)

Long-term debts comprise:

	Interest rate and final maturity	December 31, 2000 RMB	December 31, 2001 RMB
Third parties' debts			
Long-term bank loans			
Renminbi denominated	Interest rates ranging from interest free to 11.2% per annum as of December 31, 2001 with maturities through 2013	28,629	32,231
Japanese Yen denominated	Interest rates ranging from 0.3% to 7.3% per annum as of December 31, 2001 with maturities through 2024	3,066	2,401
US Dollar denominated	Interest rates ranging from interest free to 7.9% per annum as of December 31, 2001 with maturities through 2031	6,746	4,300
Deutsche Marks denominated	Fixed rates ranging from 6.6% to 6.8% per annum as of December 31, 2001 with maturities through 2006	191	151
Dutch Guilders denominated	Fixed rate at 7.9% per annum as of December 31, 2001 with maturity in 2004	41	28
Hong Kong Dollar denominated	Floating rate at Hong Kong Prime Rate per annum plus 0.25% with maturities through 2006	19	14
		38,692	39,125
Long-term other loans			
Renminbi denominated	Interest rates ranging from interest free to 7.5% per annum as of December 31, 2001 with maturities through 2015	554	596
US Dollar denominated	Interest rates ranging from 1.8% to 4.6% per annum as of December 31, 2001 with maturities through 2015	133	522
French Francs denominated	Interest rates at 1.8% to 8.1% per annum as of December 31, 2001 with maturities through 2025	18	15
		705	1,133
Total long-term bank and other loans carried forward		39,397	40,258

(All amounts in millions of Renminbi, except share data)

	Interest rate and final maturity	December 31, 2000 RMB	December 31, 2001 RMB
Total long-term bank and other loans carried forward		39,397	40,258
Convertible bonds	Fixed rates at 2.5% per annum and redeemable in July 2004 (a)	2,770	1,500
Total third parties' long-term debts		42,167	41,758
Less: Current portion		(7,970)	(10,882)
		34,197	30,876
Long-term loans from Sinopec Group Company and its affiliates			
Renminbi denominated	Interest free with maturity in 2020	35,561	35,561
Renminbi denominated	Interest rates ranging from 5.9% to 6.0% per annum as of December 31, 2001 with maturities through 2006	1,077	796
US Dollar denominated	Interest rates ranging from 3.4% to 4.4% per annum as of December 31, 2001 with maturities through 2006	366	182
		37,004	36,539
Less: Current portion		(197)	(414)
		36,807	36,125
		71,004	67,001

(a) Convertible bonds amounting to RMB 1,500 were issued by a subsidiary on July 28, 1999. The bonds are convertible upon an initial public offering ("IPO") into ordinary shares of the subsidiary at the IPO price of the ordinary shares and at the option of the holders during the period from July 28, 2000 to July 27, 2004. Convertible bonds amounting to RMB 1,270 were repaid during the year ended December 31, 2001.

During the year ended December 31, 2000, the Company entered into several debt related transactions with Sinopec Group Company as follows:

(i) RMB 5,847 of the Group's debts to third parties were assumed by Sinopec Group Company in April 2000 in consideration for the Group transferring an equivalent amount of receivables to Sinopec Group Company.

(ii) RMB 35,561 of the Group's debts, which included RMB 21,262 of the Group's debts to third parties assumed by Sinopec Group Company, were exchanged for an interest free subordinated loan from Sinopec Group Company. The Group may repay all or part of the loan after December 31, 2006 with the approval of the shareholders at that time. Upon maturity of the loan in 2020, the Group may choose to repay by one repayment in 2020 or two equal installments in 2020 and 2021.

Third parties' loans of RMB 2,457 and RMB 171 as of December 31, 2000 and 2001, respectively were secured by certain of the Group's property, plant and equipment. The net book value of property, plant and equipment of the Group pledged as security amounted to RMB 3,348 and RMB 233 as of December 31, 2000 and 2001, respectively.

(All amounts in millions of Renminbi, except share data)

The aggregate maturities of long-term debts and loans from Sinopec Group Company and its affiliates subsequent to December 31, 2001 are as follows:

	RMB
2002	11,296
2003	10,383
2004	7,550
2005	3,823
2006	3,235
Thereafter	42,010
	78,297

21. TRADE ACCOUNTS PAYABLE

Trade accounts payable are analyzed as follows:

	December 31,	
	2000	2001
	RMB	RMB
Third parties	13,414	13,556
Sinopec Group Company and its affiliates	6,121	3,233
Associates and jointly controlled entities	19	4
	19,554	16,793

Amounts due to Sinopec Group Company and its affiliates are repayable in accordance with normal commercial terms.

22. ACCRUED EXPENSES AND OTHER PAYABLES

Accrued expenses and other payables represent:

	December 31,	
	2000	2001
	RMB	RMB
Amounts due to Sinopec Group Company and its affiliates	13,574	10,220
Accrued expenditure	8,179	8,477
Taxes other than income tax	3,675	3,062
Receipts in advance	2,481	2,884
Advances from third parties	1,827	2,005
Others	2,829	3,228
	32,565	29,876

(All amounts in millions of Renminbi, except share data)

23. SHARE CAPITAL

	December 31,	
	2000	2001
	RMB	RMB
Registered, issued and fully paid		
67,121,951,000 domestic state-owned A shares of RMB 1.00 each	67,122	67,122
16,780,488,000 overseas listed H shares of RMB 1.00 each	16,780	16,780
2,800,000,000 domestic listed A shares of RMB 1.00 each	—	2,800
	83,902	86,702

The Company was established on February 25, 2000 with a registered capital of 68.8 billion domestic state-owned shares with a par value of RMB 1.00 each. Such shares were issued to Sinopec Group Company in consideration for the assets and liabilities related to the Predecessor Operations transferred to the Company (Note 1).

Pursuant to the resolutions passed at an Extraordinary General Meeting held on July 25, 2000 and approvals from relevant government authorities, the Company is authorized to increase its share capital to a maximum of 88.3 billion shares with a par value of RMB 1.00 each and offer not more than 19.5 billion shares with a par value of RMB 1.00 each to investors outside the PRC. Sinopec Group Company is authorized to offer not more than 3.5 billion shares of its shareholdings in the Company to investors outside the PRC. The shares sold by Sinopec Group Company to investors outside the PRC would be converted into H shares.

In October 2000, the Company issued 15,102,439,000 H shares with a par value of RMB 1.00 each, representing 12,521,864,000 H shares and 25,805,750 American depositary shares (“ADSs”, each representing 100 H shares), at prices of HK$1.59 per H share and US$20.645 per ADS, respectively, by way of a global initial public offering to Hong Kong and overseas investors. As part of the global initial public offering, 1,678,049,000 domestic state-owned ordinary shares of RMB 1.00 each owned by Sinopec Group Company were converted into H shares and sold to Hong Kong and overseas investors.

In July 2001, the Company issued 2.8 billion domestic listed A shares with a par value of RMB 1.00 each at RMB 4.22 by way of a public offering to natural persons and institutional investors in the PRC.

All A shares and H shares rank pari passu in all material respects.

(All amounts in millions of Renminbi, except share data)

24. RESERVES

	December 31,	
	2000	2001
	RMB	RMB
Revaluation reserve		
At January 1	32,320	33,257
Revaluation surplus of Sinopec National Star after adjusting for the amount attributable to minority interests (Note 15)	1,136	—
Revaluation surplus realized	(199)	(232)
At December 31	33,257	33,025
Capital reserve		
At January 1	—	(14,579)
Capitalization as share capital upon legal establishment of the Company (Note(e))	(14,579)	—
Transfer from other reserves	—	(4,299)
At December 31	(14,579)	(18,878)
Share premium		
At January 1	—	9,224
Share premium from issuance of share	10,700	9,016
Issuing expenses	(1,476)	(168)
At December 31	9,224	18,072
Statutory surplus reserve (Note (a))		
At January 1	—	1,615
Appropriation of net income	1,615	1,402
At December 31	1,615	3,017
Statutory public welfare fund (Note (b))		
At January 1	—	1,615
Appropriation of net income	1,615	1,402
At December 31	1,615	3,017
Other reserves		
At January 1	56,079	2,147
Capitalization as share capital upon legal establishment of the Company (Note (e))	(53,322)	—
Transfer from retained earnings	580	—
Elimination of net deferred tax assets (Note 19)	(34)	—
Net assets distributed to Sinopec Group Company (Note (c))	(1,156)	—
Consideration for Acquisition of Sinopec National Star (Note 1)	—	(6,446)
Transfer to capital reserves	—	4,299
At December 31	2,147	—

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	December 31,	
	2000	2001
	RMB	RMB
Retained earnings (Note (d))		
At January 1	1,478	15,973
Dividend paid	(579)	(6,712)
Capitalization as share capital upon legal establishment of the Company (Note (e))	(899)	—
Net income	19,584	16,025
Transfer to other reserves	(580)	—
Transfer to statutory surplus reserve	(1,615)	(1,402)
Proposed transfer to statutory public welfare fund	(1,615)	(1,402)
Revaluation surplus realized	199	232
At December 31	15,973	22,714
	49,252	60,967

Notes:

(a) According to the Company's Articles of Association, the Company is required to transfer 10% of its net income, as determined in accordance with the PRC Accounting Rules and Regulations, to statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital. During the years ended December 31, 2000 and 2001, the Company has transferred RMB 1,615 and RMB 1,402, respectively, being 10% of the current year's net income determined in accordance with the PRC Accounting Rules and Regulations to this reserve.

(b) According to the Company's Articles of Association, the Company is required to transfer 5% to 10% of its net income, as determined in accordance with the PRC Accounting Rules and Regulations, to the statutory public welfare fund. This fund can only be utilized on capital items for the collective benefits of the Company's employees such as the construction of dormitories, canteen and other staff welfare facilities. This fund is non-distributable other than on liquidation. The transfer to this fund must be made before distribution of a dividend to shareholders. The directors authorized the transfer of RMB 1,615 and RMB 1,402 for the years ended December 31, 2000 and 2001, respectively, subject to shareholders' approval, being 10% of the current year's net income determined in accordance with the PRC Accounting Rules and Regulations, to this fund.

(c) This represents net assets distributed to Sinopec Group Company for no monetary consideration. The net assets distributed to Sinopec Group Company during the year ended December 31, 2000 primarily represent certain assets and liabilities of Sinopec National Star distributed to Sinopec Group Company. The transaction was recorded at historical cost and was reflected as changes in other reserves in the year the transaction occurred.

(d) According to the Company's Articles of Association, the amount of retained earnings available for distribution to shareholders of the Company is the lower of the amount determined in accordance with the PRC Accounting Rules and Regulations and the amount determined in accordance with IAS. As of December 31, 2000 and 2001, the amounts of retained earnings available for distribution were RMB 12,924 and RMB 16,942, respectively, being the amount determined in accordance with the PRC Accounting Rules and Regulations. Pursuant to a resolution passed at the Directors' meeting on March 28, 2002, a final dividend of RMB 0.08 per share totaling RMB 6,936 was proposed for shareholders approval at the Annual General Meeting. Final dividend of RMB 6,936 in respect of the financial year 2001 has not been provided for.

(All amounts in millions of Renminbi, except share data)

Subject to the relevant provisions of the PRC Company Law and the Company's Articles of Association, Sinopec Group Company may seek to influence the Company's determination of dividends with a view to satisfying Sinopec Group Company's cash flow requirements.

(e) The aggregate amount of RMB 68,800 represents the par value of share capital issued to Sinopec Group Company on incorporation of the Company. The balance of capital reserve represents the excess of par value of shares issued over the net assets at historical cost transferred from Sinopec Group Company.

25. COMMITMENTS AND CONTINGENT LIABILITIES

Operating lease commitments

The Group leases service stations and other equipment through non-cancelable operating leases. These operating leases do not contain provisions for contingent lease rentals. None of the rental agreements contain escalation provisions that may require higher future rental payments.

At December 31, 2001, the future minimum lease payments under operating leases are as follows:

	RMB
2002	2,844
2003	2,736
2004	2,563
2005	2,559
2006	2,550
Thereafter	85,368
Total minimum lease payments	98,620

The Group's leasing arrangement impose no restrictions on dividends, additional debt and/or further leasing.

Capital commitments

At December 31, 2001, the Group had capital commitments as follows:

	RMB
Authorized and contracted for	21,636
Authorized but not contracted for	18,204
	39,840

These capital commitments relate to oil and gas exploration and development, refining and petrochemical production capacity expansion projects, and the construction of service stations and oil depots.

(All amounts in millions of Renminbi, except share data)

Exploration and production licenses

Exploration licenses for exploration activities are registered with the Ministry of Land and Resources. The maximum term of the Group's exploration licenses is 7 years, and these may be renewed twice within 30 days prior to expiration of the original term with each renewal being for a two-year term. The Group is obligated to make progressive annual minimum exploration investment relating to the exploration blocks in respect of which the license is issued. The Ministry of Land and Resources also issues production licenses to the Group on the basis of the reserve reports approved by relevant authorities. The maximum term of a full production license is 30 years unless a special dispensation is given by the State Council. The maximum term of production licenses issued to the Group is 55 years as a special dispensation was given to the Company by the State Council. The Group's production license is renewable upon application by the Group 30 days prior to expiration.

The Group has to make payments of exploration license fees and production right usage fees to the Ministry of Land and Resources annually which are expensed as incurred. Payments incurred were approximately RMB 14, RMB 19 and RMB 29 for the years ended December 31, 1999, 2000 and 2001, respectively.

Estimated annual payments in the future as of December 31, 2001 are as follows:

	RMB
2002	43
2003	39
2004	51
2005	62
2006	56
Thereafter	284
Total payments	535

Contingent liabilities

(a) The Company has been advised by its PRC lawyers that, except for liabilities constituting or arising out of or relating to the business assumed by the Company in the Reorganization, no other liabilities were assumed by the Company, and the Company is not jointly and severally liable for other debts and obligations incurred by Sinopec Group Company prior to the Reorganization.

(b) At December 31, 2001, guarantees given to banks in respect of banking facilities granted to the parties below were as follows:

	RMB
Associates and jointly controlled entities	546
Third parties	322
	868

In February 2002, the Company made guarantees of RMB 6,999 given to banks in respect of banking facilities granted to a jointly controlled entity.

Environmental contingencies

To date, the Group has not incurred any significant expenditures for environmental remediation, is currently not involved in any environmental remediation, and has not accrued any amounts for environmental remediation relating to its operations. Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, has moved, and may move further towards more rigorous enforcement of applicable laws, and towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include i) the exact nature and extent of the contamination at various sites including, but not limited to refineries, oil fields, service stations, terminals and land development areas, whether operating, closed or sold, ii) the extent of required cleanup efforts, iii) varying costs of alternative remediation strategies, iv) changes in environmental remediation requirements, and v) the identification of new remediation sites. The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under proposed or future environmental legislation cannot reasonably be estimated at present, and could be material. The Group paid normal routine pollutant discharge fees of approximately RMB 300, RMB 305 and RMB 221 for the years ended December 31, 1999, 2000 and 2001, respectively.

Legal contingencies

The Group is a defendant in certain lawsuits as well as the named party in other proceedings arising in the ordinary course of business. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, management believes that any resulting liabilities will not have a material adverse effect on the financial position or operating results of the Group.

26. CONCENTRATION OF RISKS

Credit risk

The carrying amounts of cash and cash equivalents with financial institutions, time deposits, trade accounts and bills receivables, and other current assets, except for prepayments, represent the Group's maximum exposure to credit risk in relation to financial assets.

The majority of the Group's trade accounts receivable relate to sales of petroleum and chemical products to related parties and third parties operating in the petroleum and chemical industries. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade accounts receivable. The Group maintains an allowance for doubtful accounts and actual losses have been within management's expectations. No single customer accounted for greater than 10% of total revenues during each of the years ended December 31, 1999, 2000 and 2001.

No other financial assets carry a significant exposure to credit risk.

Concentration of economic risk

The Group's operations may be adversely affected by significant political, economic, and social uncertainties in the PRC. In addition, the ability to negotiate and implement specific projects in a timely and favorable manner may be impacted by political considerations unrelated to or beyond the control of the Group. Although the PRC government has been pursuing economic reform policies for the past two decades, no assurance can be given that the PRC government will continue to pursue such policies or that such policies may not be significantly altered. There is also no guarantee that the PRC government's pursuit of economic reforms will be consistent or effective and as a result, changes in the rate or method of taxation, reduction in tariff protection and other import restrictions, and changes in state policies affecting the industries to which the Group sells its products, may have a negative effect on its operating results and financial conditions.

Currency risk

Substantially all of the revenue-generating operations of the Group are transacted in Renminbi, which is not freely convertible into foreign currencies. On January 1, 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted by the People's Bank of China. However, the unification of the exchange rate does not imply convertibility of Renminbi into United States dollars or other foreign currencies. All foreign exchange transactions continue to take place either through the People's Bank of China or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the People's Bank of China. Approval of foreign currency payments by the People's Bank of China or other institutions requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts.

Business risk

The Group conducts its principal operations in China and accordingly is subject to special considerations and significant risks not typically associated with investments in equity securities of the United States and Western European companies. These include risks associated with, among others, the political, economic and legal environment, influence of the State Council over substantially all aspects of its operations and competition in the oil and gas industry.

Interest rate risk

The interest rates and terms of repayment of short-term and long-term debts of the Group are disclosed in Note 20.

Supply risk

The Group's largest domestic supplier of crude oil is PetroChina Company Limited. Negotiating another contract with a key supplier at similar terms and costs could have a severe and significant impact on the Group's results of operations.

27. RELATED PARTY TRANSACTIONS

Companies are considered to be related if one company has the ability, directly or indirectly, to control the other company or exercise significant influence over the other company in making financial and operating decisions. Companies are also considered to be related if they are subject to common control or common significant influence.

The Group is part of a larger group of companies under Sinopec Group Company and has significant transactions and relationships with members of the Sinopec Group. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties. Sinopec Group Company itself is owned by the PRC government. There are also many other enterprises directly or indirectly owned or controlled by the PRC government ("state-owned enterprises"). Under IAS, state-owned enterprises, other than Sinopec Group Company and its affiliates, are not considered related parties. Related parties refer to enterprises over which Sinopec Group Company is able to exercise significant influence.

The majority of the Group's business activities are conducted with state-owned enterprises. Furthermore, the PRC government itself represents a significant customer of the Group both directly through its numerous authorities and indirectly through its numerous affiliates and other organizations. Sales of certain products to PRC government authorities and affiliates and other state-owned enterprises may be at regulated prices, which differ from market prices. The Group considers that these sales are activities in the ordinary course of business in the PRC and has not disclosed such sales as related party transactions.

(All amounts in millions of Renminbi, except share data)

The principal related party transactions with Sinopec Group Company, which were carried out in the ordinary course of business, are as follows:

		Years ended December 31,		
	Note	**1999**	**2000**	**2001**
		RMB	**RMB**	**RMB**
Sales of goods	(i)	24,763	43,167	37,261
Purchases	(ii)	15,417	17,479	19,264
Transportation and storage	(iii)	1,990	1,700	1,471
Exploration and development services	(iv)	6,900	9,050	10,250
Production related services	(v)	12,110	6,604	6,116
Ancillary and social services	(vi)	6,617	2,610	2,000
Operating lease charges	(vii)	268	2,377	2,489
Agency commission income	(viii)	___	11	7
Intellectual property licence fee paid	(ix)	___	8	10
Interest received	(x)	175	60	153
Interest paid	(xi)	502	578	534
Net deposits placed with related parties	(xii)	1,113	4,090	528
Net loans obtained from/(repaid to) related parties	(xiii)	330	34,657	(5,034)

The amounts set out in the table above in respect of the year ended December 31, 1999 represent the historical costs incurred by the related parties in carrying out such transactions. The corresponding amounts for the years ended December 31, 2000 and 2001 represent the relevant costs to the Group as determined by the corresponding contracts with the related parties.

As of December 31, 2000 and 2001, guarantees given to banks by the Group in respect of banking facilities to Sinopec Group Company and its affiliates amounted to RMB 55 and nil, respectively.

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 agreements governing such transaction, and this has been confirmed by the independent non-executive directors.

Notes:

(i) Sales of goods represent the sale of crude oil, intermediate chemical products and petroleum products.

(ii) Purchases represent the purchase of material and utility supplies directly related to the Group's operations such as the procurement of raw and ancillary materials and related services, supply of water, electricity and gas.

(iii) Transportation and storage represent the cost for the use of railway, road and marine transportation services, pipelines, loading, unloading and depots.

(iv) Exploration and development services comprise direct costs incurred in the exploration of crude oil such as geophysical, drilling, well testing and well measurement services.

(v) Production related services represent ancillary services rendered in relation to the Group's operations such as equipment repair and general maintenance, insurance premium, technical research, communications, fire fighting, security, product quality testing and analysis, information technology, design and engineering, construction which includes the construction of oilfield ground facilities, refineries and chemical plants, manufacture of replacement parts and machinery, installation, project management and environmental protection.

(vi) Ancillary and social services represent expenditures for social welfare and support services such as educational facilities, media communication services, sanitation, accommodation, canteens, property maintenance and management services.

(vii) Operating lease charges represent the rental paid to Sinopec Group Company for operating leases in respect of land and buildings.

(viii) Agency commission income represents commission earned for acting as an agent in respect of sales of products of certain entities owned by Sinopec Group Company.

(ix) Intellectual property licence fee represents reimbursement paid to Sinopec Group Company for fees required to maintain the validity of certain licences, for trademarks, patents, technology and computer software.

(x) Interest received represents interest received from deposits placed with related companies. The applicable interest rate is determined in accordance with the prevailing saving deposit rate. The balances of deposits as of December 31, 2000 and 2001 were RMB 6,601 and RMB 7,129, respectively.

(xi) Interest paid represents interest charges on the loans and advances obtained from Sinopec Group Company and Sinopec Finance Company Limited, a finance company controlled by Sinopec Group Company.

(xii) Deposits were placed with/withdrawn from Sinopec Finance Company Limited.

(xiii) The Group obtained/repaid loans and advances from/to Sinopec Group Company and Sinopec Finance Company Limited.

In connection with the Reorganization, the Company and Sinopec Group Company entered into a number of agreements under which 1) Sinopec Group Company will provide goods and products and a range of ancillary, social and supporting services to the Group and 2) the Group will sell certain goods to Sinopec Group Company. These agreements impacted the results of operations of the Group on a prospective basis. The terms of these agreements are summarized as follows:

(a) The Company has entered into a three year non-exclusive Agreement for Mutual Provision of Products and Ancillary Services ("Mutual Provision Agreement") with Sinopec Group Company effective from January 1, 2000 in which Sinopec Group Company has agreed to provide the Group with certain ancillary production services, construction services, information advisory services, supply services and other services and products. While each of Sinopec Group Company and the Company is permitted to terminate the Mutual Provision Agreement upon at least six months notice, Sinopec Group Company has agreed not to terminate the agreement if the Group is unable to obtain comparable services from a third party. The pricing policy for these services and products provided by Sinopec Group Company to the Group is as follows:

- the government-prescribed price;
- where there is no government-prescribed price, the government-guidance price;
- where there is neither a government-prescribed price nor a government-guidance price, the market price; or
- where none of the above is applicable, the price to be agreed between the parties, which shall be based on a reasonable cost incurred in providing such services plus a profit margin not exceeding 6%.

(b) The Company has entered into a three year non-exclusive Agreement for Provision of Cultural and Educational, Health Care and Community Services with Sinopec Group Company effective from January 1, 2000 in which Sinopec Group Company has agreed to provide the Group with certain cultural, educational, health care and community services on the same pricing terms and termination conditions as agreed to in the above Mutual Provision Agreement.

(c) The Company has entered into lease agreements with Sinopec Group Company effective from January 1, 2000 to lease certain land and buildings for terms the shorter of the period of the existing land use rights and 50 years for land and 20 years for buildings at a rental of approximately RMB 2,007 and RMB 482, respectively, per annum. The Company and Sinopec Group Company can renegotiate the rental amount every three years for land and every year for buildings, such amount not to exceed the market price as determined by an independent third party. The Group has the option to terminate these leases upon six months notice to Sinopec Group Company.

(d) The Company has entered into agreements with Sinopec Group Company effective from January 1, 2000 under which the Group has been granted the right to use certain trademarks, patents, technology and computer software developed by Sinopec Group Company for a term of ten years. The Group will reimburse Sinopec Group Company for fees required to maintain the validity of these licenses.

(e) The Company has entered into agency agreements for a period of three years effective from January 1, 2000 with certain entities owned by Sinopec Group Company under which the Group acts as a sole agent in respect of the sale of all the products of these entities. In exchange for the Group's sales agency services, Sinopec Group Company has agreed to pay the Group a commission of between 0.2% and 1.0% of actual sales receipts depending on the products and to reimburse the Group for reasonable costs incurred in the capacity as its sales agent.

(f) The Company has entered into a service stations franchise agreement with Sinopec Group Company effective from January 1, 2000 for a term of 10 years under which its service stations and retail stores would exclusively sell the refined products supplied by the Group.

28. EMPLOYEE BENEFITS PLAN

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organized by municipal and provincial governments for its staff. The Group is required to make contributions to the retirement plans at rates ranging from 16.0% to 30.0% of the salaries, bonuses and certain allowances of its staff. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at his retirement date. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. The Group's contributions for the years ended December 31, 1999, 2000 and 2001 were RMB 1,332, RMB 1,387 and RMB 1,358, respectively.

29. SEGMENTAL REPORTING

The Group has five operating segments as follows:

(i) Exploration and production, which explores and develops oil fields, produces crude oil and natural gas and sells such products to the refining segment of the Group and external customers.

(ii) Refining, which processes and purifies crude oil, which is sourced from the exploration and production segment of the Group and external suppliers, and manufactures and sells petroleum products to the chemicals and marketing and distribution segments of the Group and external customers.

(iii) Marketing and distribution, which owns and operates oil depots and service stations in the PRC, and distributes and sells refined petroleum products (mainly gasoline and diesel) in the PRC through wholesale and retail sales networks.

(iv) Chemicals, which manufactures and sells chemical products, derivative chemical products and other chemical products mainly to external customers.

(v) Corporate and others, which largely comprise the trading activities of the import and export companies of the Group and research and development undertaken by other subsidiaries.

The segments were determined primarily because the Group manages its exploration and production; refining; marketing and distribution; chemicals; and corporate and others businesses separately. The reportable segments are each managed separately because they manufacture and/or distribute distinct products with different production processes and due to their distinct operating and gross margin characteristics. In view of the fact that the Company and its subsidiaries operate mainly in the PRC, no geographical segment information is presented.

The Group evaluates the performance and allocates resources to its operating segments on an operating income basis, without considering the effects of finance costs or investment income. The accounting policies of the Group's segments are the same as those described in the Principal Accounting Policies (see Note 2). Corporate administrative costs and assets are not allocated to the operating segments; instead, operating segments are billed for direct corporate services. Inter-segment transfer pricing is based on cost plus an appropriate margin, as specified by the Group's policy. Beginning January 1, 2000, sales of the exploration and production segment to the refining segment are based on market prices.

(All amounts in millions of Renminbi, except share data)

Reportable information on the Group's business segments is as follows:

	Years ended December 31,		
	1999	2000	2001
	RMB	RMB	RMB
Sale of goods			
Exploration and production			
External sales	7,595	12,254	11,095
Inter-segment sales	24,728	46,213	43,332
	32,323	58,467	54,427
Refining			
External sales	50,441	67,872	49,497
Inter-segment sales	87,086	162,153	156,782
	137,527	230,025	206,279
Marketing and distribution			
External sales	120,255	174,645	180,610
Inter-segment sales	53	652	2,460
	120,308	175,297	183,070
Chemicals			
External sales	60,064	56,224	48,945
Inter-segment sales	2,153	3,443	5,626
	62,217	59,667	54,571
Corporate and others			
External sales	726	14,345	14,200
Inter-segment sales	354	11,527	8,875
	1,080	25,872	23,075
Elimination of inter-segment sales	(114,374)	(223,988)	(217,075)
Consolidated sale of goods	239,081	325,340	304,347
Other operating revenues			
Exploration and production	580	1,441	6,168
Refining	1,100	3,070	2,761
Marketing and distribution	445	326	201
Chemicals	449	1,273	4,361
Corporate and others	16	126	633
Consolidated other operating revenues	2,590	6,236	14,124
Consolidated operating revenues	241,671	331,576	318,471

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts in millions of Renminbi, except share data)

Result

	Years ended December 31,		
	1999	2000	2001
	RMB	RMB	RMB
Operating income by segment			
- Exploration and production	4,251	25,411	23,185
- Refining	6,065	1,394	2,106
- Marketing and distribution	2,550	6,358	2,443
- Chemicals	3,677	2,437	(758)
- Corporate and others	(831)	(89)	324
Total operating income	15,712	35,511	27,300
Income/(loss) of investments accounted for under the equity method			
- Exploration and production	126	229	258
- Refining	14	33	10
- Marketing and distribution	36	60	71
- Chemicals	(42)	(64)	(23)
- Corporate and others	84	12	4
Aggregate income of investments accounted for under the equity method	218	270	320
Finance costs			
Interest expense	(10,132)	(6,663)	(4,706)
Interest income	1,258	861	1,183
Foreign exchange losses	(1,502)	(85)	(222)
Foreign exchange gains	94	951	593
Net finance costs	(10,282)	(4,936)	(3,152)
Gains from issuance of shares by subsidiaries	607	—	—
Investment income	596	191	199
Income before income tax and minority interests	6,851	31,036	24,667
Income tax	(351)	(9,638)	(8,029)
Income before minority interests	6,500	21,398	16,638
Minority interests	(1,577)	(1,814)	(613)
Net income	4,923	19,584	16,025

Assets and liabilities dedicated to a particular segment's operations are included in that segment's total assets and liabilities. Assets which benefit more than one segment or are considered to be corporate assets are not allocated. "Unallocated assets" consists primarily of cash and cash equivalents, time deposits with financial institutions, investments and deferred tax assets. "Unallocated liabilities" consists primarily of short-term and long-term debts, loans from Sinopec Group Company and its affiliates, income tax payable, deferred tax liabilities and other liabilities.

Investments in and earnings from associates are included in the segments in which the associates operate. Information on equity affiliates is included in Note 18. Additions to long-lived assets by operating segment are included in Notes 15 and 16.

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts in millions of Renminbi, except share data)

	December 31,		
	1999	**2000**	**2001**
	RMB	**RMB**	**RMB**
Assets			
Segment assets			
- Exploration and production	57,262	68,073	80,063
- Refining	79,450	88,854	88,488
- Marketing and distribution	26,064	61,497	72,014
- Chemicals	79,390	76,455	78,277
- Corporate and others	10,369	11,937	13,506
Total segment assets	252,535	306,816	332,348
Investments in associates and jointly controlled entities accounted for under the equity method			
- Exploration and production	483	900	1,032
- Refining	79	51	120
- Marketing and distribution	725	1,090	1,168
- Chemicals	—	226	1,691
- Corporate and others	4	151	1,161
Aggregate investments in associates and jointly controlled entities accounted for under the equity method	1,291	2,418	5,172
Unallocated assets	29,418	45,508	29,189
Total assets	283,244	354,742	366,709
Liabilities			
Segment liabilities			
- Exploration and production	9,299	13,134	13,419
- Refining	14,915	26,022	23,985
- Marketing and distribution	6,406	11,105	18,700
- Chemicals	8,714	10,351	8,831
- Corporate and others	3,786	3,143	7,760
Total segment liabilities	43,120	63,755	72,695
Unallocated liabilities	128,230	134,623	122,804
Total liabilities	171,350	198,378	195,499

(All amounts in millions of Renminbi, except share data)

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

	Years ended December 31,		
	1999	2000	2001
	RMB	RMB	RMB
Capital expenditure			
Exploration and production	10,531	14,813	20,276
Refining	6,942	5,511	8,992
Marketing and distribution	3,176	16,080	17,256
Chemicals	12,919	6,205	11,947
Corporate and others	1,092	251	358
	34,660	42,860	58,829
Depreciation, depletion and amortization			
Exploration and production	5,572	6,643	8,081
Refining	4,246	5,916	5,901
Marketing and distribution	1,122	1,160	1,661
Chemicals	7,404	6,986	6,686
Corporate and others	87	76	101
	18,431	20,781	22,430
Impairment losses on long-lived assets			
Exploration and production	824	92	—
Refining	296	95	—
Marketing and distribution	53	—	—
Chemicals	33	—	—
	1,206	187	—
Reversal of impairment losses, net of depreciation effect			
Exploration and production	593	936	—

(All amounts in millions of Renminbi, except share data)

30. PRINCIPAL SUBSIDIARIES

Details of the Group's principal subsidiaries are as follows:

Name of company	Particulars of issued capital and debt securities	Type of legal entity	Direct attributable equity interest	Principal activities
			%	
Sinopec Beijing Yanhua Petrochemical Company Limited	RMB 3,374	Limited company	70.01	Manufacturing of chemical products
Sinopec Sales Company Limited	RMB 420	Limited company	100.00	Marketing and distribution of refined petroleum products
Sinopec Shengli Oilfield Company Limited	RMB 29,000	Limited company	100.00	Exploration and production of crude oil and natural gas
Sinopec Fujian Petrochemical Company Limited (i)	RMB 1,000	Limited company	50.00	Manufacturing of plastics, intermediate petrochemical products and petroleum products
Sinopec Hubei Xinghua Company Limited	RMB 282	Limited company	57.58	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Maoming Refining and Chemical Company Limited	RMB 1,064 and RMB 1,500 convertible bonds at 2.5%	Limited company	98.79	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Qilu Petrochemical Company Limited	RMB 1,950	Limited company	82.05	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Shanghai Petrochemical Company Limited	RMB 7,200	Limited company	55.56	Manufacturing of synthetic fibres, resin and plastics, intermediate petrochemical products and petroleum products
Sinopec Shijiazhuang Refining-Chemical Company Limited	RMB 1,154	Limited company	79.73	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Kantons Holdings Limited	HK$104	Limited company	72.40	Trading of crude oil and petroleum products

(All amounts in millions of Renminbi, except share data)

Name of company	Particulars of issued capital and debt securities	Type of legal entity	Direct attributable equity interest	Principal activities
			%	
Sinopec Wuhan Petroleum Group Company Limited	RMB 147	Limited company	51.79	Marketing and distribution of refined petroleum products and manufacturing of intermediate petrochemical products
Sinopec Wuhan Phoenix Company Limited (i)	RMB 519	Limited company	40.72	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Yangzi Petrochemical Company Limited	RMB 2,330	Limited company	84.98	Manufacturing of petrochemical products and petroleum products
Sinopec Yizheng Chemical Fibre Company Limited (i)	RMB 4,000	Limited company	42.00	Production and sale of polyester chips and polyester fibres
Sinopec Zhenhai Refining and Chemical Company Limited	RMB 2,524	Limited company	71.32	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Zhongyuan Petroleum Company Limited	RMB 680	Limited company	75.00	Exploration and production of crude oil and natural gas

Except for Sinopec Kantons Holdings Limited, which is incorporated in Bermuda, all of the above principal subsidiaries are incorporated in the PRC.

(i) The Company consolidated the results of the entity because the Company controlled the board of this entity and had the power to govern its financial and operating policies.

31. SIGNIFICANT DIFFERENCES BETWEEN IAS AND US ACCOUNTING PRINCIPLES

The Group's accounting policies conform with IAS which differ in certain significant respects from accounting principles generally accepted in the United States of America ("US GAAP"). Differences which have a significant effect on net income and shareholders' equity are set out below.

(a) Foreign exchange gains and losses

In accordance with IAS, foreign exchange differences on funds borrowed for construction are capitalized as property, plant and equipment to the extent that they are regarded as an adjustment to interest costs during the construction period. Under US GAAP, all foreign exchange gains and losses on foreign currency debts are included in current earnings.

(b) Capitalization of property, plant and equipment

In years prior to those presented herein, certain adjustments arose between IAS and US GAAP with regard to the capitalization of interest and pre-production results under IAS, that were reversed and expensed under US GAAP. For the years presented herein, there were no adjustments related to the capitalization of interest and pre-production results. Accordingly, the US GAAP adjustments represent the amortization effect of such originating adjustments described above.

(c) Revaluation of property, plant and equipment

As required by the relevant PRC regulations with respect to the Reorganization, the property, plant and equipment of the Group were revalued as of September 30, 1999. In addition, the property, plant and equipment of Sinopec National Star were revalued at December 31, 2000 in connection with the Acquisition. Under IAS, such revaluation result in an increase in shareholders' equity with respect to the increase in carrying amount of certain property, plant and equipment above their historical bases.

Under US GAAP, property, plant and equipment are stated at their historical cost less accumulated depreciation. However, as a result of the tax deductibility of the revaluation surplus, a deferred tax asset related to the reversal of the revaluation surplus is created under US GAAP with a corresponding increase in shareholders' equity.

In addition, under IAS, on disposal of a revalued asset, the related revaluation surplus is transferred from the revaluation reserve to retained earnings. Under US GAAP, the gain and loss on disposal of an asset is determined with reference to the asset's historical carrying amount and included in current earnings.

(d) Impairment of long-lived assets

Under IAS, impairment charges are recognized when a long-lived asset's carrying amount exceeds the higher of an asset's net selling price and value in use, which incorporates discounting the asset's estimated future cash flows.

Under US GAAP, determination of the recoverability of a long-lived asset is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. If the sum of the expected future cash flows is less than the carrying amount of the asset, an impairment loss is recognized. Measurement of an impairment loss for a long-lived asset is based on the fair value of the asset.

In addition, under IAS, a subsequent increase in the recoverable amount of an asset is reversed to the consolidated statements of income to the extent that an impairment loss on the same asset was previously recognized as an expense when the circumstances and events that led to the write-down or write-off cease to exist. The reversal is reduced by the amount that would have been recognized as depreciation had the write-off not occurred. Under US GAAP, an impairment loss establishes a new cost basis for the impaired asset and the new cost basis should not be adjusted subsequently other than for further impairment losses.

Accordingly, the US GAAP adjustments represent the effect of reversing certain impairment charges on long-lived assets recognized in 1999 and the recovery of previous impairment charges recorded in 1999 and 2000 under IAS. Under US GAAP, certain impairment charges recorded under IAS would not have been recognized in 1999 as the estimated undiscounted future cash flows from the use of the assets exceeded the carrying amounts of the assets.

(All amounts in millions of Renminbi, except share data)

(e) Employee reduction expenses

As described in Note 5, certain employees of the Group were transferred to Sinopec Group Company. During the year ended December 31, 2001, Sinopec Group Company paid RMB 2,885 to employees that were transferred to Sinopec Group Company and were subsequently terminated. Under IAS, the payment made to these employees by Sinopec Group Company is not recorded in current earnings. Under US GAAP, with reference to Interpretation No. 1 to Accounting Principles Board Opinion ("APB") No. 25, such payment made by Sinopec Group Company is charged to current earnings with a corresponding increase in shareholders' equity.

(f) Capitalized interest on investments in associates

Under IAS, investment accounted for by the equity method is not considered a qualifying asset for which interest is capitalized. Under US GAAP, an investment accounted for by the equity method while the investee has activities in progress necessary to commence its planned principal operations, provided that the investee's activities include the use of funds to acquire qualifying assets for its operations, is a qualifying asset for which interest is capitalized.

(g) Companies included in consolidation

Under IAS, the Group consolidates less than majority owned entities in which the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. However, US GAAP requires that any entity of which the Group owns 20% to 50% of total outstanding voting stock not be consolidated, but rather be accounted for under the equity method. Accordingly, Sinopec Fujian Petrochemical Company Limited, Sinopec Wuhan Phoenix Company Limited, and Sinopec Yizheng Chemical Fibre Company Limited of which the Group owns 50%, 40.72%, and 42%, respectively of the outstanding voting stock, are excluded from consolidation under US GAAP and accounted for under the equity method. This exclusion does not affect the net income or shareholders' equity reconciliations between IAS and US GAAP. Presented below is summarized financial information of Sinopec Fujian Petrochemical Company Limited, Sinopec Wuhan Phoenix Company Limited, and Sinopec Yizheng Chemical Fibre Company Limited for the years ended December 31, 1999, 2000 and 2001.

	Years ended December 31,		
	1999	2000	2001
	RMB	RMB	RMB
Revenues	11,404	17,666	15,809
Income before income tax	1,326	1,233	531
Net income	1,079	1,029	329

	December 31,		
	1999	2000	2001
	RMB	RMB	RMB
Current assets	4,406	5,584	4,556
Total assets	16,450	16,273	15,564
Current liabilities	5,505	3,998	3,267
Total liabilities	6,257	4,449	3,823
Total equity	10,193	11,824	11,741

(h) Related party transactions

Under IAS, transactions of state-controlled enterprises with other state-controlled enterprises are not required to be disclosed as related party transactions. Furthermore, government departments and agencies are deemed not to be related parties to the extent that such dealings are in the normal course of business. Therefore, related party transactions as disclosed in Note 27 only refers to transactions with enterprises over which Sinopec Group Company is able to exercise significant influence.

Under US GAAP, there are no similar exemptions. Although the majority of the Group's activities are with PRC government authorities and affiliates and other PRC state-owned enterprises, the Group believes that it has provided meaningful disclosure of related party transactions in Note 27.

(i) Recently issued accounting standards

SFAS Nos. 141 and 142

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Intangible Assets". SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS No. 141 also specifies the types of acquired intangible assets that are required to be recognized and reported separately from goodwill and those acquired intangible assets that are required to be included in goodwill. SFAS No. 142 will require that goodwill no longer be amortized, but instead tested for impairment at least annually. SFAS No. 142 will also require recognized intangible assets be amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Any recognized intangible asset determined to have an indefinite useful life will not be amortized, but instead tested for impairment in accordance with the Standard until its life is determined to no longer be indefinite.

The provisions of SFAS Nos. 141 and 142 shall be applied for fiscal years beginning after December 15, 2001, to all goodwill and other intangible assets recognized in an entity's statement of financial position at the beginning of that fiscal year, regardless of when those previously recognized assets were initially recognized, with the exception of the immediate requirement to use the purchase method of accounting for all future business combinations completed after June 30, 2001. However, any goodwill and any intangible asset determined to have an indefinite useful life that is acquired in a business combination completed after June 30, 2001 will not be amortized and instead reviewed for impairment in accordance with APB No. 17 or SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", until the date SFAS No. 142 is applied in its entirety.

SFAS No. 141 will require the Group to evaluate its existing intangible assets and goodwill and to make any necessary reclassifications in order to conform to the new separation requirements at the date of adoption. Upon adoption of SFAS No. 142, the Group will be required to reassess the useful lives and residual values of all intangible assets and make any necessary amortization period adjustments.

In connection with the transitional impairment evaluation, SFAS No. 142 will require the Group to perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. The Company believes the adoption of these Statements will not have a material impact on the consolidated financial statements.

SFAS No. 143

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 143 requires the Group to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. The Group also records a corresponding asset which is depreciated over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The Group is required to adopt SFAS No. 143 on January 1, 2003. The Group has not determined the potential effects on the Group's consolidated financial statements of adopting this Statement.

SFAS No. 144

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which supersedes both SFAS No. 121, and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" (Opinion 30), for the disposal of a segment of a business (as previously defined in that Opinion). SFAS No. 144 retains the fundamental provisions in SFAS No. 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with SFAS No. 121. For example, SFAS No. 144 provides guidance on the accounting for a long-lived asset that will be disposed of other than by sale. SFAS No. 144 retains the basic provisions of Opinion 30 on how to present discontinued operations in the income statement but broadens that presentation to include a component of an entity (rather than a segment of a business). Unlike SFAS No. 121, an impairment assessment under SFAS No. 141 will never result in a write-down of goodwill. Rather, goodwill is evaluated for impairment under SFAS No. 142, "Goodwill and Other Intangible Assets".

The Group is required to adopt SFAS No. 144 no later than the fiscal year beginning after December 15, 2001. Management does not expect the adoption of SFAS No. 144 for long-lived assets held for use to have a material impact on the Group's consolidated financial statements because the impairment assessment under SFAS No. 144 is largely unchanged from SFAS No. 121. The provisions of the Statement for assets held for sale or other disposal generally are required to be applied prospectively after the adoption date to newly initiated disposal activities. Therefore, management cannot determine the potential effects that adoption of SFAS No. 144 will have on the Group's consolidated financial statements.

SFAS No. 133

In June 1998, FASB issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 133 requires companies to adopt its provisions for all fiscal quarters of all fiscal years beginning after June 15, 2000, as deferred by SFAS No. 137. Earlier application of all of the provisions of SFAS No. 133 is permitted, but the provisions cannot be applied retroactively to financial statements of prior periods. SFAS No. 133, as amended by SFAS No. 138, standardizes the accounting for derivative instruments by requiring that an entity recognize those items as assets or liabilities in the balance sheet and measure them at fair value. The adoption of SFAS No. 133 on January 1, 2001 did not have a material impact on the Group's consolidated financial statements. The Group does not hold nor has it entered into any derivative contracts for the periods presented.

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(All amounts in millions of Renminbi, except share data)

The effect on net income of significant differences between IAS and US GAAP for the years ended December 31, 1999, 2000 and 2001 is as follows:

	Reference in Note above	Years ended December 31,			
		1999	2000	2001	2001
		RMB	RMB	RMB	US$
Net income under IAS		4,923	19,584	16,025	1,936
US GAAP adjustments:					
Foreign exchange gains and losses	(a)	(206)	76	76	9
Capitalization of property, plant and equipment	(b)	12	12	12	1
Depreciation on revalued property, plant and equipment	(c)	999	3,994	4,196	507
Disposal of property, plant and equipment	(c)	—	199	232	28
Impairment of long-lived assets, net of depreciation effect	(d)	495	—	—	—
Reversal of impairment of long-lived assets, net of depreciation effect	(d)	(593)	(808)	59	7
Employee reduction expenses	(e)	—	—	(2,885)	(349)
Capitalized interest on investment in associates	(f)	—	—	70	9
Deferred tax effects of US GAAP adjustments		(204)	(1,046)	(470)	(56)
Net income under US GAAP		5,426	22,011	17,315	2,092
Basic earnings per share under US GAAP		0.08	0.31	0.20	0.02
Basic earnings per ADS under US GAAP*		7.89	30.60	20.33	2.46

* Basic earnings per ADS is calculated on the basis that one ADS is equivalent to 100 shares.

The effect on shareholders' equity of significant differences between IAS and US GAAP as of December 31, 2000 and 2001 is as follows:

	Reference in Note above	December 31,		
		2000	2001	2001
		RMB	RMB	US$
Shareholders' equity under IAS		133,154	147,669	17,842
US GAAP adjustments:				
Foreign exchange gains and losses	(a)	(580)	(504)	(61)
Capitalization of property, plant and equipment	(b)	(48)	(36)	(4)
Revaluation of property, plant and equipment	(c)	(28,265)	(23,837)	(2,880)
Deferred tax adjustments on revaluations	(c)	8,671	7,309	883
Reversal of impairment of long-lived assets	(d)	(726)	(667)	(81)
Capitalized interest on investment in associates	(f)	—	70	9
Deferred tax effects of US GAAP adjustments		427	367	44
Shareholders' equity under US GAAP		112,633	130,371	15,752

(All amounts in millions of Renminbi, except share data)

32. FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial assets of the Group include cash and cash equivalents, time deposits, investments, trade accounts receivable, bills receivable, amount due from Sinopec Group Company and its affiliates, loans to third parties, due from associates and jointly controlled entities, and other receivables. Financial liabilities of the Group include bank and other loans, loans from Sinopec Group Company and its affiliates, trade accounts payable, bills payable, amount due to Sinopec Group Company and its affiliates, receipts in advance, and advances from third parties. The Group does not hold or issue financial instruments for trading purposes. The Group had no positions in derivative contracts as of December 31, 2000 and 2001.

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 32. Fair value estimates, methods and assumptions, set forth below for the Group's financial instruments, are made solely to comply with the requirements of IAS 32 and should be read in conjunction with the Group's consolidated financial statements and related notes. The estimated fair value amounts have been determined by the Group using market information and valuation methodologies considered appropriate. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The Group has not developed an internal valuation model necessary to make the estimate of the fair value of loans from Sinopec Group Company and its affiliates as it is not considered practicable to estimate their fair value because the cost of obtaining discount and borrowing rates for comparable borrowings would be excessive based on the Reorganization of the Group, its existing capital structure, and the terms of the borrowings.

The following table presents the carrying amounts and fair values of the Group's long-term indebtedness other than loans from Sinopec Group Company and its affiliates as of December 31, 2000 and 2001:

	December 31,	
	2000	2001
	RMB	RMB
Carrying amount	42,167	41,758
Fair value	42,585	41,996

The fair values of long-term indebtedness are estimated by discounting future cash flows thereon using current market interest rates offered to the Group for debt with substantially the same characteristics and maturities.

Investments are unquoted equity interests and there are no quoted market prices for such interests in the PRC. Accordingly, a reasonable estimate of fair value could not be made without incurring excessive costs.

The fair values of all other financial instruments approximate their carrying amounts due to the nature or short-term maturity of these instruments.

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES (UNAUDITED)
(All currency amounts in millions of Renminbi)

In accordance with the United States Statement of Financial Accounting Standards No. 69, "Disclosures about Oil and Gas Producing Activities" ("SFAS No. 69"), this section provides supplemental information on oil and gas exploration and producing activities of the Group as of December 31, 1999, 2000 and 2001, and for the years then ended in the following six separate tables. Tables I through III provide historical cost information under US GAAP pertaining to capitalized costs; costs incurred in exploration and development; and results of operations. Tables IV through VI present information on the Group's estimated net proved reserve quantities; standardized measure of discounted future net cash flows; and changes in the standardized measure of discounted future net cash flows.

Table I: Capitalized costs related to oil and gas producing activities

	Years ended December 31,		
	1999	2000	2001
	RMB	RMB	RMB
Property cost	—	—	—
Wells and related equipment and facilities	82,778	94,251	109,977
Supporting equipment and facilities	7,415	7,255	11,047
Uncompleted wells, equipment and facilities	2,287	2,799	3,163
Total capitalized costs	92,480	104,305	124,187
Accumulated depreciation, depletion, amortization and impairment allowances	(45,687)	(49,401)	(56,069)
Net capitalized costs	46,793	54,904	68,118

Table II: Cost incurred in exploration and development

	Years ended December 31,		
	1999	2000	2001
	RMB	RMB	RMB
Exploration	3,975	4,329	5,666
Development	9,510	13,987	18,385
Total cost incurred	13,485	18,316	24,051

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES (UNAUDITED) — (Continued)
(All currency amounts in millions of Renminbi)

Table III: Results of operations for oil and gas producing activities

	Years ended December 31,		
	1999	**2000**	**2001**
	RMB	**RMB**	**RMB**
Revenues			
Sales	7,594	10,774	8,780
Transfers	24,728	46,213	43,269
	32,322	56,987	52,049
Production costs excluding taxes	(14,117)	(14,651)	(15,084)
Exploration expenses	(2,932)	(3,030)	(3,775)
Depreciation, depletion, amortization and impairment provisions	(5,787)	(5,745)	(7,126)
Taxes other than income tax	(692)	(971)	(875)
Income before income tax	8,794	32,590	25,189
Income tax expense	(1,355)	(10,245)	(8,312)
Results of operations from producing activities	7,439	22,345	16,877

The results of operations for producing activities for the years ended December 31, 1999, 2000 and 2001 are shown above. Revenues include sales to unaffiliated parties and transfers (essentially at third-party sales prices) to other segments of the Group. All revenues reported in this table do not include royalties to others as there were none. In accordance with SFAS No. 69, income taxes are based on statutory tax rates, reflecting allowable deductions and tax credits. General corporate overhead and interest income and expense are excluded from the results of operations.

Table IV: Reserve quantities information

The Group's estimated net proved underground oil and gas reserves and changes thereto for the years ended December 31, 1999, 2000 and 2001 are shown in the following table.

Proved oil and gas reserves are the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change as additional information becomes available.

Proved reserves do not include additional quantities recoverable beyond the term of the relevant production licenses, or that may result from extensions of currently proved areas, or from application of improved recovery processes not yet tested and determined to be economical. The Group's estimated proved reserves do not include any quantities that are recoverable through application of tertiary recovery techniques.

Proved developed reserves are the quantities expected to be recovered through existing wells with existing equipment and operating methods.

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES (UNAUDITED) — (Continued)
(All currency amounts in millions of Renminbi)

"Net" reserves exclude royalties and interests owned by others and reflect contractual arrangements in effect at the time of the estimate.

	Years ended December 31,		
	1999	**2000**	**2001**
Proved developed and undeveloped reserves (oil) (million barrels)			
Beginning of year	2,785	3,028	3,168
Revisions of previous estimates	129	72	(23)
Improved recovery	129	140	125
Extensions and discoveries	235	191	214
Production	(250)	(263)	(269)
End of year	3,028	3,168	3,215
Proved developed reserves			
Beginning of year	2,375	2,418	2,490
End of year	2,418	2,490	2,444
Proved developed and undeveloped reserves (gas) (billion cubic feet)			
Beginning of year	1,491	2,031	3,342
Revisions of previous estimates	229	164	(429)
Extensions and discoveries	437	1,281	738
Production	(126)	(134)	(163)
End of year	2,031	3,342	3,488
Proved developed reserves			
Beginning of year	762	1,052	1,164
End of year	1,052	1,164	1,183

Table V: Standardized measure of discounted future net cash flows

The standardized measure of discounted future net cash flows, related to the above proved oil and gas reserves, is calculated in accordance with the requirements of SFAS No. 69. Estimated future cash inflows from production are computed by applying year-end prices for oil and gas to year-end quantities of estimated net proved reserves. Future price changes are limited to those provided by contractual arrangements in existence at the end of each reporting year. Future development and production costs are those estimated future expenditures necessary to develop and produce year-end estimated proved reserves based on year-end cost indices, assuming continuation of year-end economic conditions. Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates to estimated future pre-tax net cash flows, less the tax basis of related assets. Discounted future net cash flows are calculated using 10% midperiod discount factors. This discounting requires a year-by-year estimate of when the future expenditure will be incurred and when the reserves will be produced.

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES (UNAUDITED) — (Continued)
(All currency amounts in millions of Renminbi)

The information provided does not represent management's estimate of the Group's expected future cash flows or value of proved oil and gas reserves. Estimates of proved reserve quantities are imprecise and change over time as new information becomes available. Moreover, probable and possible reserves, which may become proved in the future, are excluded from the calculations. The arbitrary valuation prescribed under SFAS No. 69 requires assumptions as to the timing and amount of future development and production costs. The calculations are made for the years ended December 31, 1999, 2000 and 2001 and should not be relied upon as an indication of the Group's future cash flows or value of its oil and gas reserves.

	Years ended December 31,		
	1999	**2000**	**2001**
	RMB	**RMB**	**RMB**
Future cash flows	427,861	842,489	534,433
Future production costs	(221,295)	(248,338)	(224,487)
Future development costs	(9,762)	(22,790)	(25,221)
Future income tax expenses	(58,275)	(171,622)	(74,698)
Undiscounted future net cash flows	138,529	399,739	210,027
10% annual discount for estimated timing of cash flows	(59,695)	(170,542)	(91,274)
Standardized measure of discounted future net cash flows	78,834	229,197	118,753

Table VI: Changes in the standardized measure of discounted future net cash flows

	Years ended December 31,		
	1999	**2000**	**2001**
	RMB	**RMB**	**RMB**
Sales and transfers of oil and gas produced, net of production costs	(19,774)	(19,420)	(52,294)
Net changes in prices and production costs	20,534	176,413	(162,554)
Net change due to extensions, discoveries and improved recoveries	5,118	41,475	22,859
Revisions of previous quantity estimates	6,335	6,287	(3,729)
Previously estimated development costs incurred during the period	2,804	4,113	7,349
Accretion of discount	5,998	7,149	19,259
Net change in income taxes	(6,003)	(65,128)	56,131
Others	3,839	(526)	2,535
Net change for the year	18,851	150,363	(110,444)

SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

China Petroleum & Chemical Corporation

By /s/ Zhang Honglin

Name: Zhang Honglin
Title: Company Secretary

Date: April 26, 2002

China Petroleum &
Chemical Corporation
(Sinopec Corp.)
A6 Huixindong Street
Chaoyang District
Beijing 100029
PRC

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