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This annual report includes "forward-looking statements". All statements, other than statements of historical facts, that address activities, events or developments that the Company expects or anticipates will or may occur in the future (including but not limited to projections, targets, estimates and business plans) are forward-looking statements. The Company's actual results or developments may differ materially from those indicated by these forward-looking statements as a result of various factors and uncertainties. The Company makes the forward-looking statements referred to herein as at 28 March, 2003 and undertakes no obligation to update these statements.

IMPORTANT: THE BOARD OF CHINA PETROLEUM & CHEMICAL CORPORATION ("SINOPEC CORP.") AND ITS DIRECTORS WARRANT THAT THERE ARE NO MATERIAL OMISSIONS FROM, OR MISREPRESENTATIONS OR MISLEADING STATEMENTS CONTAINED IN, THIS REPORT, AND SEVERALLY AND JOINTLY ACCEPT FULL RESPONSIBILITY FOR THE AUTHENTICITY, ACCURACY AND COMPLETENESS OF THE INFORMATION CONTAINED IN THIS REPORT. MR MOU SHULING, MR WANG YI, MR ZHANG ENZHAO, MR LIU GUOGUANG AND MR HO TSU KWOK CHARLES, DIRECTORS OF SINOPEC CORP., COULD NOT ATTEND THE 31ST MEETING OF THE FIRST SESSION OF THE BOARD FOR REASON OF OFFICIAL DUTIES, AND MR MOU SHULING AND MR ZHANG ENZHAO AUTHORISED MR CAO XIANGHONG AND MR WANG JIMING RESPECTIVELY TO VOTE ON THEIR BEHALF, AND MR WANG YI, MR LIU GUOGUANG AND MR HO TSU KWOK CHARLES AUTHORISED MR LI YIZHONG, CHAIRMAN OF THE BOARD, TO VOTE ON THEIR BEHALF, IN RESPECT OF THE RESOLUTIONS PUT FORWARD IN THE MEETING OF THE BOARD. MR LI YIZHONG, CHAIRMAN OF THE BOARD, MR WANG JIMING, PRESIDENT OF SINOPEC CORP., MR ZHANG JIAREN, VICE PRESIDENT & CHIEF FINANCIAL OFFICER OF SINOPEC CORP. AND MR LIU YUN, HEAD OF THE ACCOUNTING DIVISION OF SINOPEC CORP. HEREBY WARRANT THE AUTHENTICITY AND COMPLETENESS OF THE FINANCIAL STATEMENTS CONTAINED IN THIS ANNUAL REPORT.

COMPANY PROFILE

Sinopec Corp. is the first company in China listed in Hong Kong, New York, London and Shanghai, and is also an integrated energy and chemical company with upstream, midstream and downstream operations. The principal operations of Sinopec Corp. and its subsidiaries (the "Company") include :

- exploring for and developing, producing and trading petroleum and natural gas
- processing petroleum into refined oil products, producing refined oil products and trading, transporting, distributing and marketing refined oil products
- producing, distributing and trading petrochemical products

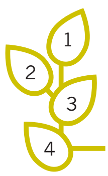
Based on the turnover in 2002, Sinopec Corp. is the largest listed company in China. The Company is also :

- one of the largest petroleum and petrochemical companies in China and in Asia
- one of the largest producers and distributors of gasoline, diesel, jet fuel and other major refined oil products in China and in Asia
- the second largest producer of petroleum and natural gas in China

The Company's competitive strengths are mainly reflected in :

- its leading market position in the production and sale of refined oil products
- its status as the largest petrochemical producer in China
- its strategic market position in China's highest economic growth areas
- its well-established, highly efficient and cost effective sales and distribution network
- its integrated operation structure with stronger resistance against industry cyclical risks
- its well-recognized brand and excellent reputation
- its status as a primary choice for partnership by multinational companies seeking investment in China
- its sound financial position, with the highest credit rating for PRC enterprises — BBB credit rating by Standard & Poor

The Company has been focusing on capturing profit growth and expanding opportunities, optimizing its capital allocation and investment activities, developing and effectively depolying technologies and human resources, promoting the efficient use of resources, seeking to improve its overall competitiveness and strengths and pursuing a higher return on capital employed and sustained development and thereby increasing shareholders' value and returns. In the year to come, the Company strives to achieve new breakthroughs in expanding resources and markets, reducing cost, improving efficiency and disciplining investments. The Company works towards the goal of becoming an integrated energy and petrochemical company with outstanding core businesses, quality assets, innovative technologies, professional management, prudent financial practice and a competitive company in the global market.



1 Chemicals
2 Marketing and Distribution
3 Refining
4 Exploration and Production

PRINCIPAL FINANCIAL DATA AND INDICATORS

1 FINANCIAL DATA AND OPERATING DATA PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING RULES AND REGULATIONS

(1) Summary of principal financial data and operating data of the Company for the year 2002

Profit before taxation and minority interests	:	RMB 22,012 million
Net profit	:	RMB 14,121 million
Net profit before non-operating profits/losses	:	RMB 14,999 million
Profit from principal operations	:	RMB 61,150 million
Profit from other operations	:	RMB 889 million
Operating profit	:	RMB 22,817 million
Investment income	:	RMB 505 million
Net non-operating income/expenses	:	RMB -1,310 million
Net cash flow from operating activities	:	RMB 60,069 million
Net decrease in cash and cash equivalents	:	RMB 3,324 million

Non-operating profits/losses include non-operating income of RMB333 million and non-operating expenses of RMB1,643 million, and an adjustment of RMB432 million of reduction in taxation for the above items.

(2) Principal financial data and indicators prepared in accordance with the PRC Accounting Rules and Regulations

		For the year ended 31 December		
	(Note)	**2002** **RMB millions**	2001 RMB millions	2000 RMB millions
Income from principal operations		324,184	304,347	322,932
Net profit		14,121	14,018	16,154
Earnings per share (RMB)				
Fully diluted	(i)	0.163	0.162	0.193
Weighted average	(ii)	0.163	0.165	0.227
Net cash-flow from operating activities per share (RMB)		0.693	0.688	0.411
Return on net assets (%)				
Fully diluted	(iii)	9.638	10.08	13.37
Weighted average	(iv)	9.723	10.61	16.29

	At 31 December		
	2002 **RMB millions**	2001 RMB millions	2000 RMB millions
Total assets	368,375	360,294	340,918
Shareholders' funds (excluding minority interests)	146,515	139,039	120,793
Net assets per share (RMB)	1.690	1.604	1.440
Adjusted net assets per share (RMB)	1.676	1.584	1.420

Notes:

(i) Fully diluted earnings per share = net profit for the year / total number of shares in issue at the end of the year

(ii) Weighted average earnings per share = net profit for the year / (number of shares at the beginning of the year + number of shares increased due to the transfer from reserves to capital or share dividend dispatched + (increase in number of shares during the year due to issuance of new shares or the capitalization of debt x number of months from the month following the increase of shares to the end of the year / number of months in the year) - (number of shares decreased due to share repurchases or reduction in share capital x number of months from the month following the decrease of shares to the end of the year / number of months for the year))

(iii) Fully diluted return on net assets basis = (net profit for the year / shareholders' equity at the end of the year) x 100%

(iv) Weighted average return on net assets basis = net profit for the year / ((shareholders' equity at the beginning of the year + net profit for the year / 2 + shareholders' funds increased due to issuance of new shares or the capitalization of debt during the year x number of months from the month following the increase of shareholders' funds to the end of the year / number of months in the year) - (shareholders' funds decreased due to share repurchases or cash dividends during the year x number of months from the month following the decrease of shareholders' funds to the end of the year / number of months in the year)) x 100%

(3) Appendix to income statement prepared in accordance with the PRC Accounting Rules and Regulations

	For the year ended 31 December 2002 Return on net assets		For the year ended 31 December 2001 Return on net assets	
	Fully diluted	**Weighted average**	Fully diluted	Weighted average
Profit from principal operations	41.74%	42.10%	40.53%	42.63%
Operation profit	15.57%	15.71%	17.15%	18.04%
Net profit	9.64%	9.72%	10.08%	10.61%
Net profit before non-operating profits/losses	10.24%	10.33%	11.40%	11.99%

	For the year ended 31 December 2002 Earnings per share		For the year ended 31 December 2001 Earnings per share	
	Fully diluted RMB	**Weighted average RMB**	Fully diluted RMB	Weighted average RMB
Profit from principal operations	0.705	0.705	0.650	0.662
Operation profit	0.263	0.263	0.275	0.280
Net profit	0.163	0.163	0.162	0.165
Net profit before non-operating profits/losses	0.173	0.173	0.183	0.186

(4) Changes of the shareholders' funds and the reasons for changes for the year

Unit: RMB millions

Items	Share capital	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Discretionary surplus reserve	Undistributed profits	Total shareholders' funds
Beginning of the year	86,702	36,297	3,017	3,017	0	10,006	139,039
Increase in the year	0	291	1,412	1,412	7,000	14,121	24,236
Decrease in the year	0	0	0	0	0	16,760	16,760
End of the year	86,702	36,588	4,429	4,429	7,000	7,367	146,515

The reasons for the changes are as follows:

i Capital reserve at the end of 2002 increased by RMB 0.291 billion to RMB 36.588 billion compared with the beginning of the year. The increase was mainly due to the fact that during the year ended 31 December 2002, Sinopec Corp. received subsidy on investments amounted to RMB 0.291 billion, pursuant to Guo Jing Mao Tou Zi [2002] No.847 "Notice on the State's Key Technology Reform on Project Fund Plan regarding the Third Batch of State Debt's Special Fund in 2002" issued by the Ministry of Finance;

ii Statutory surplus reserve at the end of 2002 increased by RMB 1.412 billion to RMB 4.429 billion compared with the beginning of the year. The increase was mainly due to the fact that Sinopec Corp. transferred 10% of the net profit for 2002 (RMB 14.121 billion) prepared in accordance with the PRC Accounting Rules and Regulations to statutory surplus reserve;

iii Statutory public welfare fund at the end of 2002 increased by RMB 1.412 billion to RMB 4.429 billion compared with the beginning of the year. The increase was mainly due to the fact that Sinopec Corp. transferred 10% of the net profit for 2002 (RMB 14.121 billion) prepared in accordance with the PRC Accounting Rules and Regulations to statutory public welfare fund;

iv Discretionary surplus reserve at the end of 2002 increased by RMB 7.000 billion to RMB 7.000 billion compared with the beginning of the year, which was due to the fact that Sinopec Corp. proposed to transfer RMB 7.000 billion from undistributed profits to discretionary surplus reserve;

v Undistributed profits at the end of 2002 decreased by RMB 2.639 billion to RMB 7.367 billion. The decrease was mainly due to the fact that Sinopec Corp. had realized a net profit of RMB 14.121 billion for 2002, but RMB 9.824 billion was used for the appropriation of statutory surplus reserve, statutory public welfare fund and discretionary surplus reserve, and RMB 6.963 billion was declared as interim dividend and final dividend for 2002; and

vi Total shareholders' funds at the end of 2002 increased by RMB 7.476 billion to RMB 146.515 billion, compared with the beginning of the year.

(5) Various provisions under the PRC Accounting Rules and Regulations

Unit: RMB millions

	Items	Beginning of the year	Provision for the year	Written back for the year	Written back of the year	End of the year
1	Allowance for doubtful accounts	4,030	1,112	(288)	(316)	4,538
	Of which: Allowance for doubtful accounts for accounts receivables	2,480	554	(160)	(208)	2,666
	Allowance for doubtful accounts for other receivables	1,550	558	(128)	(108)	1,872
2	Provision for impairment losses on short-term investments	—	—	—	—	—
3	Provision for diminution in value of inventories	602	172	(214)	(74)	486
4	Provision for impairment losses on long-term equity investments	181	8	(5)	—	184
5	Provision for impairment losses on fixed assets	391	—	—	—	391
6	Provision for impairment losses on intangible assets	—	—	—	—	—
7	Provision for impairment losses on construction in progress	—	—	—	—	—
8	Provision for entrusted loans	—	—	—	—	—

(6) Significant changes of items in the financial statements

Reasons for the changes of data during the reporting period where the fluctuation is more than 30%, and such item is 5% or more of the total assets at the balance sheet date or more than 10% of the total profit:

Items	At 31 December 2002 (RMB millions)	At 31 December 2001 (RMB millions)	Changes: Amount Increased/ (decreased) (RMB millions)	Changes: Percentage of increase/ (decrease) (%)	Analysis of changes
Bills receivable	4,684	3,542	1,142	32.2%	Mainly due to the increase in the usage of the bills of acceptance issued by banks for sales of goods and products.
Construction materials	1,403	774	629	81.3%	Since more construction projects will be commenced after the end of year 2002, construction materials were increased.
Receipts in advance	3,767	2,884	883	30.6%	Mainly due to the increase in the selling prices of products and the Company implemented tighter credit policy to request more prepayment amount of goods from customers.
Wages payable	1,447	1,020	427	41.9%	Mainly due to the Company implementing employees incentive plan during the year, wages were increased.
Accrued expenses	561	873	(312)	(35.7%)	The Company sped up settlement of expenses resulting in reduction of accrued expenses.

Items	At 31 December 2002 (RMB millions)	At 31 December 2001 (RMB millions)	Changes: Amount Increased/ (decreased) (RMB millions)	Changes: Percentage of increase/ (decrease) (%)	Analysis of changes
Income from principal operations	324,184	304,347	19,837	6.5%	Please refer to Management's Discussion and Analysis.
Cost of sales	251,182	236,135	15,047	6.4%	Please refer to Management's Discussion and Analysis.
Administrative expenses	17,253	14,369	2,884	20.1%	Please refer to Management's Discussion and Analysis.
Profit from other operations	889	1,535	(646)	(42.1%)	Mainly due to the decrease in income deriving from processing of raw materials.
Non-operating expenses	1,643	3,508	(1,865)	(53.2%)	Mainly due to the decrease of the employees reduction expenses.

2 FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

	For the year ended 31 December				
	2002 RMB millions	2001 RMB millions	2000 RMB millions	1999 RMB millions	1998 RMB millions
Turnover and other operating revenue	340,042	318,471	331,576	241,671	199,967
Operating profit	28,277	27,300	35,511	14,466	5,547
Profit / (loss) from ordinary activities before taxation	24,832	24,667	31,036	6,851	(2,060)
Profit / (loss) attributable to shareholders	16,080	16,025	19,584	4,923	(172)
Basic earnings per share (RMB)	0.19	0.19	0.27	0.07	(0.00)
Net profit per share (Based on total number of shares in issue at the year end) (RMB)	0.19	0.18	0.23	0.07	(0.00)
Returns on capital employed (%)	7.24	6.96	9.99	4.71	1.76
Return on net assets (%)	10.41	10.85	14.71	5.48	(0.23)
Net cash flow from operating activities per share (RMB)	0.622	0.638	0.348	0.376	0.326

	At 31 December				
	2002 RMB millions	2001 RMB millions	2000 RMB millions	1999 RMB millions	1998 RMB millions
Non-current assets	273,997	256,914	218,569	194,085	204,486
Net current (liabilities) / assets	(15,550)	(14,916)	11,020	(37,970)	(26,374)
Non-current liabilities	(80,042)	(70,788)	(73,225)	(44,221)	(87,999)
Minority interests	(23,920)	(23,541)	(23,210)	(22,016)	(16,053)
Net assets	154,485	147,669	133,154	89,878	74,060
Net assets per share (RMB)	1.782	1.703	1.587	1.306	1.076
Adjusted net assets per share (RMB)	1.768	1.683	1.578	1.297	1.068
Debt/Equity ratio* (%)	32.74	31.21	34.78	32.28	51.53

* Debt/Equity ratio= Long-term loans/(Shareholders' funds+Long-term loans) x 100%

3 MAJOR DIFFERENCES BETWEEN THE PRC ACCOUNTING RULES AND REGULATIONS AND IFRS ON NET INCOME FOR THE YEAR 2002 AND SHAREHOLDERS' FUNDS AT THE END OF THE REPORTING PERIOD

(1) Analysis Of The Effects Of Major Differences Between The PRC Accounting Rules And Rgulations And IFRS On Net Income:

	For the year ended 31 December	
	2002	2001
	RMB millions	RMB millions
Net profit under the PRC Accounting Rules and Regulations	14,121	14,018
Adjustments:		
Depreciation of oil and gas properties	2,311	2,429
Capitalisation of general borrowing costs	338	398
Acquisition of Sinopec National Star	117	117
Revaluation of land use rights	18	—
Effects of the above adjustments on taxation	(825)	(937)
Net profit under IFRS	16,080	16,025

(2) Analysis Of The Effects Of Major Differences Between The PRC Accounting Rules And Regulations And IFRS On Shareholders' Funds:

	At 31 December	
	2002	2001
	RMB millions	RMB millions
Shareholders' funds under the PRC Accounting Rules and Regulations	146,515	139,039
Adjustments:		
Depreciation of oil and gas properties	9,112	6,801
Capitalisation of general borrowing costs	736	398
Acquisition of Sinopec National Star	(2,929)	(3,046)
Revaluation of land use rights	(822)	—
Impairment losses on long-lived assets	(113)	(113)
Government grants	(291)	—
Dividends	5,202	6,936
Effects of the above adjustments on taxation	(2,925)	(2,346)
Shareholders' funds under IFRS	154,485	147,669

CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF PRINCIPAL SHAREHOLDERS

1 CHANGES IN THE SHARE CAPITAL OF SINOPEC CORP.

(Unit: 10,000 shares)

	Prior to changes	Increase / Decrease						After changes
		Placing	Bonus	Capitalization of surplus reserves	IPO	Others	Sub-total	
1. Shares not listed								
(i) Promoter shares	4,774,256.1							4,774,256.1
of which :								
State-owned shares	4,774,256.1							4,774,256.1
(ii) Public domestic shares not in circulation ("A Shares") (Note)	57,000.0					(57,000.0)	(57,000.0)	0
(iii) Others	1,937,939.0							1,937,939.0
Total number of shares not in circulation	6,769,195.1					(57,000.0)	(57,000.0)	6,712,195.1
2. Shares listed and in circulation								
(i) Publicly listed domestic shares ("A Shares")	223,000.0					57,000.0	57,000.0	280,000.0
(ii) Overseas listed foreign shares ("H shares")	1,678,048.8							1,678,048.8
Total number of shares listed and in circulation	1,901,048.8					57,000.0	57,000.0	1,958,048.8
3. Total number of shares	8,670,243.9							8,670,243.9

Note: 0.57 billion A shares are held by strategic investors with a lock-up period of eight months, and are listed on the Shanghai Stock Exchange on 8 April 2002.

2 ISSUANCE OF SHARES AND INFORMATION OF LISTING

(1) From 18 October to 19 October 2000, Siropec Corp. made a global issue of H shares (including the issuance of ADRs in the U.S. market, with each ADR representing 100 H shares), the total number of shares issued was 16.78 billion, with an issue price at HKD 1.61 per share, and the net proceeds from the issue were HKD 22.734 billion. Up to now, all the shares issued are in circulation outside the PRC.

(2) On 16 July 2001, Sinopec Corp. issued A shares in the PRC market. The number of shares issued was 2.8 billion, with an issue price of RMB 4.22 per share and the net proceeds from the issue were RMB 11.648 billion. Up to now, all the shares issued are in circulation in the PRC.

CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF PRINCIPAL SHAREHOLDERS (CONTINUED)

3 SHAREHOLDINGS OF PRINCIPAL SHAREHOLDERS

Number of shareholders: 522,550 (including 21,626 holders of H shares) (At 31 December 2002)

Top ten Shareholders	Type of Shares held	Increase/ decrease (10,000 Shares)	Number of Shares held (10,000 Shares)	Percentage of total shareholdings
China Petrochemical Corporation	State-owned Shares	0	4,774,256.1	55.06%
HKSCC (Nominees) Limited	H Shares	(753.6)	894,814.3	10.32%
China Development Bank	State-owned Shares	0	877,557.0	10.12%
China Cinda Asset Management Corp.	State-owned Shares	0	872,065.0	10.06%
ExxonMobil Far East Holdings Ltd.	H Shares	0	316,852.9	3.65%
Shell Eastern (PTE) Ltd.	H Shares	0	196,642.2	2.27%
bp Oil Espana S.A.	H Shares	0	182,922.9	2.11%
China Orient Asset Management Corp.	State-owned Shares	0	129,641.0	1.50%
Guo Tai Jun An Corp. (Note)	State-owned Shares	58,676.0	58,676.0	0.68%
TOPGOAL Company	H Shares	0	33,906.5	0.39%
Explanation for the relationships among the top ten shareholders or activities in concert	There are no connections among corporate shareholders. Other holders of shares in circulation are not aware of any connection between themselves or activities in concert and holders of H shares are not aware of any pledges, lock-ups or trust of their shareholdings. Sinopec Corp. is not aware of any interests discloseable pursuant to section 16(1) of the Securities (Disclosure of Interests) Ordinance, Cap 396 of the Laws of Hong Kong.			

Note: Transferred from China Huarong Asset Management Corp. in April 2002.

4 CONTROLLING SHAREHOLDER AND ACTUAL CHANGES TO THE BENEFICIAL OWNERS

During the reporting period, there was no change to the controlling shareholder or the actual beneficial owners.

(1) Controlling Shareholder

The controlling shareholder of Sinopec Corp. is China Petrochemical Corporation ("Sinopec Group Company"), established in July 1998, and is the State authorised investment arm and State-owned controlling company. Its registered capital is RMB 104.9 billion, and the legal representative is Mr Li Yizhong. Through reorganisation in 2000, Sinopec Group Company injected its principal petroleum and petrochemical operations into Sinopec Corp., and retained operations in certain smaller scale petrochemical facilities and refineries, provision of well drilling services, oil testing services, in-well operation services, manufacture and maintenance of production equipment, engineering construction and utility services and social services.

(2) Basic Situtation of Other Legal Person Shareholders Holding 10% or More, Other Than HKSCC (Nominees) Limited

i China Development Bank: established in 1994, with a registered capital of RMB 50 billion. Its authorised legal person is Mr Chen Yuan. China Development Bank is primarily engaged in the management and operation of the operating construction funds and interest discount funding business with the State budget; providing loans to significant infrastructure industries and projects and pillar industries; handling of re-lending in relation to loans from foreign governments and international financial institutions; issuance of corporate bonds; appraisal, consultation and guarantees of construction project loans; underwriting enterprise bonds and indirect syndications etc.

ii China Cinda Asset Management Corp. : China Cinda Asset Management Corp. was established on 20th April 1999, with a registered capital of RMB 10 billion. Its legal representative is Mr Zhu Dengshan. China Cinda Asset Management Corp. is primarily engaged in the acquisition and operation of inferior assets segregated from China Construction Bank; debt collections, exchange, transfer and sale of assets; debt reorganisation and enterprise reorganisation; capitalization of debts and capitalization in stages; securitisation of assets; listing recommendations within the scope of asset management and underwriting of bonds and stocks; issue of bonds and commercial borrowings; borrowing from financial institutions; valuation of assets and projects; enterprise audits and winding up.

Mr. Li Yizhong, Chairman

To all shareholders,

On behalf of the Board of Directors of Sinopec Corp., I would like to extend my sincere appreciation to our employees for their hard work, and to our shareholders for their constant support.

While the global economy continued to experience turbulences without momentum for growth in 2002, China's economy still achieved a fast and healthy development, and registered a GDP growth rate of 8%. China's robust demand for major petroleum and petrochemical products created tremendous market demand for the Company's products and thus room for its business expansion. In 2002, the first year after China's accession to WTO, the Company faced more fierce competition as the Chinese market is now opened wider to the rest of the world. In 2002, due to various factors, the global energy market also experienced significant fluctuations. At the beginning of 2002, international prices of crude oil and refined oil products were at a rather low level, and the chemical market cycle remained in the trough. In addition, the Chinese government further reduced its import tariff on petroleum and petrochemical products. As a result, the prices of crude oil, refined oil products and chemical products all plunged in January and February of 2002. The combination of these factors quickly drove down the Company's profitability for these months. After March 2002, the prices of crude oil and refined oil products significantly improved and the prices of chemical products also began to recover. As the market conditions improved, the Company's operating results also improved.

In response to the severely harsh business environment in the beginning months of 2002, the Company closely monitored the market conditions both at home and abroad, and effected a series of countermeasures, including adjustments of its operating strategy, reinforcement of internal management, as well as striving proactively for improvement of the market environment. Thanks to the generous support from our shareholders and the joint efforts by our employees, we managed to seize the opportunities presented when the product prices and market orders began to improve by expanding our market and resources, reducing our costs and enhancing our operation efficiency. As a result, we overcame these difficulties and since March 2002 our operating results have improved significantly and continued to maintain a fair growth momentum. Over the year, our upstream operations maintained at a fair level of profitability, the refining and marketing and distribution segments significantly improved their profitability level, and the chemicals segment gradually turned operating loss into operating profit. The Company's competitive strength as an integrated operator of upstream, midstream and downstream activities also helped the Company achieve its reasonably satisfactory operating results in 2002.

Year 2002 was unusual for the international capital market. After the exposure of such corporate governance scandals like Enron and WorldCom, regulators in China and overseas began to implement more stringent corporate governance standards upon public companies. Responding to the new regulatory requirements and market environment, the Company intended to establish a modern corporate system. As directed by the Listed Company Corporate Governance Standards promulgated by China Securities Regulatory Commission (CSRC) and the former State Economic and Trade Commission (SETC), and with reference to the relevant U.S. corporate reform acts, the Company proposed, in a systematic manner, a number of amendments to the Company's Articles of Association and other corporate governance documents to enhance its corporate governance standards. Moreover, the Company continued to adhere to its corporate culture of "competition, openness, standardization and integrity" and emphasized the importance of business integrity and corporate responsibility. In addition, we have strengthened the role of the Board of Directors as the decision-making body as well as the distinctive function of each of the three committees under the Board, so that the corporate decisions of the Company are now made in a more accountable way. As a result of our enduring efforts, the Company's corporate governing practices won broader recognition in the capital market.

Year 2002 also saw the Company further strengthen its corporate reform. To adapt to the market changes and ensure the effective implementation of its business strategies, the Company further improved its corporate structure. In the exploration and production segment, the Company established Southern Exploration and Production Company and Shanghai Offshore Oil and Gas Company and strengthened the exploration and production work force in the newly explored areas in western China. In the refining segment, the Company established a lubricants subsidiary for more specialized marketing management, and improved crude oil purchasing procedures to further optimize the deployment of crude oil resources. The refining, chemicals and marketing and distribution segments continued to implement measures to further flatten the management hierarchy in order to improve operating efficiency and market competitiveness. In 2002, the Company was further restructured by swapping the Company's non-core assets for certain assets of Sinopec Group Company, and as a result, profitability improved. Through capital operations, the Company acquired the remaining petrochemical assets of Hubei Xinghua, an A-share listed subsidiary of Sinopec Corp. During the reform process, the Company has constantly paid attention to keep the reform at the right depth and at the right pace, so as to strike a balance among the various impacts it would have on the employees, the Company and the society as well as between its benefits to the whole and benefits to a part of the concern. As a result, the Company's reform programmes were carried out smoothly.

In 2002, to capture the market opportunity presented, the Board made proper business decisions and proactively endeavored to improve the external market climate. The management continued to carry out the Company's strategy of "expanding resources and market, reducing cost and disciplining investment", and achieved reasonably satisfactory operating results. In respect of resource expansion, through strengthened exploration efforts and technological improvements, the Company made breakthroughs in its new areas in western China and increased its oil and gas reserves and productions. The Company increased proved reserves by 391 million barrels of oil equivalent and the reserve composite structure has been improved remarkably. The Company has realized a reserve replacement ratio of over 100% for 6 consecutive years in a row. In respect of market expansion, the marketing subsidiaries of refined oil products played a leading role in the improvement of distribution structure. Retail, distribution and direct distribution sales were significantly enhanced. As a result, the Company's retail volume in 2002 rose by 14.1% over that in 2001 and retail market share in its principal markets climbed to 68% from 65% in 2001. Refining subsidiaries' through science and technology advancements improved the quality and the product mix of refined products. In addition, the Company strengthened its marketing efforts of refined products other than gasoline, diesel and kerosene including jet fuel and increased the production proportion of products with higher added value. As a result, the refining margin improved. With the expanded market, the Company processed 105 million tonnes of crude oil, up by 3.5% over that in 2001. With the advantages of being close to the markets and various technological advancements, the chemical subsidiaries lowered costs, made active efforts in promoting direct sales and online transactions, and increased the sales of higher value-added products. Two ethylene production facilities completed revamping and were put into operation. The total ethylene production in 2002 was 2.716 million tonnes, 26.2% higher than that in 2001. Major chemical products maintained 100% production/sales ratio. In respect of cost reduction, the Company reduced costs by RMB 2.52 billion, fulfilled the cost-saving objective for year 2002 and various unit cash operating costs were reduced to some extent. Operation efficiency in upstream, midstream and downstream businesses all increased. As for disciplining investment, we continued to adhere to the investment policy of "capital expenditure based on operating cash flow; controlled total investment size; centralizing decision-making, rationalizing investment variety; individually optimizing projects and increasing returns on investment". As a result, the total investment size was significantly reduced in comparison to that in 2001, and the investment structure was further optimized. The total capital expenditure in 2002 was RMB 41.6 billion, down by 29.3% from that in 2001, which would lay down a firm foundation for the Company's business expansion in the future.

In 2002, under the PRC Accounting Rules and Regulations, the Company's income from the principal operations was RMB 324.184 billion, up by 6.5% from that in 2001; net profit was RMB 14.121 billion, 0.7% up from that in 2001. Based on the number of shares outstanding at the end of 2002, earnings per share were RMB 0.16. Under the International Financial Reporting Standards, the Company's turnover and other operating revenues were RMB 340.042 billion, up by 6.8% from that in 2001. Profit attributable to shareholders amounted to RMB 16.08 billion, up by 0.34% from that in 2001. Based on the number of shares outstanding at the end of 2002, earnings per share were RMB 0.19.

The Board of Directors now proposes a final dividend of RMB 0.08 per share for the year ended 31 December 2002. After deducting the interim dividends distribution of RMB 0.02 per share, the year-end dividend is RMB 0.06 per share, which is equivalent to RMB 6 per ADS.

Having reviewed the results in year 2002, the Board of Directors rationally realized that certain aspects of the Company's operations require further improvement. Firstly, though we have laid down a fundamental framework of modern corporate structure system, we have to reinforce our internal organizational coherence and centralized management. Secondly, the integration of our industrial chain of upstream, midstream and downstream businesses could be further improved and the industrial structure could be further optimized. Thirdly, the intensity of reform and restructure could be further enhanced. The Board of Directors intends to improve upon these areas.

Looking into year 2003, the global economy begins to show signs of recovery. Crude oil prices and refining margin are expected to remain at a relatively high level and the chemical cycle has started turning up since the second half of last year. The combination of these factors would make it possible for the Company to increase downstream profitability while maintaining profits in the upstream businesses. Domestically, China's economy will keep growing at a healthy speed, with an estimated GDP growth rate of above 7%. Such growth certainly would push up domestic demands for petroleum and petrochemical products, hence allowing the Company to increase both its production and sales. At the same time, the Company will continue its cooperation with other domestic refined oil products market participants to improve the market conditions. In addition, the Company will also benefit from the achievements of its own reform and development, the additional production capacity gained through revamping and newly constructed facilities, as well as the development and the application of new technologies. These factors will be conducive to cost reduction and will support the growth of the Company's profitability. We have also considered the unfavorable factors and certain challenges. First, the uneasy situation in the Middle East and the war in Iraq may cause huge fluctuations of crude oil prices, which will have a direct impact on the operating conditions of the Company; second, the war may delay the recovery of the world economy and uncertainties still exist about whether the chemical cycle could pick up its recovery speed as previously expected; third, year 2003 is the second year after China's WTO accession and China will further reduce tariffs and open domestic market, which would bring even more competition to the market. Therefore, we should more closely examine those adverse factors and try to adopt proactive countermeasures.

Considering the above-mentioned characteristics of the macro environment in 2003, the Company will continue to carry out its existing development strategy with emphasis on the following areas:

- The expansion of crude oil and natural gas resources will always be one of our strategic priorities. The Company will maintain stable operations in the existing oil fields in eastern China, and expedite its developments in western China. We will make efforts to keep and even increase our production output of crude oil and natural gas; maintain the replacement ratio over 100%; and improve the reserve composite structure of our resources, thus to facilitate our continued business expansion in the future. In addition, we will make full use of our resources at home and abroad to ensure the safety of resources.

- Expanding the markets to increase throughput and sales volume is the pivotal point of our marketing strategy. We will seize the increasing domestic demands, optimize our production elements in a comprehensive way, adjust our product mix, expand the market, reinforce and improve the competitiveness and dominant market position of the Company's refined oil products and chemical products. The Company will endeavor to increase the capacity and utilization of refining and chemical facilities to improve the efficiency.

- Marketing of refined oil products is not only our competitive strength but also a driving force for the Company's profit growth. In the marketing and distribution segment, we will not only strive for increasing the total domestic sales volume, but also endeavor to improve and expand our marketing network. Aiming to push up domestic sales volume and export volume of refined oil products, and in particular, to increase retail and direct distribution volume, so as to maintain our dominant market share and sustained profitability. In respect of the sales of chemicals, we will further reform and optimize our marketing network and mechanism with a view to leading our competition through better prices, better quality and better service.

- The Company will continue implementing its cost-cutting strategy, with emphasis on crude oil and raw material procurement, energy-saving and expenses control. The Company will keep carrying out measures to reduce cost and, enhance assets efficiency and overall competitiveness. For 2003, the Company plans to cut costs by RMB 2.5 billion.

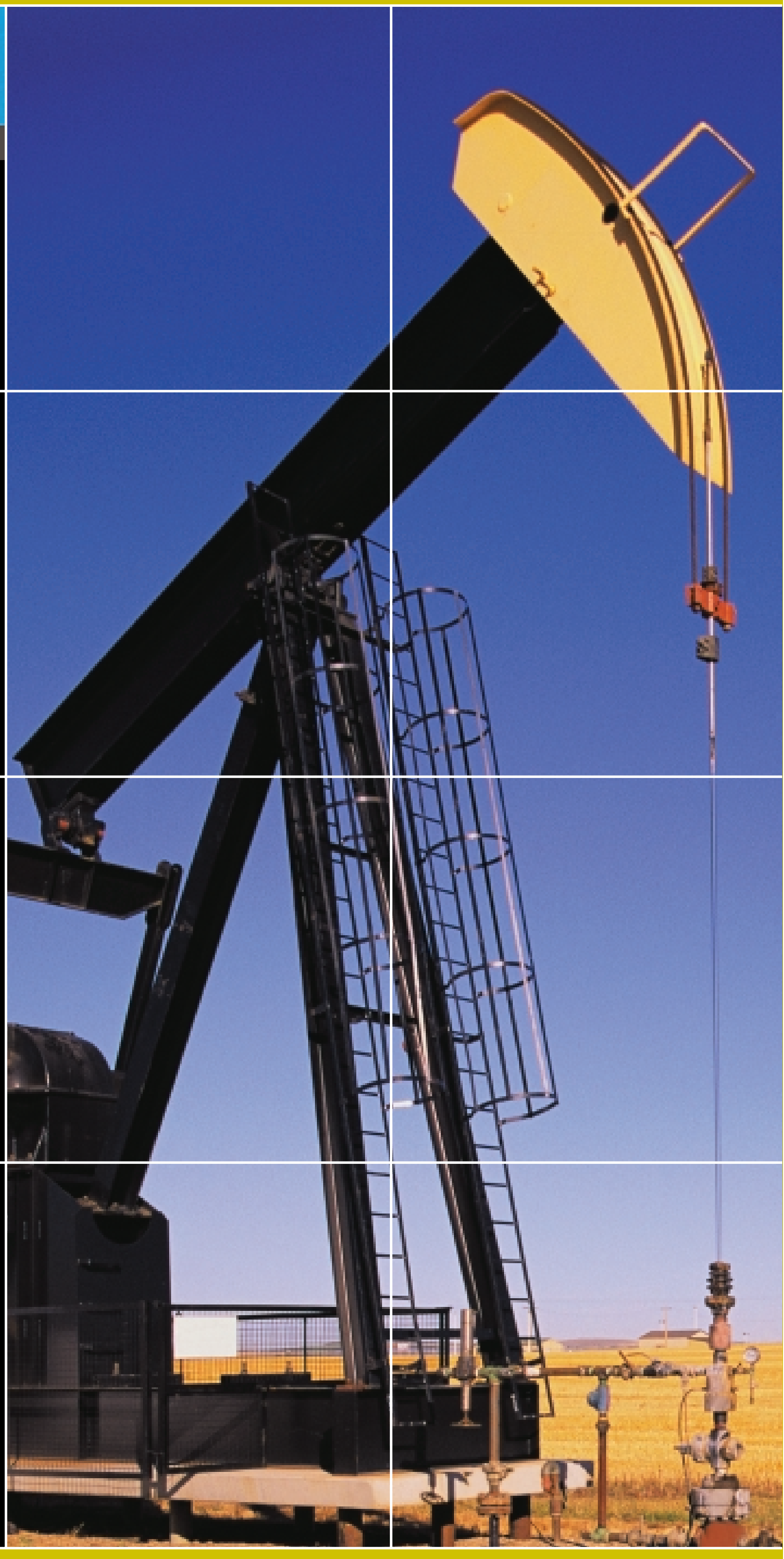
- We will concentrate our R&D efforts around our core technologies and proprietary technologies, and expedite implementation of technology achievements. Furthermore, through more extensive use of information technology, the Company intends to enhance its production and operation management, improve market competitiveness, and reinforce internal control and improve efficiency.

- The Company will continue to adhere to the existing investment policy, and will constantly optimize investment plan to strive for increasing investment returns. For 2003, the Company planned its capital expenditure to be approximately RMB 37.6 billion, so as to ensure the long-term corporate development strategy could be implemented.

Year 2003 is the first year since the Chinese government launches the drive for building an all round well-off society. The Company will seize this historical development opportunity and cling to the principle of "new idea for better strategies, new breakthrough for further reform, new measures for better performance and continued growth for sustained profitability" through "team work, motivation, innovation and delivery" to embrace even better operating results. In the meantime, the Company will further optimize its development plan for the 10th Five-Year Plan Period to identify and formulate the medium- and long-term development plans and strategic positioning. All these efforts should aim at increasing the Company's global competitiveness and maximizing profit for the shareholders.

Li Yizhong
Chairman

March 28, 2003
Beijing, China



BUSINESS REVIEW AND PROSPECTS

REVIEW OF OPERATING PERFORMANCE

In 2002, China's economy maintained a sustainable, rapid and healthy development and the growth rate of gross domestic product (GDP) was 8%. In such a favorable environment, China's domestic demand for petroleum and petrochemical products grew steadily, thereby creating a good market environment for the growth of the Company's businesses. According to the statistics of the relevant government departments, in 2002, the apparent domestic consumption of refined oil products (including gasoline, diesel and kerosene) was 120.44 million tonnes, increased by 5.1% over the preceding year; and the apparent consumption of petrochemical products (in terms of ethylene) was 13.73 million tonnes, increased by 11.1% over the preceding year.

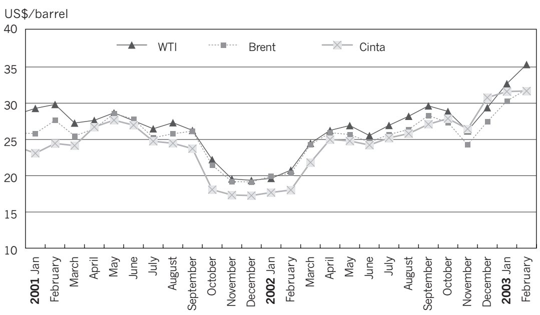
Mr Wang Jiming, Director and President

1 Review of Market Environment

In 2002, the Company overcame the difficulties of low prices of crude oil, refined oil products and chemical products in the international market on the Company's production and operation in the early months of the year and successfully faced the challenges presented by tariff reduction, a more opened domestic market and fiercer competition in the first year after China's accession to the WTO.

(1) The market for crude oil

Affected by various factors, the international crude oil prices had dropped to a trough in the first quarter of 2002, then showed a rising trend with fluctuation and finally peaked in December. The Platt's Singapore annual average spot price of crude oil was US$ 24.96 per barrel, which was basically similar to the price of US$ 24.89 per barrel in 2001. Domestic crude oil prices were basically consistent with the trend of the international prices. However, due to a one month time lag of domestic pricing behind international pricing and the reasons such as the cancellation of tariff on crude oil, the realized annual average price of the Company's self-produced crude oil was US$ 22.42 per barrel in 2002, representing a decrease of 4.02% over the previous year.



(2) The market for refined oil products

In 2002, affected by the fluctuation in the prices of refined oil products in the international market, domestic prices of refined oil products fell to a trough in January and February and gradually recovered throughout the rest of the year. In accordance with the domestic refined oil products pricing mechanism, the PRC government raised domestic prices of refined oil products in March, April, May and October. With the international refining margin rose gradually, the Company's refining margin has also been increased gradually. Meanwhile, the PRC government further disciplined the refined oil products market order by closing down the domestic refineries and petrol stations that failed to meet the government standards and requirements, thereby greatly improved the efficiency of the domestic refined oil products market.

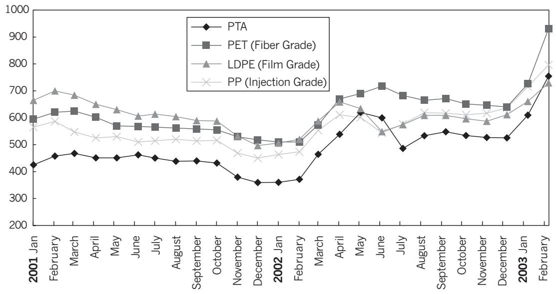
EXPLORATION AND PRODUCTION

EXPANDING RESOURCES IS THE COMPANY'S PRIMARY STRATEGY. IN 2002, THE COMPANY'S PRODUCTION OF CRUDE OIL AND NATURAL GAS AMOUNTED TO 299.6 MMBOE. THE COMPANY IS THE SECOND LARGEST CRUDE OIL PRODUCER IN CHINA WITH PROVED RESERVES OF 3,875 MMBOE.

(3) The market for chemical products

Benefited from the continuous and rapid economic growth of China, China's domestic demand for chemical products maintained a fast growing trend in 2002. Annual apparent consumptions of synthetic resins, synthetic fibers, monomers and polymers for synthetic fibers and synthetic rubbers reached 26.09 million tonnes, 10.68 million tonnes, 17.09 million tonnes and 2.02 million tonnes respectively, representing an increase of 7.5%, 19.7%, 24.6% and 19.7% respectively over 2001.

As the global economy recovered slowly in 2002, the gross chemical margin gradually and slowly rallies from the bottom. Though domestic prices of chemical products rose and the average prices of some products were higher than those in the preceding year, the average prices of the Company's major chemical products of synthetic resins and synthetic fibers were still lower than those of the preceding year, representing a decrease of 5.62% and 0.91% respectively.



2 Review of Production Operations

In 2002, the Company adhered to market orientation, conscientiously implemented its established development strategy, flexibly adjusted its production and marketing plan and quickly changed the passive situation of operations in the first quarter. The Company's economic efficiency was significantly improved beginning from the second quarter and maintained a rising trend, and the Company achieved reasonably satisfactory results in production operations.

(1) Exploration and Production

In 2002, the Company conscientiously implemented the development strategy of "stabilizing production of the existing fields in eastern China, developing the potential fields in western China, searching for potential reserves in southern China, laying equal stress on oil and natural gas, relying on science and technology and reducing costs for increasing efficiency" and satisfactorily fulfilled the annual exploration and production plan.

In upstream exploration, the Company completed 26,461km of two-dimensional seismic prospecting and 4,345km^2 of three-dimensional seismic prospecting and drilled 506 exploratory wells with total drilling depth of 1,373km. The Company made significant achievements in exploring the burial hills, and new and subtle layers of oil and natural gas reserves in Shengli Oilfield in eastern China, thereby stabilizing production and increasing reserves for the near term. In western China, the Company's exploration of Tarim Basin and Jungel Basin also achieved important discoveries, with five key areas preliminarily identified as valuable for future breakthroughs and reserves increase (including the middle part of Jungel Basin, Tahe area of Tarim Basin, Tazhong area, south Kuche area of Tianshan and the slope of Kongque River), thereby preparing important replacement resources for the Company's increase of reserves and production in the last three years of the 10th Five-Year-Plan Period. In upstream development, the Company totally drilled 2,186 development wells with a drilling depth of 4,566km and a new crude oil production capacity of 5.54 million tonnes and a new natural gas production capacity of 928 million cubic meters. In 2002, the Company produced a total of 38 million tonnes of crude oil and 5.06 billion cubic meters of natural gas, representing an increase of 0.2% and 9.8% respectively over the preceding year.

SUMMARY OF OPERATIONS OF THE EXPLORATION AND PRODUCTION SEGMENT

	2002	2001	2000	Change in 2002 compared to 2001 (%)
Crude oil production (mmbbls)	269.80	269.16	247.35	0.2
Natural gas production (bcf)	178.8	162.8	80.3	9.8
Newly added proved crude oil reserves (mmbbls)	375	316	318	18.7
Newly added proved gas reserves (bcf)	20.2	309.0	297.0	–93.5
Year-end proved reserves of crude oil (mmbbls)	3,320	3,215	2,952	3.3
Year-end proved reserves of natural gas (bcf)	3,329.4	3,488.0	999.0	–4.5
Year-end proved reserves of oil and gas (mmboe)	3,875	3,796	3,118	2.1

Shengli Oilfield also made remarkable achievements in production.

Summary of Production and Operation of Shengli Oilfield

	2002	2001	2000	Change in 2002 compared to 2001 (%)
Crude oil production (mmbbls)	189.68	189.43	189.97	0.1
Natural gas production (bcf)	26.5	30.01	24.3	–11.7
Newly added proved crude oil reserves (mmbbls)	240	250	265.97	–4.0
Newly added proved gas reserves (bcf)	–5.1	24.9	44.1	–120.5
Year-end proved reserves of crude oil (mmbbls)	2,264	2,214	2,153	2.3
Year-end proved reserves of natural gas (bcf)	267.4	299.0	304.0	–10.6
Year-end proved reserves of oil and gas (mmboe)	2,308	2,264	2,204	1.9

REFINING

THE COMPANY IS THE LARGEST REFINED OIL PRODUCTS PRODUCER IN CHINA, WITH AN ANNUAL CRUDE OIL PROCESSING CAPACITY OF 132.42 MILLION TONNES. IN 2002, THIS SEGMENT's PROFIT SIGNIFICANTLY INCREASED BECAUSE OF BETTER PRODUCT-MIX, HIGHER PRODUCT QUALITY, AND IMPROVED TECHNOLOGICAL AND ECONOMIC PERFORMANCE INDICES THROUGH TECHNOLOGICAL ADVANCEMENTS. THE TOTAL CRUDE OIL PROCESSED FOR THE YEAR WAS 150 MILLION TONNES.

(2) Refining

In 2002, the Company focused on optimizing resources in the Refining Segment, significantly adjusting product mix and increasing export. While the total supply of refined oil products to the Company's principal markets was controlled, the refining throughtput still showed some growth. According to market demands, the Company increased its production of high value-added products, such as chemical feedstock, LPG, propylene, high-grade road asphalt, and high octane number gasoline, etc., actively expanded the market for these products and continuously set up new marketing channels. In 2002, the Company processed a total of 105.01 million tonnes of crude oil, representing an increase of 3.54% over the preceding year. The Company produced 62.42 million tonnes of refined oil products, representing an increase of 2.09% over the previous year, of which 6.5892 million tonnes were high octane number gasoline, representing an increase of 31.35%. The Company also produced 15.039 million tonnes of chemical feedstock, increased by 21.67% from the preceding year. Through continuously strengthening management and scientific and technological improvements, and extensively carried out goal-oriented activities, the Company raised by a relatively large scale its major technical and economic refining indices. In 2002, the light yield and refining yield were 73.22% and 92.5%, representing an increase of 0.9 and 0.27 percentage points, respectively.

Sources of Crude Oil **Unit: 10,000 tonnes**

	2002	2001	2000	Change in 2002 compared to 2001 (%)
Self-supply	2,890	2,941	2,739	–1.73
Sinopec Group*	—	—	16	—
PetroChina Company Limited	1,457	1,446	1,656	0.76
CNOOC	622	618	517	0.65
Import	5,668	4,918	5,892	15.25
Total	10,637	9,923	10,820	7.20

* China Petrochemical Corporation and its subsidiaries (other than the Company)

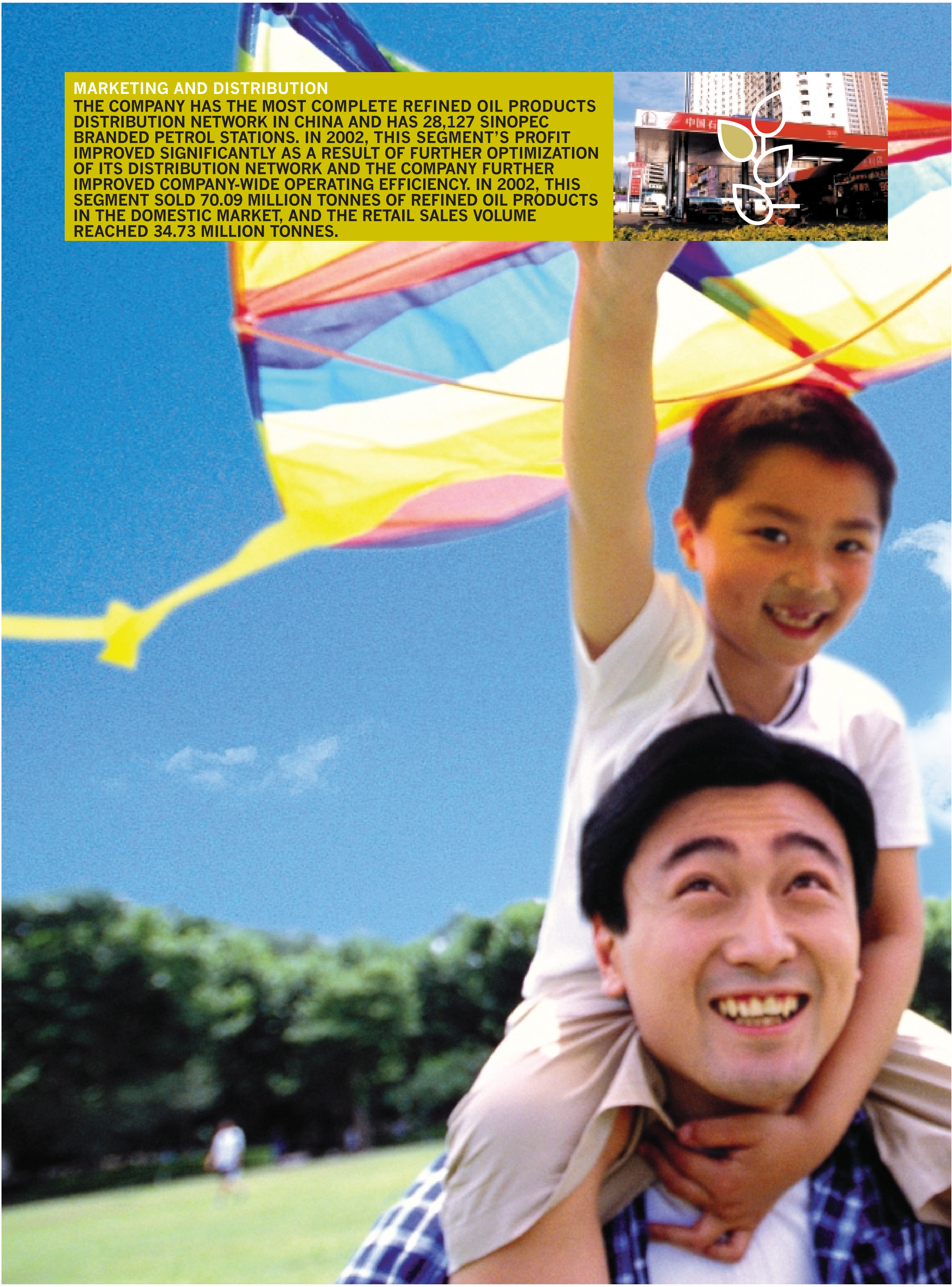
Operating Summary of the Refining Segment

	2002	2001	2000	Change in 2002 compared to 2001
Crude processing volume (mbbls/day)	2,114.6	2,042.4	2,110.0	3.5%
Of which: Sour crude processing volume (mbbls/day)	402.8	387.6	276.0	3.9%
Refinery utilization (%)	79.30	77.90	81.00	1.4 percentage points
Gasoline, diesel and kerosene production (million tonnes)	62.42	61.14	62.58	2.1%
Of which: Gasoline (million tonnes)	19.62	18.74	20.15	4.7%
Diesel (million tonnes)	37.74	37.93	37.53	–0.5%
Kerosene (million tonnes)	5.06	4.47	4.90	13.2%
Diesel to gasoline production ratio	1.92	2.02	1.86	–0.1
Light yield (%)	73.22	72.33	71.57	0.89 percentage point
Refining yield (%)	92.50	92.23	92.25	0.27 percentage point

Note: Crude processing volume is converted at 1 tonne=7.35 barrels

MARKETING AND DISTRIBUTION

THE COMPANY HAS THE MOST COMPLETE REFINED OIL PRODUCTS DISTRIBUTION NETWORK IN CHINA AND HAS 28,127 SINOPEC BRANDED PETROL STATIONS. IN 2002, THIS SEGMENT'S PROFIT IMPROVED SIGNIFICANTLY AS A RESULT OF FURTHER OPTIMIZATION OF ITS DISTRIBUTION NETWORK AND THE COMPANY FURTHER IMPROVED COMPANY-WIDE OPERATING EFFICIENCY. IN 2002, THIS SEGMENT SOLD 70.09 MILLION TONNES OF REFINED OIL PRODUCTS IN THE DOMESTIC MARKET, AND THE RETAIL SALES VOLUME REACHED 34.73 MILLION TONNES.

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SINOPEC

(3) Marketing and Distribution Segment

In 2002, the Company faced a harsh situation and huge pressures arising from the excessive supply of refined oil products in the Company's principal markets, higher inventory and the drop of prices to a trough in early 2002, however, the Company has been able to raise total sales volume, retail volume, distribution volume of refined oil products and its operating results significantly and further increased the Company's market control and profitability through adjusting market perceptions, multi-channel marketing, marketing structure adjustment, improving information system construction, strengthening structural reform, improving management and establishing a sales incentive system.

In 2002, the Company's total domestic refined oil products sales volume increased to 70.09 million tonnes, representing an increase of 3.5% over the preceding year, in which, the retail volume was 34.73 million tonnes, representing an increase of 14% over the preceding year. The Company's retail share in its principal markets reached 68%, representing an increase of three percentage points over the previous year. In the retail volume, gasoline of high octane number of 93# and above was 4.3 million tonnes, representing an increase of 44.7% over the previous year. The efficiency of petrol stations has continuously been improving and the annual average throughput per station reached 1,560 tonnes, representing an increase of 87 tonnes over the previous year. The total distribution volume in 2002 was 12.63 million tonnes, representing an increase of 8.5% over the previous year. The retail and distribution volume of refined oil products accounted for 67.6% of the Company's total domestic sales volume, representing an increase of 5.5 percentage points over the preceding year. By the end of 2002, the Company had 24,000 COCO (Company Owned and Company Operated) petrol stations and 4,127 franchised petrol stations. The Jingmen-Shashi Pipeline and Zhenhai-Kangqiao Pipeline had been put into operation and the marketing network was further improved. In 2002, the Company also actively explored international markets and exported 5.02 million tonnes of refined oil products, representing an increase of 34.58% over the preceding year.

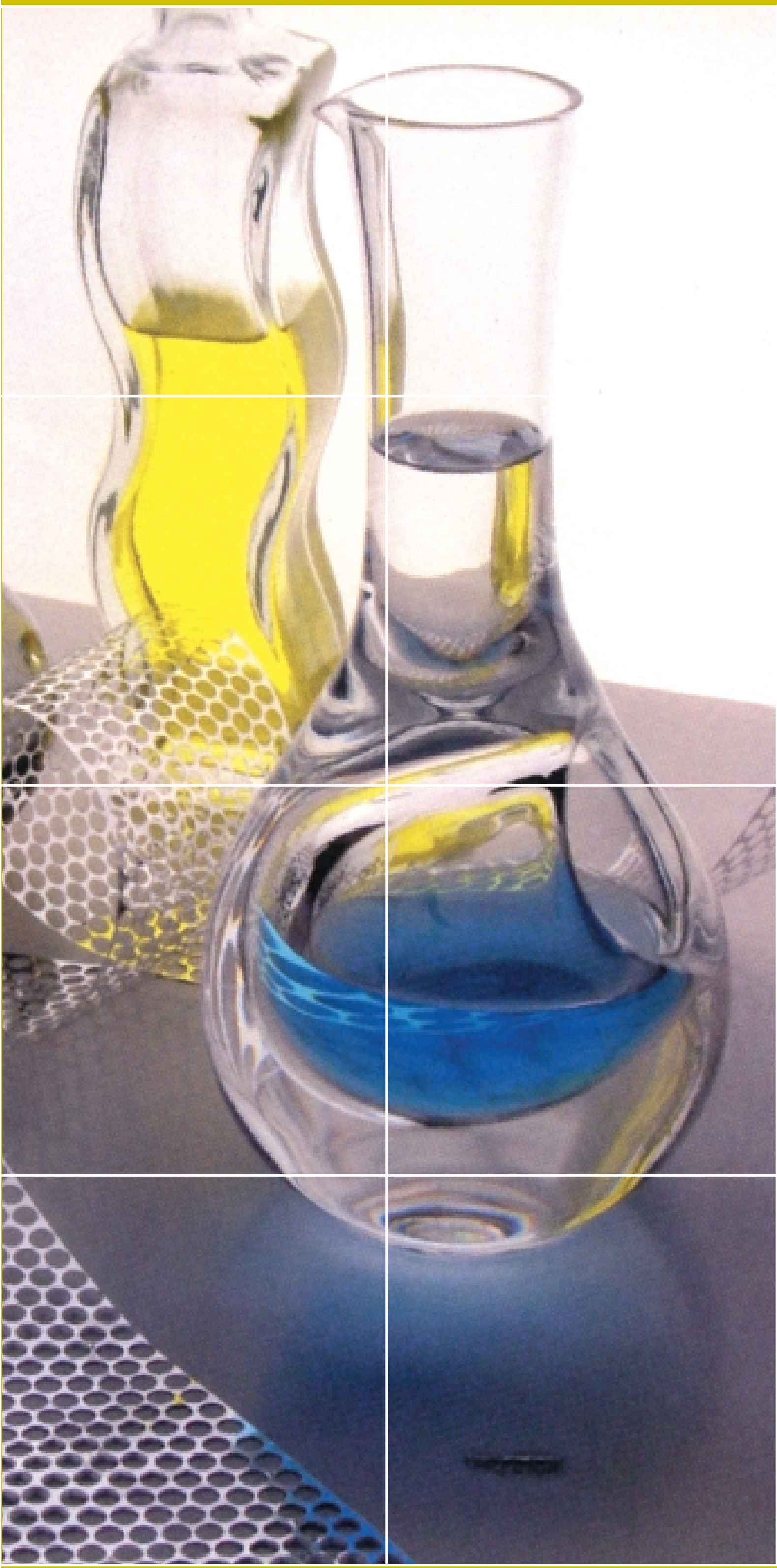
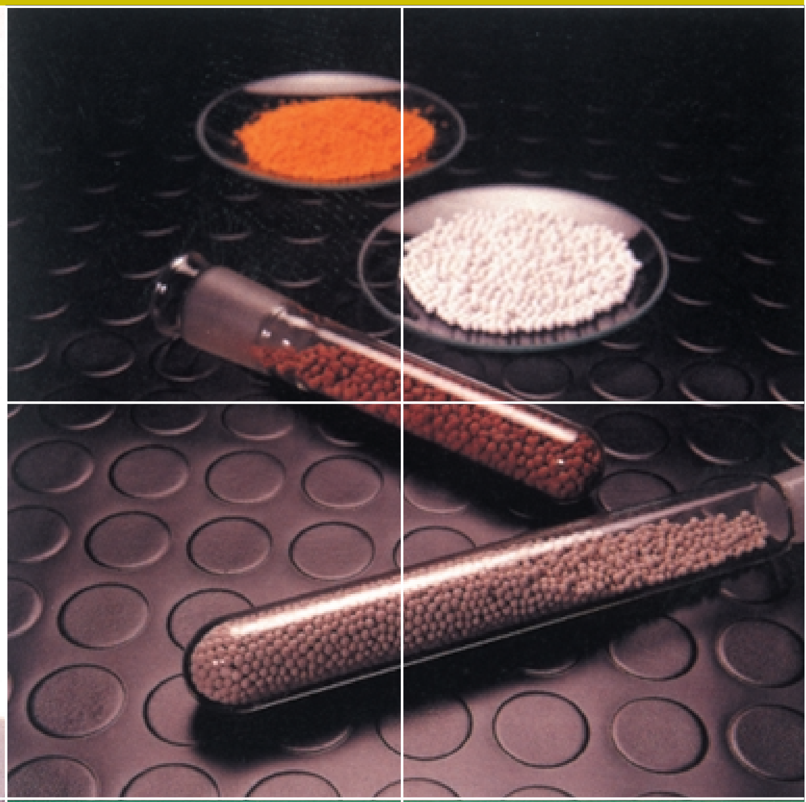
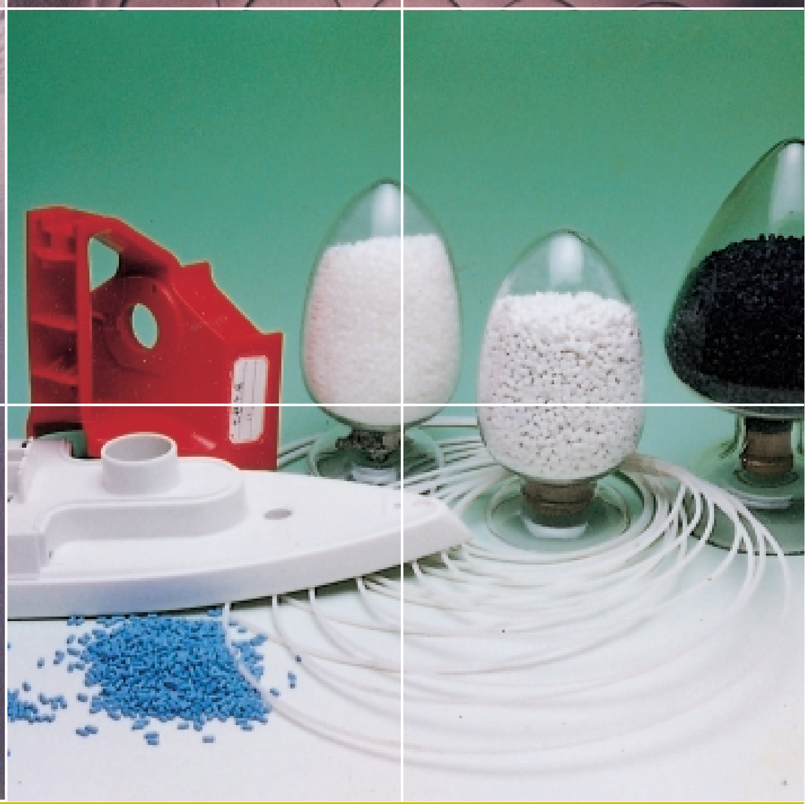
In 2002, the Company continuously sped up the progress of reform in the Marketing Segment, improved the integrated management of prefecture- and county-level sales companies, reduced administrative levels, promoted intensive operation, further optimized the transportation and storage facilities, closed down inefficient and small storage terminals and consequently raised its operating efficiency. The Company continuously used advanced information technology to improve sales enterprise management. The successful operation of ERP in Tianjin and Jiangsu sales companies, the start of primary and secondary logistics optimization, the information system improvement of sales management and the pilot application of IC card for petrol stations all brought about new vigor to increase the competitiveness of the Company's Marketing and Distribution Segment.

Summary of the Marketing and Distribution Segment

	2002	2001	2000	Change in 2002 compared to 2001 (%)
Total domestic sales of refined oil products (thousand tonnes)	70,090	67,740	67,690	3.5
Of which: Retail volume (thousand tonnes)	34,730	30,430	23,940	14.1
Distribution volume (thousand tonnes)	12,630	11,640	–	8.5
Wholesale volume (thousand tonnes)	22,730	25,670	43,750	–11.5
Average annual throughput / petrol station (tonne/station)	1,560	1,473	1,402	5.9
Total number of petrol stations under Sinopec Corp. brand	28,127	28,246	25,493	–0.4
Of which: Number of COCO petrol stations	24,000	24,062	20,259	–0.3
Number of franchised petrol stations	4,127	4,184	5,234	–1.4
Proportion of retail volume to total domestic sales (%)	49.6	44.9	35.4	4.7 percentage points
Year-end capacity of oil storage (thousand cubic metres)	13,970	15,134	14,640	–7.7

CHEMICALS

THE COMPANY IS THE LARGEST PRODUCER AND THE LARGEST DISTRIBUTOR OF CHEMICAL PRODUCTS IN CHINA, WITH AN YEAR-END ETHYLENE PRODUCTION CAPACITY OF APPROXIMATELY 2.8 MILLION TONNES. IN 2002, THIS SEGMENT PRODUCED 2.716 MILLION TONNES OF ETHYLENE, AND PRODUCTION OF ALL MAJOR CHEMICAL PRODUCTS WAS INCREASED AFTER THE COMPLETION OF CERTAIN CHEMICAL FACILITIES.

(4) Chemicals Segment

The Company maintained a high utilization rate of the major chemical facilities in 2002 and concurrently sped up the revamping of existing chemical facilities. With the completion of the second round revamping of Beijing Yanhua Petrochemical's ethylene facilities, the second round revamping of ethylene facilities of Sinopec Shanghai Petrochemical Company Limited ("Shanghai Petrochemical") and Sinopec Yangzi Petrochemical Company Limited ("Yangzi Petrochemical") which was also completed in 2001 and such facilities were put into production, thereby further improving product mix, increasing productivity and significantly raising the outputs of the major petrochemical products. The total output of ethylene in 2002 was 2.7164 million tonnes, representing an increase of 26.17% over the preceding year. The output of major chemical products such as synthetic resins, synthetic fibers, monomers and polymers for synthetic fibers, synthetic rubbers and urea also showed relatively large increases. To meet the market demand and increase its profit margin, the Company further increased its production volume of higher value-added products. In 2002, the Company produced 1.8469 million tonnes of performance compound resins and 402 thousand tonnes of differential fibers, representing an increase of 38.66% and 23.3% respectively over those in the preceding year. The proportion of direct sales of chemical products was increased and the petrochemical products sales through the e-commerce network reached RMB 16.942 billion, accounting for about 24.35% of the total chemical products sales revenue.

Production of Major Chemicals **Unit: 10,000 tonnes**

	2002	2001	2000	Change in 2002 compared to 2001 (%)
Ethylene	271.64	215.3	217.0	26.2
Synthetic resins	400.48	320.4	318.3	25.0
Of which: Performance compound resins	184.69	133.2	128.0	38.7
Synthetic rubbers	45.77	39.8	31.7	15.0
Monomers/polymers for synthetic fibers	383.35	359.8	379.5	6.5
Synthetic fibers	115.30	102.8	106.8	12.2
Of which: Differential fibers	40.2	32.6	28.3	23.3
Urea	266.63	234.2	292.3	13.8

(5) Research and Development

In 2002, the Company made a number of important achievements in scientific and technological innovation and won one first prize for national technological advancement, two second prizes for national invention and seven second prizes for national technological advancement. The Company applied for 760 patents in China in 2002, of which 320 have been awarded patent rights.

Exploration and production: To enhance crude oil recovery rate and reduce costs, the Company successfully developed under-balance pressure drilling technology, large displacement well drilling technology and integrated technique of acquisition, processing and interpretation in full three-dimensional seismic exploration. The Company also achieved satisfactory progress in the geological studies of the new areas in western China, e.g. Tarim Basin, Jungel Basin and old areas in eastern China, thereby providing a technological support for increasing its oil and natural gas reserves.

Refining: To upgrade the quality of clean gasoline and diesel, the Company successfully developed a 1.3 million tonnes/year RIPP (Sinopec Research Institute of Petrochemical Processing) medium-pressure hydrocracking (RMC) technology, a Maximizing Iso-Paraffins technology (MIP), the second generation Gasoline Olefine Reduction-II (GOR-II) and Additives (LAP-2), a Flexible Dual-riser Fluid Catalytic Cracking technology (FDFCC) and a RIPP Increase Cetane Index Hydroprocessing technology (RICH).

Chemicals: To reduce investment and increase competitiveness of technology and products, the Company developed a complete set of 30,000 tonnes/year acrylic fiber production technology and a 30,000 tonnes/year melt-direct spinning technology for PET staple fiber. In addition, the Company's co-developed 100 thousand tonnes/year ethylene cracking furnace was successfully applied to the ethylene facilities revamping projects of Shanghai Petrochemical and Yangzi Petrochemical, and the self-developed 200 thousand tonnes/year second generation loop reactor polypropylene production facilities were also successfully put into operation. To increase higher value-added products production, the Company successfully developed 18 new synthetic resin products (e.g. high speed Bi-Oriented Polypropylene Process (BOPP)) and 22 types of new synthetic fiber products with 40 specifications (e.g. superfine sea-island bicomponent fiber).

(6) Cost Reduction

In 2002, the Company made great efforts in carrying out its cost reduction plan. On the basis of reducing major procurement costs of raw materials (e.g. crude oil), special focus was given to concrete measures such as to minimize material and energy consumption and administrative expenses. As a result, cost reduction achieved relatively good results.

In 2002, the Company reduced costs by RMB 2.52 billion, and fulfilled the original target of cost reduction. Cost reduction in exploration and production segment was RMB 700 million and the cash operating cost was reduced from US$ 6.15/barrel to US$ 6.12/barrel; the cost in the refining segment was reduced by RMB 700 million and the cash operating cost was reduced from US$ 2.07/barrel to US$ 2.03/barrel; the cost in the chemicals segment was reduced by RMB 500 million and the cash operating cost of ethylene production was reduced from US$ 160/tonne to US$ 150/tonne; and the cost in the marketing segment was reduced by RMB 620 million and the cash operating cost was limited to RMB 166/tonne while continuously increasing the ratio of retail and distribution. Moreover, the Company continuously implemented its employee reduction plan and reduced about 25,000 employees in the year.

(7) Capital Expenditure

In 2002, the Company continuously adhered to the investment policy of "Capital expenditure based on operating cash flow; controlling total investment size; centralizing decision making, rationalizing investment variety, individually optimizing projects and increasing return on investment". The Company's total capital expenditure was about RMB 41.6 billion, in which the capital expenditure for the Exploration and Production Segment was RMB 20.23 billion. With the investment, the Company raised production of crude oil and production of natural gas significantly. In certain promising areas, a number of oil and gas wells of high production potential and blocks with high reserves were identified. The Company's year-end proven recoverable economic reserves of oil and gas further increased and the Company had a greater than 100% annual reserve replacement ratio in six consecutive years. The capital expenditure in the Refining Segment was RMB 6.53 billion. 21 sets of new and revamped facilities were put into commissioning test run successively, thereby raising the Company's clean fuel production capacity and sour crude oil processing capacity. The commencement of the construction of the Ningbo-Shanghai-Nanjing Crude Oil Pipeline would facilitate optimizing crude oil resources allocation and reducing the cost of crude oil purchase. The expenditure in the Chemicals Segment was RMB 7.32 billion. A total of 12 new and revamped facilities were put into commissioning test run successively, an additional production capacity of 600 thousand tonnes/year for ethylene, 885 thousand tonnes/year for synthetic resins and 223.9 thousand tonnes/year for monomers/polymers for synthetic fibers were achieved. The capital expenditure in the Marketing and Distribution Segment was RMB 6.98 billion, which was mainly used to build new pipelines and further improve the refined oil products marketing network through building new and revamped petrol stations and transforming old ones, thereby reinforcing the Company's leading position in principal markets and further raising its brand recognition and customer loyalty in its principal markets. Other capital expenditure was RMB 550 million, which was mainly used for construction of information system.

The Company's actual capital expenditure in 2002 was RMB 5.4 billion more than the amount RMB 36.2 billion as originally estimated. The excess was mainly due to the following reasons: first, the success rate of exploration in the Exploration and Production Segment increased from 42.3% to 43.9%, which led to about RMB 500 million more than the amount originally estimated; secondly, the capital expenditure in the Marketing and Distribution Segment was RMB1.8 billion more than the amount originally estimated because of the acquisitions of the petrol stations in 2001 which became the Company's fixed assets after transfer in 2002 and the construction of more petrol stations on expressways and in rural areas in order to seize market opportunities at the end of the year; and thirdly, the capital expenditure in the Refining and Chemicals Segments was about RMB 1.4 billion more than the amount originally estimated for the early completion and commissioning of new and revamping facilities in order to meet the strong domestic market demand.

(8) Cooperation with Foreign Parties

In 2002, the Company also made remarkable progress in foreign cooperation. The joint venture ethylene projects implemented by the Company with BASF in Nanjing and bp in Shanghai respectively are both in all-round construction stage and will be put into production by the end of 2004 and early 2005 respectively. The coal gasification project jointly implemented by the Company and Shell in Hunan is in the stage of construction and is expected to be completed and put into production in 2005. The feasibility study report of the Fujian integrated refining and chemical project jointly implemented by the Company, ExxonMobil and Saudi Aramco has been approved by the State, and the Company is making preparations for the commencement of the project. Through these joint venture projects, the Company could learn the advanced technologies and management experience from multi-national corporations, increase the Company's competitiveness in the market and meet the growing demand in China's domestic market and the market in the Asia-Pacific region.

BUSINESS PROSPECTS

1 Market Analysis

The Company anticipates that the macroeconomic situation in 2003 will have the following characteristics:

(1) Opportunities

Although there are many uncertainties regarding global economic growth, the PRC government will continuously implement the policy of increasing domestic demand, and the growth rate of China's GDP is expected to exceed 7% in 2003; according to these estimates, the domestic demand for refined oil products is expected to grow by more than 4% and the demand for chemical products (in terms of ethylene) is expected to maintain a growth rate of more than 10%, thereby providing favorable environment for the growth of the Company's production and sales of refined oil and petrochemical products. The PRC government's achievements in disciplining domestic refined oil products market in 2002 and the Company's continuous enhancement of its coordination with other domestic refined oil products marketing entities in 2003 may further improve the domestic market environment for refined oil products. At the same time, the new production capacity resulting from the revamping and construction of facilities, the application of new technologies and the continuous internal reform will strongly support the Company's cost reduction for increasing efficiency.

(2) Challenges

While fully recognizing the above-mentioned opportunities, the Company also recognises many challenges, which are mainly reflected in the following aspects: first, the slow growth of global economy and, in particular, the tense situation in the Middle East will probably lead to drastic fluctuation of prices of crude oil, refined oil products and chemical products in the international market and consequently bring challenges against the Company's understanding of the market, production, operation and management. Secondly, the year of 2003 is the second year after China's accession to the WTO. The impacts arising from the reduction in tariff and the opening of the market will increase gradually. The increase of import quotas for non-State-owned oil products traders and the continuous reduction of import tariff rate for chemical products by 1 to 3 percentage points will lead to a more fierce market competition.

2 Production

Facing both opportunities and challenges in 2003, the Company will adopt flexible operating strategies and focus on the following aspects of work:

Exploration and Production: The Company will continue to adhere to the oil and natural gas development strategy of "stabilizing production of the existing fields in eastern China, developing the potential fields in western China, searching for the potential reserves in southern China, laying equal stress on oil and natural gas, relying on science and technology and reducing cost for increasing efficiency", insist on the principle of controlling reserves, output and efficiency as a whole, speed up the exploration of the new areas in western China and the other key blocks, steadily increase replacement resources and oil and natural gas production, carry out adjustment and potential tapping in the old areas, maintain the stable production of quality oil and natural gas and ensure the realization of a replacement ratio over 100%. The Company plans to build an additional crude oil production facility with capacity of 5.58 million tonnes and an additional natural gas production facility with capacity of 674 million cubic meters and produce 38.1 million tonnes of crude oil and 5.3 billion cubic meters of natural gas in 2003.

Refining Segment: Oriented to market demand and backed by managerial innovation and scientific and technological advancement, the Company will strengthen management, optimize resources, adjust product mix and strive for enhancing its profit ability. The Company plans to process a total of 110.92 million tonnes of crude oil and produce 60.96 million tonnes of refined oil products and 17.15 million tonnes of chemical feedstock in 2003. The Company will continuously expand the market and strive to increase the output of high value-added products, such as LPG, propylene, high-grade asphalt and lubricants, continuously raise the major technical and economic indicators of refining and increase its light yield to 73.5% and its refining to 92.55%.

Chemicals Segment: To satisfy the growing market demand, the Company will strengthen management and maintain safe, stable and full-utilization production in a long period. The Company plans to produce a total of 3.05 million tonnes of ethylene, 4.46 million tonnes of synthetic resins, 470 thousand tonnes of synthetic rubbers, 1.24 million tonnes of synthetic fibers and 4.21 million tonnes of monomers and polymers for synthetic fibers in 2003. Laying particular stress on product quality, types and cost, the Company will enhance the competitiveness of its products, further raise the output of performance compound resins and differential fibers, strengthen its efforts in marketing and services and endeavor to increase the proportion of the direct sales of major chemical products.

Marketing and Distribution Segment: The Company will continuously strengthen its sense of market, competition and service, give full play to its role as a market leader, actively expand market, further improve its marketing network, build petrol stations on new expressways, on waterways and in rural areas, enhance its market control and sustain profit ability, further adjust its marketing structure, strive to raise the volume of retail, distribution and franchised sales, increase its share in the retail market, continuously strengthen its coordination and cooperation with other domestic refined oil products operators, improve the operating environment and reasonably arrange its domestic supply and export of refined oil products according to domestic and international demands to balance the supply and demand in the domestic market. While expanding the domestic market, the Company will further increase its export volume, continuously optimize the flow direction of refined oil products, reduce costs and increase efficiency. The Company plans to sell a total of 73 million tonnes of refined oil products in the domestic market (including a retail volume of 37.5 million tonnes and distribution of 14 million tonnes) and export 5.5 million tonnes of refined oil products.

Cost reduction: In 2003, the Company will continuously rely on scientific and technological advancement to strengthen management, intensify reform and continuously increase efficiency. It plans to reduce cost by RMB 2.5 billion, including RMB 1 billion in the Exploration and Production Segment, RMB 600 million in the Refining Segment, RMB 400 million in the Chemicals Segment and RMB 500 million in the Marketing and Distribution Segment.

Prudent investment: The Company's planned capital expenditure in 2003 is RMB 37.6 billion which will mainly be attributable from the cash flow from business operations and financings from sources in China or outside China. This includes RMB 18 billion in the Exploration and Production Segment, RMB 6.34 billion in the Refining Segment, RMB 7.64 billion in the Chemicals Segment, RMB 5 billion in the Marketing and Distribution Segment and RMB 620 million for construction of ERP system and other purposes. The focuses of capital expenditure in 2003 will be on (1) further optimizing the structure of investment, maintaining the investment efforts in the Exploration and Production Segment and striving for increase in replacement resources, (2) more vigorously tapping the potential and increasing the efficiency of the old blocks of oilfields and the existing refining and chemical enterprises, (3) continuously upgrading petrol stations in central cities and build petrol stations in new urban areas and on newly built expressways, (4) completing the construction of the long-distance Ningbo-Shanghai-Nanjing crude oil pipeline, and (5) fully launch of the ethylene facilities revamping project of Qilu Petrochemical Corp and ensuring the completion and commissioning of the paraxylene project of Zhenhai Refining and Chemical Co., Ltd. and the PTA project of Yizheng Chemical Fiber Co., Ltd.

In addition, the two world-scale ethylene joint venture projects between the Company, and BASF and bp, respectively, will also enter the peak construction period. The Company will make investment in the proportion of the shares held by the Company in the joint venture companies at appropriate time according to the construction plans made by the joint venture companies' boards of directors, and will then include the investments in its capital expenditure. It is estimated that the total construction investment for the two joint venture projects in 2003 will be about RMB 10 billion.

Information system construction: The Company will continue to extensively adopt information technology, speed up construction of its information system and make new achievements in increasing its technical level, enhancing its market adaptability and raising its internal control ability and efficiency. The Company will strengthen the construction of information infrastructure in all aspects, continuously expand the experimentation and popularization of ERP system, further improve the two management information systems for financial management and refined oil products sales management and the two e-commerce networks for purchase of resources and chemical products marketing, apply computer-aided decision-making system to crude oil resources optimization and supply chain optimization in an in-depth way, build and popularize an refined oil products distribution optimizing system and promote the application of IC oil filling card.

Facing both opportunities and challenges in the year ahead, the Company will, depending on the unremitting efforts of all its employees, further enhance its competitiveness and maintain excellent performance in production and operation.

HEALTH, SAFETY AND ENVIRONMENT (HSE)

SINOPEC CORP. HAS ALWAYS BEEN STRIVING FOR HARMONY BETWEEN HEALTH, SAFETY AND ENVIRONMENT AND ECONOMIC DEVELOPMENT AND THE ESTABLISHMENT OF A SAFE AND CLEAN PRODUCTION MECHANISM.

HEALTH, SAFETY AND ENVIRONMENT

Sinopec Corp. has always been striving for harmony between HSE (health, safety and environment) and economic development and the establishment of a safe production mechanism with long-term effects. The Company has scrupulously undertaken its responsibility for the society and conscientiously implemented the policy of "regarding safety the utmost, laying particular stress on prevention, relying on the efforts of all people, carrying out comprehensive management, improving environment, protecting health, realizing scientific management and achieving sustainable development". In 2002, the Company maintained safe and stable production, endeavored to provide the public with safe, reliable, quality and environment-friendly products, made vigorous efforts to protect the environment and take care of the employees' health, continuously improved its relationship with the peripheral communities, established a good corporate image and made greater achievements in health, safety and environment management.

● **Steady promotion of HSE management**

Since Sinopec Corp. publicly announced its implementation of HSE management system in 2001, all its employees have made active response and strived for minimizing the incidence of accidents, hazards to personal health and environment damages and building Sinopec Corp. into a world-class enterprise in terms of HSE management, and the Company has invited an international HSE consulting service company to instruct its subsidiaries' building of HSE management systems. By the end of 2002, 25 branch companies or subsidiaries of Sinopec Corp. have already established fairly complete HSE management systems and put them into operation.

● **Implementation of safety pre-appraisal for new projects according to the policy of laying the first stress on prevention**

In 2002, the Company completed safety pre-appraisal for a number of revamping and expansion projects, including the 900 thousand tonnes/year ethylene project of Shanghai Secco and Ningbo-Shanghai-Nanjing Pipeline Project. For the equipment, facilities and public engineering systems that had already been completed and put into production, the Company carried out regular risk appraisal. The Company also implemented dynamic monitoring for key equipment and key parts with designated persons to manage them. For the problems discovered during appraisal, the Company traced and managed the whole process of hidden perils until all hidden perils were eliminated to ensure safe production.

● **Active promotion of clean production, water saving and pollution reduction**

In 2002, the Company completed clean production demonstration for seven sets of equipment, selected five clean production technologies valuable for popularization, actively developed water-saving technology and implemented water consumption control on the basis of fixed quotas. The Company's industrial water consumption was reduced by 6.6% as compared with that in 2001.

● **Development of a number of technologies for improving the quality of refined oil products to provide cleaner fuels**

Sinopec Corp. began completely implementing the new national standard for light diesel from July 1, 2002 and reduced the sulfur content in its light diesel products from 1.0%(m/m) under the old standard to 0.2%(m/m) under the new one. Sinopec Corp. will completely implement the new national standard for automotive gasoline from July 1, 2003.

MANAGEMENT'S DISCUSSION AND ANALYSIS

THE FOLLOWING DISCUSSION AND ANALYSIS SHOULD BE READ IN CONJUNCTION WITH THE COMPANY' AUDITED FINANCIAL STATEMENTS AND THE ACCOMPANYING NOTES ON PAGE 114 TO 142 OF THE ANNUAL REPORT. THE FINANCIAL INFORMATION PRESENTED IN THE SECTION ARE DERIVED FROM THE COMPANY'S AUDITED FINANCIAL STATEMENTS THAT HAVE BEEN PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS").

1 CONSOLIDATED RESULTS OF OPERATIONS

In 2002, the Company's turnover and operating profit were RMB 324.2 billion and RMB 28.3 billion, respectively, up by 6.5% and 3.7%, respectively, from those in 2001. The increase in the Company's turnover and operating profit was largely attributable to the Company's flexible adjustment of its operation in response to the opportunities presented by the better prices and the more orderly market, and the Company quickly turned around the poor performance it went through in January and February 2002 by expanding the market and carrying out various measures to cut cost and improve efficiency. Since March 2002, the Company's operating results have improved significantly and continued to maintain a fair growth momentum. In particular, the refining segment and marketing and distribution segment have significantly increased their operating profits and the chemicals segment has turned operating loss into operating profit.

The table below shows the main revenue and expense items from the consolidated income statement of the Company for the indicated periods.

	Year ended 31 December (RMB billion yuan) 2002	2001	Percentage Change from 2001 to 2002 (%)
Turnover and other operating revenues	**340.0**	**318.5**	**6.8**
Of which: turnover	324.2	304.4	6.5
Other operating revenues	15.8	14.1	12.1
Operating expenses	**(311.7)**	**(291.2)**	**7.0**
Purchased crude oil, products and operating supplies and expenses	(235.2)	(220.3)	6.8
Selling, general and administrative expenses	(21.1)	(17.1)	23.4
Depreciation, depletion and amortization	(24.2)	(22.4)	8.0
Exploration expenses (including dry holes)	(4.4)	(3.8)	15.8
Personnel expenses	(13.6)	(12.9)	5.4
Employee reduction expenses	(0.2)	(2.6)	(92.3)
Taxes other than income tax	(11.9)	(11.9)	0.0
Other operating expenses (net)	(1.1)	(0.2)	450.0
Operating profit	28.3	27.3	3.7
Net finance costs	(4.0)	(3.2)	25.0
Investment income and share of profit less losses from associates and jointly controlled entities	0.5	0.5	0.0
Profit from ordinary activities before taxation	**24.8**	**24.6**	**0.8**
Income tax	(7.6)	(8.0)	(5.0)
Profit from ordinary activities after taxation	**17.2**	**16.6**	**3.6**
Minority interests	(1.1)	(0.6)	83.3
Profit attributable to shareholders	**16.1**	**16.0**	**0.6**

(1) Turnover and other operating revenues

In 2002, the Company's turnover and other operating revenues increased by 6.8%, or RMB 21.5 billion, from RMB 318.5 billion in 2001 to RMB 340 billion in 2002. Turnover increased by RMB 19.8 billion, or 6.5%, from RMB 304.4 billion in 2001 to RMB 324.2 billion in 2002. The increase in turnover was primarily due to:

- the prices of crude oil, refined products and chemical products increased as the international market conditions of the respective products gradually improved since March 2002;
- a number of chemicals production facilities have been revamped to increase capacity; and
- the sales volume of refined products and chemical products increased as a result of the management's efforts to expand domestic as well as international market and capture the profit-making opportunity. Other operating revenues increased by 12.1%, or RMB 1.7 billion, from RMB 14.1 billion in 2001 to RMB 15.8 billion in 2002.

Other operating revenues primarily consist of sales revenue generated by the Company from sale of certain ancillary products and raw materials to Sinopec Group Company and third parties as well as rendering of various services. Turnover and other operating revenues are mainly composed of the following sales:

Sales of crude oil and natural gas

The Company produces crude oil and natural gas principally to supply its refining and chemical operations. Natural gas and a relatively small portion of the Company's crude oil products are sold to the refineries owned by Sinopec Group Company and third party customers.

In 2002, external sales revenues of crude oil and natural gas contributed RMB 10.9 billion, or 3.2%, of the turnover and other operating revenues of the Company, down by RMB 0.2 billion compared with those in 2001. This decrease was primarily due to a decline of 5.3% in the average realized price of crude oil from RMB 1,255.67 per tonne in 2001 to RMB 1,189.38 per tonne in 2002. However, the average realized price of natural gas slightly rose by 0.7% from RMB 570.14 per thousand cubic meter in 2001 to RMB 574.21 per thousand cubic meter in 2002. The external sales volume of crude oil increased from 6.05 million tonnes in 2001 to 6.35 million tonnes in 2002, and external sales volume of natural gas increased from 2.9 billion cubic meters in 2001 to 3.2 billion cubic meters in 2002. The increased external sales volume of crude oil and natural gas partially offset the negative impact of the price decline of crude oil on the sales revenues of crude oil and natural gas.

Sales of petroleum products

Both the refining and the marketing and distribution segments make external sales of refined petroleum products (which consist primarily of gasoline, diesel, kerosene and jet fuel and other refined products). External sales revenues of petroleum products from the two segments in 2002 were RMB 231.9 billion, contributing 68.2% of the Company's turnover and other operating revenues, and representing an increase of RMB 1.8 billion, or 0.8%, compared with RMB 230.1 billion in 2001. The sales revenues of gasoline and diesel were RMB 169.3 billion, contributing 73% of the sales revenues of refined petroleum products, and representing an increase of RMB 4.9 billion, or 3%, compared with RMB 164.4 billion in 2001. The sales revenues of gasoline increased by 4.8%, or RMB 2.9 billion, from RMB 60.4 billion in 2001 to RMB 63.3 billion in 2002; the sales revenues of diesel increased by 1.9%, or RMB 2 billion, from RMB 104 billion in 2001 to RMB 106 billion in 2002. The increases in sales revenues of gasoline and diesel were mainly due to the increased realized gasoline price and the increased sales volume of diesel, which increases were attributable to the gradual recovery of refined products prices on the international market as well as the Company's efforts to increase the retail proportion of its sales and to further expand its market. In 2002, the average external sales price of gasoline was RMB 2,806.04 per tonne, representing an increase of 5.4% over that in 2001; the average external sales price of diesel was RMB 2,407.58 per tonne, representing a decline of 1.3% compared with that in 2001. The sales volume of gasoline was 22.54 million tonnes, down by 0.7% compared with that in 2001 and sales volume of diesel was 44.03 million tonnes, up by 3.3% compared with that in 2001. The total sales volume of gasoline and diesel rose by 1.9% compared with that in 2001.

Sales of chemicals

The external sales revenues of chemical products were RMB 58.4 billion in 2002, up by RMB 9.5 billion, or 19.4%, compared with RMB 48.9 billion in 2001. This increase was primarily due to the significant increase of output and sales volume of the chemical products as the Company completed revamping of a number of chemicals production facilities to expand capacity, and the gradual recovery of chemical products prices in 2002. The external sales volume of synthetic resin, synthetic rubber, synthetic fiber and monomers and polymers for synthetic fiber were 3.3 million tonnes, 0.46 million tonnes, 1.18 million tonnes and 1.7 million tonnes, respectively, in 2002, representing an increase of 23.6%, 11%, 8.5% and 0.3%, respectively, from those in 2001. The average realized prices of these products were RMB 5,238.22 per tonne, RMB 6,450.13 per tonne, RMB 8,435.24 per tonne and RMB 5,454.12 per tonne, respectively. Compared with 2001, the average realized prices of synthetic rubber and monomers and polymers for synthetic fiber went up by 4.5% respectively and those of synthetic resin and synthetic fiber declined by 5.6% and 0.9%, respectively. As the prices of various chemical products went up and others went down in 2002, the average realized external sales prices of all chemical products in 2002 were at a similar level to those in 2001.

(2) Operating expenses

The Company's operating expenses in 2002 were RMB 311.7 billion, representing an increase of RMB 20.5 billion, or 7%, from those in 2001. Operating expenses primarily consist of the following expense items:

Purchased crude oil, products and operating supplies and expenses

In 2002, purchased crude oil, products and operating supplies and expenses of the Company were RMB 235.2 billion, accounting for 75.5% of its total operating expenses, and representing an increase of RMB 14.9 billion, or 6.8%, compared with RMB 220.3 billion in 2001.

- Purchased crude oil were RMB 118.3 billion in 2002, accounting for 38% of the total operating expenses, and representing an increase of RMB 2.3 billion, or 2%, compared with RMB 116 billion in 2001. The increase was mainly due to the increased crude oil throughput of the Company as a result of the strong market demand associated with the fast growing Chinese economy.

- The volume of purchased crude oil increased partially due to the decrease in the volume of crude oil supplied by the Company's own production. The throughput of crude oil in 2002 were 104.15 million tonnes (excluding crude oil processed for third parties), up by 3.11 million tonnes, or 3.1%, compared with 101.04 million tonnes in 2001. In 2002, the Company processed 28.98 million tonnes of crude oil supplied by the Company's own exploration and production segment, down by 2.29 million tonnes, or 7.3%, compared to 31.27 million tonnes in 2001. The throughput of internally produced crude oil accounted for 27.8% of the total throughput of crude oil, while the throughput of externally sourced crude oil were 75.17 million tonnes, accounting for 72.2% of the total throughput of crude oil (among which, 53.81 million tonnes were sourced from imports, 14.96 million tonnes from PetroChina and 6.4 million tonnes from CNOOC), and representing an increase of 5.4 million tonnes, or 7.7%, compared with 69.77 million tonnes in 2001. Although the international crude oil prices gradually went up after March 2002, the Company's average purchase price of externally sourced crude oil in 2002 went down by RMB 88.52 per tonne, or 5.3%, from RMB 1,662.59 per tonne in 2001 to RMB 1,574.07 per tonne in 2002.

- In 2002, other purchased products and operating supplies and expenses of the Company accounted for RMB 116.9 billion, or 37.5% of the total operating expenses, up by 12.1%, or RMB 12.6 billion, compared with RMB 104.3 billion in 2001. This increase was primarily due to the increased externally purchased chemical feedstock and the increased purchased expense associated with the increased sales revenues of the Company's overseas trading subsidiaries as they increased their trading activities of crude oil and refined products in 2002.

Selling, general and administrative expenses

Selling, general and administrative expenses of the Company were RMB 21.1 billion in 2002, up 23.4% compared with RMB 17.1 billion in 2001. This increase was primarily due to:

- An increase of RMB 0.85 billion in transportation and contracted labor expenses as a result of the increases of the retail proportion of the sales of gasoline and diesel and the total sales volume of refined products;
- An increase of RMB 0.6 billion in the selling expenses associated with the increased sales volume of chemical products as a result of the expanded production capacity of certain chemical production facility after revamp;
- An increase of approximately RMB 0.5 billion in the selling, general and administrative expenses in 2002 due to the increased sales volume of products other than gasoline, diesel and kerosene;
- An increase of RMB 0.2 billion for research and development;
- An increase of RMB 0.1 billion for the implementation of the Company's management information system; and
- The Company in 2001 strengthened the administration of accounts receivable and collected certain long outstanding debts and reduced 2001 allowance for doubtful accounts accordingly.

Depreciation, depletion and amortization

Depreciation, depletion and amortization of the Company were RMB 24.2 billion in 2002, up by RMB 1.8 billion, or 8%, from RMB 22.4 billion in 2001. This increase was primarily due to the commencement of operation of newly developed or acquired properties, plants and equipment including oil and gas properties as a result of the Company's capital expenditure programmes.

Exploration expenses

Exploration expenses of the Company were RMB 4.4 billion in 2002, up by RMB 0.6 billion, or 15.8%, from RMB 3.8 billion in 2001. This increase was primarily due to the Company's implementation of its strategy of continuously expanding resources, whereby the Company increased its exploration expenditure in certain important areas in China's western region and southern marine bed formation areas so as to lay a firm foundation for the potential future expansion of the Company's crude oil reserves and production.

Personnel expenses

In 2002, personnel expenses of the Company were RMB 13.6 billion, up by RMB 0.7 billion, or 5.4%, from RMB 12.9 billion in 2001. The increase was mainly because the Company reinforced its performance-based incentive schemes, and in certain subsidiaries special salaries were awarded for certain special positions, resulting in an increase of RMB 0.9 billion in salary expenses. In addition, expenses related to welfare and social security increased by RMB 0.3 billion in 2002. Despite the increase, the personnel expenses in 2002 have been effectively controlled as a whole.

Employee reduction expenses

Pursuant to the asset swap agreement between the Company and Sinopec Group Company, the Company made payment of RMB 0.24 billion relating to 11,000 employees transferred to Sinopec Group Company.

Taxes other than income tax

Taxes other than income tax of the Company were RMB 11.9 billion, which is similar to that in 2001.

Other operating expenses

The net amount of the Company's other operating expenses were RMB 1.1 billion in 2002, up by RMB 0.9 billion compared to RMB 0.2 billion in 2001. The increase was primarily attributable to the increased expenses incurred for the disposal of certain obsolete and retired equipments after various facilities' upgrade.

(3) Operating profit

In 2002, the operating profit of the Company was RMB 28.3 billion, up by RMB 1 billion, or 3.7%, from RMB 27.3 billion in 2001. This increase was resulted from a combination of various factors including: the recovery of crude oil and chemicals prices on the international market since March 2002, and the management changed the Company's operating strategy in response to a more favorable market condition, and the Company's implementation of various measures to strengthen the management control and to further expand the market. Over the year, the operating profit has improved over each quarter, in particular, operating profit in the first, second, third and fourth quarter were RMB 1.6 billion, RMB 9.1 billion, RMB 8.5 billion and RMB 9.1 billion, respectively.

(4) Net finance cost

In 2002, net finance cost of the Company was RMB 4 billion, up by 25% compared with RMB 3.2 billion in 2001. The increase was largely due to the following factors:

- Adversely affected by the fluctuation of exchange rates, the Company had a net foreign exchange loss of approximately RMB 0.3 billion, representing an increased finance cost of RMB 0.7 billion compared with approximately RMB 0.4 billion of net foreign exchange gain in 2001;
- Net interest income in 2002 decreased by RMB 0.85 billion from that in 2001 as a result of the reduction of time deposits associated with the use of the offering proceeds and the lower interest rate set by People's Bank of China since February 2002; and
- Interest expense in 2002 decreased by RMB 0.69 billion from 2001 as a result of the lower average interest rate in 2002 and the Company's effort to tighten its operational cash management and to improve its financing structure, including reducing the amount of short-term loans.

(5) Profit from ordinary activities before taxation

In 2002, the Company's profit from ordinary activities before taxation was RMB 24.8 billion, up by 0.8% from RMB 24.6 billion in 2001.

(6) Income tax

In 2002, income taxes of the Company were RMB 7.6 billion, down by 5% compared with RMB 8 billion in 2001, which decrease is primarily due to the decrease of non-deductible expenses.

(7) Profit attributable to shareholders

In 2002, profit attributable to shareholders of the Company was RMB 16.1 billion, up by 0.6% compared with RMB 16 billion in 2001.

2 DISCUSSION OF SEGMENT OPERATION

The Company divides its operations into four principal business segments, namely, exploration and production segment, refining segment, marketing and distribution segment and chemicals segment, and a corporate and others segment. Unless otherwise indicated, the financial data discussed in this section do not eliminate the inter-segment transactions and the operating revenue data of each segment include other operating revenues of each segment.

The following table shows the operating revenues by each segment, the contribution of external sales and inter-segment sales as a percentage of operating revenues before elimination of inter-segment sales, and the contribution of external sales as a percentage of consolidated operating revenues (i.e. after elimination of inter-segment sales) for the periods indicated.

	Year ended 31 December		Consolidated Operating Revenues Before Elimination of Inter-segment Sales		Consolidated Operating Revenues After Elimination of Inter-segment Sales	
	2002	2001	**2002**	2001	**2002**	2001
	RMB (in billions)		%		%	
Exploration and production						
External sales[1]	18.2	17.3	3.2	3.2	5.4	5.4
Inter-segment sales	39.4	43.3	6.9	8.1	—	—
Operating revenues	**57.6**	**60.6**	**10.1**	**11.3**	**5.4**	**5.4**
Refining						
External sales[1]	50.6	52.3	8.9	9.8	14.9	16.4
Inter-segment sales	161.3	156.8	28.3	29.3	—	—
Operating revenues	**211.9**	**209.1**	**37.2**	**39.0**	**14.9**	**16.4**
Marketing and distribution						
External sales[1]	184.7	180.8	32.4	33.8	54.3	56.8
Inter-segment sales	2.3	2.5	0.4	0.5	—	—
Operating revenues	**187.0**	**183.3**	**32.8**	**34.2**	**54.3**	**56.8**
Chemicals						
External sales[1]	62.4	53.3	10.9	10.0	18.4	16.7
Inter-segment sales	7.2	5.6	1.3	1.0	—	—
Operating revenues	**69.6**	**58.9**	**12.2**	**11.0**	**18.4**	**16.7**
Corporate and others						
External sales[1]	24.1	14.8	4.2	2.8	7.0	4.7
Inter-segment sales	19.8	8.9	3.5	1.7	—	—
Operating revenues	**43.9**	**23.7**	**7.7**	**4.5**	**7.0**	**4.7**
Operating revenues before elimination of inter-segment sales	**570.0**	**535.6**	**100.0**	**100.0**	**—**	**—**
Elimination of inter-segment sales	**(230.0)**	**(217.1)**	**—**	**—**	**—**	**—**
Consolidated operating revenues	**340.0**	**318.5**	**—**	**—**	**100.0**	**100.0**

Note: (1) include other operating revenues.

The following table shows the operating revenues, operating expenses and operating profit by each segment before elimination of the inter-segment transactions for the periods indicated.

	Year ended 31 December 2002	2001	Percentage change from 2001 to 2002 (%)
	RMB (billion)		
Exploration and production			
Operating revenues	57.6	60.6	(5.0)
Operating expenses	(42.8)	(37.4)	14.4
Operating profit	**14.8**	**23.2**	**(36.2)**
Refining			
Operating revenues	211.9	209.1	1.3
Operating expenses	(206.0)	(207.0)	(0.5)
Operating profit	**5.9**	**2.1**	**181.0**
Marketing and distribution			
Operating revenues	187.0	183.3	2.0
Operating expenses	(178.6)	(180.9)	(1.3)
Operating profit	**8.4**	**2.4**	**250.0**
Chemicals			
Operating revenues	69.6	58.9	18.2
Operating expenses	(69.5)	(59.6)	16.6
Operating profit	**0.1**	**(0.7)**	**(114.3)**
Corporate and others			
Operating revenues	43.9	23.7	85.2
Operating expenses	(44.9)	(23.4)	91.9
Operating profit	**(1.0)**	**0.3**	**(433.3)**

(1) Exploration and Production Segment

Exploration and production segment consists of the activities of the Company related to exploring for and developing, producing and selling of crude oil and natural gas.

In 2002, the operating revenues from the exploration and production segment were RMB 57.6 billion, down by RMB 3 billion, or 5%, from RMB 60.6 billion in 2001. The decline in operating revenues was primarily due to the decrease of the average realized prices and sales volume of crude oil. Despite that crude oil prices on the international market have gradually increased since March 2002, the Company's average realized crude oil price in 2002 was still lower than that of 2001, partly because the crude oil pricing mechanism in China, though links to the international market prices, lags behind them for approximately one month.

In 2002, the segment's average realized price of crude oil was RMB 1,317.82 per tonne, down by 4% compared with RMB 1,373.06 per tonne in 2001. Average realized price of natural gas was RMB 571.69 per thousand cubic meter in 2002, up by 1.9% compared with RMB 561.08 per thousand cubic meter in 2001.

In 2002, the exploration and production segment sold 35.53 million tonnes of crude oil, down by 0.48 million tonnes, or 1.3%, from 36.01 million tonnes in 2001. It also sold 3.3 billion cubic meters of natural gas, up by 0.2 billion cubic meters, or 6.5%, from 3.1 billion cubic meters in 2001. The production volume of crude oil in 2002 is similar to that in 2001. While the crude oil production volume in 2002 remained at the similar level with 2001, the decline in crude oil sales volume was primarily because the Company sold an additional amount of 0.38 million tonnes of inventory crude oil stored in the pipelines in 2001 compared with 2002. The increase in natural gas sales volume was primarily due to the increased production of natural gas from Sinopec National Star and China's western regions.

The operating expenses for the exploration and production segment were RMB 42.8 billion, up by RMB 5.4 billion, or 14.4%, from RMB 37.4 billion in 2001, which increase is primarily due to the following reasons:

- The depreciation, depletion and amortization increased by RMB 0.9 billion from RMB 8.1 billion in 2001 to RMB 9 billion in 2002 as more fixed assets commenced operation as a result of the Company's various capital expenditure programmes;

- The Company continued to implement its strategy of expanding resources in 2002, and increased its exploration expenditure in certain important areas in western China and southern China's marine bed formation areas so as to lay a firm foundation for the potential future increase of crude oil reserve and production. Exploration expenses (including dry holes expenses) were up by RMB 0.6 billion from RMB 3.8 billion in 2001 to RMB 4.4 billion in 2002;

- In 2001, the Company collected approximately RMB 0.2 billion long outstanding debts, while in 2002, allowance for doubtful accounts of approximately RMB 0.4 billion was provided for. The related expenses in 2002 thus increased by approximately RMB 0.6 billion compared with 2001.

- As a result of the segment's reinforcement of its performance based incentive schemes as well as the implementation of new incentive schemes in certain subsidiaries such as special salaries for special positions, expenses related to salaries, welfare and social security increased approximately by RMB 0.3 billion in 2002 compared with 2001;

- The segment disposed certain obsolete and retired equipment after various facilities' upgrade, which resulted in an increase of the related expenses by approximately RMB 0.3 billion; and

- Other operating expenses of the segment including supplies of raw materials in 2002 were increased by RMB 0.9 billion compared with 2001.

Compared with 2001, while this segment increased some expenditure in 2002 that were necessary to maintain a stable production of crude oil, it continued to improve measures on water injection efficiency and other cost-cutting initiatives. As a result, the cash operating costs for crude oil and natural gas production decreased by US$ 0.03 per barrel, or 0.5%, from US$ 6.15 per barrel in 2001 to US$ 6.12 per barrel in 2002.

In 2002, the operating profit of the exploration and production segment was approximately RMB 14.8 billion, down by RMB 8.4 billion, or 36.2%, from RMB 23.2 billion in 2001. The decline was primarily due to the decline of realized prices of crude oil as well as the increase of depreciation, depletion and amortization expenses and exploration expenses.

(2) Refining Segment

Refining segment consists of the operations of the Company related to purchasing crude oil from the Company's exploration and production segment and from third parties, processing crude oil into refined products, selling refined products principally to the Company's marketing and distribution segment and to other domestic and overseas customers. To operate more efficiently as an integrated company with distinct refining and marketing and distribution segments, substantially all of the refining segment's sale of gasoline, diesel and kerosene including jet fuel, other than exports, were made to the marketing and distribution segment, and other refined products were sold to domestic and overseas customers.

In 2002, the operating revenues from the refining segment were RMB 211.9 billion, up by 1.3% compared with RMB 209.1 billion in 2001. The increase in operating revenues was primarily due to the significant increase in revenues from the sales of chemical feedstock as well as some refined products other than gasoline and diesel.

In 2002, the refining segment sold 19.3 million tonnes of gasoline at an average realized price of RMB 2,280.51 per tonne, and realized sales revenues of RMB 44 billion, accounting for 20.8% in the total operating revenues of the refining segment. In 2001, the refining segment sold 18.72 million tonnes of gasoline at an average realized price of RMB 2,386.88 per tonne, and realized sales revenues of RMB 44.7 billion, accounting for 21.4% in the total operating revenues of the refining segment in 2001.

Compared with 2001, the sales volume of gasoline in 2002 increased by 0.58 million tonnes, or 3.1%; the realized gasoline price fell by RMB 106.37 per tonne, or 4.5%; sales revenues of gasoline decreased by RMB 0.7 billion, and that as a percentage of the refining segment's total operating revenues declined by 0.6 percentage point.

In 2002, the refining segment sold 37.39 million tonnes of diesel at an average realized price of RMB 2,126.55 per tonne, and realized sales revenues of RMB 79.5 billion, accounting for 37.5% 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 2,199.94 per tonne, and realized sales revenues of RMB 83.8 billion, accounting for 40.1% of the total operating revenues of the refining segment in 2001.

Compared with 2001, the sales volume of diesel in 2002 decreased by 0.69 million tonnes, or 1.8%; the realized diesel price fell by RMB 73.39 per tonne, or 3.3%; sales revenues of diesel decreased by RMB 4.3 billion, and that as a percentage of the refining segment's total operating revenues declined by 2.6 percentage points.

In 2002, the refining segment sold 20.09 million tonnes of chemical feedstock at an average realized price of RMB 1,934.24 per tonne, and realized sales revenues of RMB 38.9 billion, accounting for 18.4% of the total operating revenues of the refining segment. In 2001, the refining segment sold 17.12 million tonnes of chemical feedstock at an average realized price of RMB 1,990.49 per tonne, and realized sales revenues of RMB 34.1 billion, accounting for 16.3% of the total operating revenues of the refining segment in 2001.

Compared with 2001, the sales volume of chemical feedstock in 2002 increased by 2.97 million tonnes, or 17.3%; sales price fell by RMB 56.25 per tonne, or 2.8%; sales revenues increased by RMB 4.8 billion, and that as a percentage of the refining segment's total operating revenues increased by 2.1 percentage points. In 2002, as part of its optimization plan for resource allocations, the segment adjusted its product mix in accordance with the increased demand on chemical segment and significantly increased its sales volume of chemical feedstock.

In 2002, the refining segment sold 24.98 million tonnes of other refined products than gasoline, diesel and chemical feedstock at an average realized price of RMB 1,860.99 per tonne, and realized sales revenues, of RMB 46.5 billion, accounting for 21.9% of the total operating revenues of the refining segment. In 2001, the refining segment sold 23.43 million tonnes of these other refined products at an average realized price of RMB 1,872.36 per tonne, and realized sales revenues of RMB 43.9 billion, accounting for 21% of the total operating revenues of the refining segment in 2001.

Compared with 2001, the sale volume of these other refined products increased by 1.55 million tonnes, or 6.6%; average realized sales price fell by RMB 11.37 per tonne, or 0.6%; sales revenues increased by RMB 2.6 billion, and that as a percentage of the segment's total operating revenues increased by 0.9 percentage point. The increase in the sales volume of these other refined products outpaced that of gasoline and diesel, as the Company intended to capture the favorable opportunities presented in the changing market by strengthening the management control of these other refined products and increasing the production of those products with higher added value.

In 2002, the operating expenses of the refining segment were RMB 206 billion, down by RMB 1 billion, or 0.5%, from RMB 207 billion in 2001. The decrease was primarily due to the reduction of average cost of crude oil. In 2002, average cost of crude oil was RMB 1,532.48 per tonne, down by RMB 85.41 per tonne, or 5.3%, from RMB 1,617.89 per tonne in 2001. In 2002, the segment processed 104.15 million tonnes of crude oil (excluding crude oil processed for third parties), up by 3.11 million tonnes from 101.04 million tonnes in 2001, which increase was partially offset by the decline of the average cost of crude oil. In 2002, total purchase expenses of crude oil was RMB 159.6 billion, accounting for 77.5% of the total operating expenses of the refining segment. In 2001, total purchase expenses of crude oil was RMB 163.5 billion, accounting for 79% of the total operating expenses of the refining segment. Compared with 2001, the total purchase expenses of crude oil for the segment in 2002 decreased by RMB 3.9 billion, and that as a percentage of the segment's total operating expenses decreased by 1.5 percentage points.

In 2002, the Company's refining margin (defined as the segment's sales revenues less crude oil expenses, feedstock expenses and taxes other than income tax; and divided by the volume of crude oil and feedstock processed) was US$3.95 per barrel, which increased by US$0.38 per barrel, or 10.6%, from US$3.57 per barrel in 2001.

In 2002, the unit cash operating cost of this segment (defined as the segment's operating expenses less purchase expenses of crude oil and feedstock, depreciation and amortization, taxes other than income tax and other operating expenses and adjustments, and divided by the volume of crude oil and feedstock processed) was US$2.03 per barrel, down by US$0.04 per barrel from that of US$2.07 per barrel in 2001. Such decrease was largely due to the implementation of various cost reduction measures by the refining segment.

In 2002, the operating profit of the refining segment was RMB 5.9 billion, up by RMB 3.8 billion, or 181%, from RMB 2.1 billion in 2001. The increase was largely due to the increased refining margins as a result of, among others, the increase of crude oil throughput, the adjustment of product mix, the expansion of the market and the increased production of refined products with higher added value.

(3) Marketing and Distribution Segment

The activities of the marketing and distribution segment consist of purchasing refined products from the refining segment and third parties, wholesale of such refined products to domestic customers (including direct distribution and direct sales to special customers), retail sales and distribution of such products through the Company's retail distribution network, and provision of related services.

In 2002, the operating revenues of this segment were RMB 187 billion, up by RMB 3.7 billion, or 2%, from RMB 183.3 billion in 2001. The increase was mainly due to the increase of total sales volume of the refined products. The total sales volume of the refined products by the segment in 2002 was 73.61 million tonnes, up by 4.26 million tonnes, or 6.1%, from 69.35 million tonnes in 2001.

- Retail sales as a percentage of the segment's total sales revenues further increased in 2002. The retail sales revenue of gasoline and diesel accounted for 43.7% of the segment's operating revenues in 2002, up from 39.7% in 2001. Wholesale sales revenues of gasoline and diesel accounted for 46.1% of the operating revenues of this segment in 2002, down from approximately 53% in 2001.

In 2002, wholesale sales volume accounted for 55.2% of the total sales volume of gasoline and diesel, down by 2.4 percentage points from 57.6% in 2001. Retail sales volume accounted for 44.8% of the total sales volume of gasoline and diesel in 2002, up by 2.4 percentage points from 42.4% in 2001. The increase in retail sales revenue and retail sales volume was mainly a result of the increased average throughput at each gas station, which increase was attributable to the Company's continued effort to enhance its retail distribution network, to further optimize the locations of its existing gas stations and to improve its quality of service.

In 2002, the sales revenues of gasoline were RMB 61 billion, up by RMB 5.3 billion, or 9.5%, from RMB 55.7 billion in 2001. This increase was primarily due to the increased sales volume as well as the increased sales prices of gasoline. Gasoline sales price increased because of the increased retail sales proportion as well as the increased sales volume of higher grade gasoline. In 2002, the sales volume of gasoline was 21.36 million tonnes, up by 1.09 million tonnes, or 5.4%, from 20.27 million tonnes in 2001. In addition, the sales volume of gasoline with grade above #90 as a percentage of the segment's total gasoline sales volume was further enhanced, up by 31% from 4.41 million tonnes in 2001 to 5.78 million tonnes in 2002. In 2002, the average realized sales price of gasoline was RMB 2,856.68 per tonne, up by RMB 107.56 per tonne, or 3.9%, compared with RMB 2,749.12 per tonne in 2001.

- In 2002, the retail sales volume of gasoline increased to 12.34 million tonnes, up by 1.5 million tones, or 13.9%, from 10.84 million tonnes in 2001; and the average realized retail sales price of gasoline was RMB 3,061.82 per tonne, up by 4.3% compared with RMB 2,934.55 per tonne in 2001;

- In 2002, the wholesale sales volume of gasoline (excluding direct distribution sales volume and those directly sold to special customers) was 7.25 million tonnes, down by 0.69 million tonnes, or 8.7%, from 7.94 million tonnes in 2001; and the average realized wholesale sales price of gasoline was RMB 2,585.31 per tonne, up by 1.9% compared with RMB 2,536.2 per tonne in 2001;

- In 2002, the direct distribution sales volume of gasoline was 1.04 million tonnes, up by 0.41 million tonnes, or 64.5%, from 0.63 million tonnes in 2001; and the average realized price for the direct distribution sales of gasoline was RMB 2,693.28 per tonne, up by 1.9% compared with RMB 2,642.34 per tonne in 2001; and

- In 2002, the direct sales volume of gasoline to special customers was 0.72 million tonnes, down by 0.14 million tonnes, or 16.3%, from 0.86 million tonnes in 2001; and the average realized price of gasoline sold to special customers was RMB 2,312.75 per tonne, down by 5.9% compared with RMB 2,457.12 per tonne in 2001.

In 2002, the sales revenues of diesel were RMB 107 billion, up by RMB 3.2 billion, or 3.1%, from RMB 103.8 billion in 2001. The increase was primarily due to the increased sales volume of diesel. In 2002, the sales volume of diesel was 44.5 million tonnes, up by 1.95 million tonnes, or 4.6%, from 42.55 million tonnes in 2001; the average realized sales price of diesel was RMB 2,404.85 per tonne, down by RMB 35.6 per tonne, or 1.5%, compared with RMB 2,440.45 per tonne in 2001.

- In 2002, the retail sales volume of diesel increased to 17.16 million tonnes, up by 1.34 million tonnes, or 8.5%, from 15.82 million tonnes in 2001; and the average realized retail sales price of diesel was RMB 2,562.49 per tonne, down by 1.1% compared with RMB 2,590.59 per tonne in 2001;

- In 2002, the wholesale sales volume of diesel (excluding the direct distribution sales volume and those directly sold to special customers) was 17.85 million tonnes, down by 1.12 million tonnes, or 5.9%, from 18.97 million tonnes in 2001; and the average realized wholesale sales price of diesel was RMB 2,297.06 per tonne, down by 2.6% compared with RMB 2,357.51 per tonne in 2001;

- In 2002, the direct distribution sales volume of diesel was 5.48 million tonnes, up by 2.38 million tonnes, or 76.8%, from 3.1 million tonnes in 2001; and the average realized price for the direct distribution sales of diesel was RMB 2,397.89 per tonne, down by 1.7% compared with RMB 2,438.83 per tonne in 2001;

- In 2002, the direct sales volume of diesel to special customers was 4.01 million tonnes, down by 0.65 million tonnes, or 13.9%, from 4.66 million tonnes in 2001; and the average realized price of diesel sold to special customers was RMB 2,219.39 per tonne, down by 2.2% compared with RMB 2,269.32 per tonne in 2001.

In 2002, the sales revenue of kerosene including jet fuel was RMB 9.2 billion, down by RMB 1.1 billion, or 11.3%, from RMB 10.3 billion in 2001. The decrease was primarily due to the decline of the average realized prices of kerosene including jet fuel. The average realized diesel price of kerosene including jet fuel was RMB 2,111.92 per tonne in 2002, down by 23.4% compared with RMB 2,757 per tonne in 2001.

In 2002, the operating expenses of the marketing and distribution segment were RMB 178.6 billion, down by RMB 2.3 billion, or 1.3%, from RMB 180.9 billion in 2001. The purchase costs of gasoline and diesel in 2002 were RMB 146.2 billion, accounting for 81.9% of the total operating expenses of this segment. The average purchase costs of gasoline and diesel decreased from 2001 by 8.6% and 6.4%, respectively, to RMB 2,357.28 per tonne and RMB 2,155.17 per tonne in 2002, respectively. However, the sales volume of gasoline and diesel increased from 2001 by 5.4% and 4.6%, respectively, to 21.36 million tonnes and 44.5 million tonnes in 2002, respectively.

In 2002, this segment's cash operating cost (defined as the operating expenses less purchased products expenses, taxes other than income tax, depreciation and amortization; and divided by the sales volume) was RMB 166 per tonne, up by 1.84% compared with RMB 163 per tonne in 2001. The increase was largely due to the increased retail proportion in the sales volume of gasoline and diesel, which led to the increased transportation and contracted labor expenses.

In 2002, the operating profit of the marketing and distribution segment was RMB 8.4 billion, up by RMB 6 billion, or 250%, from 2001. Such increase was primarily because, as the general market conditions improved, the total sales volume of refined products increased. The increase was also due to the increased retail proportion in the total sales volume as well as the increased sales volume of higher grade gasoline.

Over the year, the operating profit of the marketing and distribution segment gradually improved from a sluggish start in January and February 2002, at which time the refined products prices were at the lowest level for the entire year. With the gradual recovery of prices of crude oil and refined products on the international market since March 2002, the Company closely monitored the market changes with a view to capturing the favorable opportunities presented and further optimizing the deployment of the resources for refined products. In response to the market demand, the Company, adopted a number of effective initiatives including tighter control of the Company's crude oil throughput and the volume of refined products in domestic market. As a result, the performance of the marketing and distribution segment improved significantly over the year.

(4) Chemicals Segment

The business activities of the chemicals segment include purchasing of chemical feedstock from the refining segment and third parties, producing, marketing and distributing petrochemical and inorganic chemical products.

The operating revenues of the chemicals segment in 2002 were RMB 69.6 billion, up by RMB 10.7 billion, or 18.2%, from RMB 58.9 billion in 2001. The increase was largely due to a significant increase of sales volume of various chemical products as their production capacities increased after the relevant facilities completed their revamp in 2002. The sales revenues of the segment's six major chemical product categories(namely, intermediate petrochemicals, synthetic resins, synthetic rubbers, synthetic fiber, synthetic fiber monomers and polymers and fertilizers) were approximately RMB 57.3 billion, accounting for 82.3% of the operating revenues of the segment, and increased by RMB 7.6 billion, or 15.2%, from RMB 49.7 billion in 2001. The following table shows the sales volume, average realized prices and percentage changes of each major product category of the chemical segment in 2001 and 2002.

	Sales volume (in million tonnes)		Rate of change	Average realized prices (RMB per tonne)		Rate of change
	2002	2001	%	**2002**	2001	%
Intermediate petrochemicals	6.16	4.83	27.5	2,404.7	2,384.31	0.9
Synthetic fiber monomers and polymers	1.70	1.70	0	5,454.1	5,220.61	4.5
Synthetic resins	3.30	2.67	23.6	5,238.22	5,550.33	(5.6)
Synthetic fiber	1.18	1.08	9.3	8,435.24	8,512.38	(0.9)
Synthetic rubbers	0.46	0.42	9.5	6,450.13	6,175.62	4.4
Fertilizers	2.72	2.73	(0.4)	1,084.11	995.87	8.9

In 2002, this segment's operating expenses were RMB 69.5 billion, up by 16.6% compared with RMB 59.6 billion in 2001. The increase was largely because various expenses such as purchased feedstock, fuels, utilities and ancillary materials increased as a result of the increased production of various chemical products after the completion of the revamping projects for certain ethylene and downstream facilities. Among the increased expenses,

- the consumption of raw materials went up by 1.79 million tonnes in 2002 compared with that in 2001, and their average unit price increased by RMB 189.25 per tonne, the combination of which led to an increase of approximately RMB 7 billion, or 21.7%, in the purchased products and operating supplies and expenses;
- the increased consumption of fuels, utilities and ancillary materials also led to an increase of approximately RMB 1.7 billion, or 20.7%, in such expenses;
- the significant increase in production and sales volume increased the selling, general and administrative expenses in 2002 by approximately RMB 0.6 billion, or 23.1% compared with that in 2001;
- the depreciation and amortization amounted to RMB 7.1 billion in 2002, up by approximately RMB 0.4 billion, or 6%, from 2001.

The operating profit of the chemicals segment in 2002 was RMB 0.1 billion, up by approximately RMB 0.8 billion compared with the operating loss of approximately RMB 0.7 billion in 2001. The increase was largely due to the increased production and sales volume of certain major chemical products after the relevant production facilities were revamped for increased production capacity.

(5) Corporate and Others

The corporate and others segment includes import and export activities of the Company's trading subsidiaries and the research and development activities of the Company.

In 2002, the operating revenues of corporate and others were approximately RMB 43.9 billion, up by RMB 20.2 billion, or 85.2%, from RMB 23.7 billion in 2001. The operating revenues comprised mainly consolidated operating revenues of Sinopec (Hong Kong) Company Limited, Sinopec (Singapore) Company Limited and Unipec Limited as well as other subsidiaries. The increase was primarily because certain of these subsidiaries significantly expanded their independent trading operations of crude oil and refined products on the international market.

The operating expenses of corporate and others in 2002 were approximately RMB 44.9 billion, up by RMB 21.5 billion, or 91.9%, compared with that in 2001. The increase was largely due to the increased purchase expenses associated with the increased trading activities of these subsidiaries.

The corporate and others segment had an operating loss of approximately RMB 1 billion in 2002, down by approximately RMB 1.3 billion compared with the operating profit in 2001. The decline was primarily due to the increased expenses in the Company's corporate headquarters. For example,

- The R&D expenses of the Company increased by RMB 0.22 billion in 2002 compared with that in 2001;
- The Company recovered RMB 0.18 billion of aged receivables in 2001, while no such item in 2002;
- The expenses related to the management information system increased by RMB 0.1 billion in 2002 from 2001.

3 LIQUIDITY AND CAPITAL RESOURCES

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

(1) Assets, liabilities and shareholders' equity Unit: RMB millions

	2002	2001	Changes
Current assets	101,884	109,795	(7,911)
Non-current assets	273,997	256,914	17,083
Total assets	375,881	366,709	9,172
Current liabilities	117,434	124,711	(7,277)
Non-current liabilities	80,042	70,788	9,254
Total liabilities	197,476	195,499	1,977
Minority interests	23,920	23,541	379
Net assets	154,485	147,669	6,816
Shareholders' funds			
Share capital	86,702	86,702	0
Reserves	67,783	60,967	6,816
	154,485	**147,669**	**6,816**

As at 31 December 2002, the Company's total assets were RMB 375.9 billion, total liabilities were RMB 197.5 billion, minority interests were RMB 23.9 billion, and shareholders' equity were RMB 154.5 billion. Compared to 2001, changes of assets and liabilities in 2002 are primarily due to the following reasons:

- Total assets were RMB 375.9 billion, representing an increase of RMB 9.2 billion compared with RMB 366.7 billion as at 31 December 2001. Current assets were RMB 101.9 billion as at 31 December 2002, representing a decrease of RMB 7.9 billion from 31 December 2001. This decrease was primarily due to the Company's enhanced fund management to shorten the fund turnover cycle, resulting in a decrease in cash and cash equivalents and time deposits by RMB 4.1 billion, collection of account receivables of RMB 1.8 billion, reduction of pre-payments by RMB 0.8 billion as well as reduction of prepaid taxes by RMB 0.7 billion. Non-current assets were RMB 274 billion as at 31 December 2002, representing an increase of RMB 17.1 billion from 31 December 2001, which increase was primarily due to the addition of equipment, plant and property.

- Total liabilities amounted to RMB 197.5 billion as at 31 December 2002, representing a increase of RMB 2 billion from RMB 195.5 billion as at 31 December 2001. Current liabilities were RMB 117.4 billion as at 31 December 2002, representing a decrease of RMB 7.3 billion from 31 December 2001. This decrease was primarily due to the Company's enhanced fund management to reduce the amount of idle funds and the level of short-terms debts, and as a result, the Company repaid to the banks and other financial institutions approximately RMB 11.6 billion in short-term loans and RMB 2.5 billion of the current portions of long-term loans. In addition, a change of liabilities' structure resulted in an increase in bills payable by RMB 4.1 billion and accounts payable by RMB 2.4 billion, which increase partially offsets the decrease of other liabilities. Non-current liabilities were RMB 80 billion as at 31 December 2002, representing an increase of RMB 9.3 billion from 31 December 2001. The increase was primarily due to the increase of long-term borrowings by RMB 8.2 billion as a result of the Company's capital expenditure programmes.

- The shareholders' funds were RMB 154.5 billion as at 31 December 2002, representing an increase of RMB 6.8 billion from RMB 147.7 billion as at 31 December 2001. This increase was mainly due to the net profit for the year ended 31 December 2002, reduced by the final dividend for 2001 and the interim dividend for 2002.

(2) Cash flow in 2002

Cash and cash equivalents decreased by RMB 3.331 billion from the beginning to the end of 2002, and after taking into consideration the impact of an exchange rate loss of the RMB 7 million, the net decrease was RMB 3.324 billion, that is, from RMB 21.023 billion on 31 December 2001 to RMB 17.699 billion on 31 December 2002. The table below sets forth the major items in the consolidated cash flow statement for 2001 and 2002.

Unit: RMB100 million

Major items in cash flow statement	2002	2001	Increase/ decrease	Changes %
Net cash flow from operating activities	538.90	552.79	(13.89)	(2.51)
Net cash used in investing activities	(426.58)	(384.83)	(41.75)	(10.85)
Net cash used in financing activities	(145.63)	(153.87)	8.24	5.36
Net increase/(decrease) of cash and cash equivalents	(33.31)	14.09	(47.40)	(336.41)

i Net cash generated from operating activities

The Company's net cash generated from operating activities in 2002 was RMB 53.89 billion.

The cash inflow from operating activities primarily consists of:

- Cash inflow of RMB 49.114 billion representing the Company's profit from ordinary activities before taxation of RMB 24.832 billion and depreciation, depletion and amortization of RMB 24.282 billion;
- Cash inflow of RMB 4.122 billion representing the decrease in prepaid expenses and other current assets compared with the year-beginning;
- Cash inflow of RMB 0.326 billion representing a decrease in accounts receivables compared with the year-beginning as a result of the Company's strengthened management of accounts receivables;
- Cash inflow of RMB 4.165 billion representing an increase in bills payable; and
- Cash inflow of RMB 2.517 billion representing an increase in accounts payables compared with the year-beginning;

Cash outflow from operating activities primarily consists of:

- Cash outflow of RMB 6.599 billion representing income tax paid.

ii Cash flow from investment activities

Net cash used in investment activities in 2002 was RMB 42.658 billion, consisting primarily of:

- Cash inflow of RMB 0.818 billion representing the maturity of time deposits less the increase in time deposits; and
- Cash outflow of RMB 44.005 billion representing capital expenditure and purchase of investments.

iii Cash flow from financing activities

Net cash used in financing activities in 2002 was RMB 14.563 billion, consisting primarily of:

- Cash outflow of RMB 5.668 billion representing repayments of bank loans net of the proceeds from bank loans; and
- Cash outflow of RMB 8.67 billion representing the dividends paid.

(3) Contingent liabilities

As at 31 December 2002, The Company provided guarantees of approximately RMB 7.522 billion in respect of banking facilities granted by banks to associates, joint ventures and third parties. The table below sets forth the major guarantees given by the Company:

Borrower	Amount (RMB million)
Shanghai Secco Petrochemical Co., Ltd	6,999
Jindi Petrochemical Co., Ltd	211

The Company issued a guarantee for bank loans amounting to RMB 4.68 billion of Yangzi Petrochemical-BASF Co. Ltd.

Pursuant to the relevant agreements with Sinopec Group Company, the Company leased land, building and gas station (on operating leases) and other equipments from Sinopec Group Company, the longest term under these lease is 50 years and the shortest terms under these lease is 20 years. Rental obligations under these leases after 2002 were approximately RMB 97 billion.

As at 31 December 2002, the capital commitments of the Company were RMB 71.26 billion.

4 Capital Expenditure

See details in the section headed "Capital Expenditure" under "Business Review and Prospects" of this annual report.

5 Research and Development and Environmental Expenses

Research and development expenses are expenses in the period in which they are incurred. The Company's R&D expenses in 2002 were RMB 1.514 billion, up by RMB 0.224 billion from RMB 1.29 billion in 2001. In 2002, the Company continued to fund the technological advancement so as to create enduring impetus to the development of the Company in the future.

Environment expenditures primarily consist of the normal routine pollutant discharge fees by the Company, not including capitalized expenses of pollutant discharge equipments. In 2002, the environment expenditure of the Company amounted to RMB 0.287 billion, up by RMB 66 million from RMB 0.221 billion in 2001.

6 ANALYSIS OF FINANCIAL STATEMENTS PREPARED UNDER THE PRC ACCOUNTING RULES AND REGULATIONS

Other than the differences in the classification of certain items in the financial statements and the accounting treatment methods, there are no material differences between the Company's financial statements prepared under the PRC Accounting Rules and Regulations and IFRS. Significant differences between the PRC Accounting Rules and Regulations and IFRS are described on page 143 of this report.

The table below sets forth the Company's and each of its segments' income from principal operations, the Company's cost of principal operations, taxes and surcharges as well as profit from principal operations prepared under the PRC Accounting Rules and Regulations:

	Year ended 31 December 2002 RMB million	Year ended 31 December 2001 RMB million
Income from principal operations		
Exploration& production segment	50,327	54,427
Refining segment	208,895	206,279
Marketing and distribution segment	186,707	183,070
Chemical segment	65,605	54,571
Corporate and others	42,775	23,075
Elimination of inter-segment sales	(230,125)	(217,075)
Net consolidated income from principal operations	**324,184**	**304,347**
Costs of principal operations, taxes and surcharges		
Exploration and production segment	28,788	27,738
Refining segment	198,115	199,272
Marketing and distribution segment	163,701	167,786
Chemicals segment	60,429	50,580
Corporate and others	42,378	22,343
Elimination of inter-segment sales	(230,377)	(219,721)
Net consolidated income from principal operations	**263,034**	**247,998**
Profit from principal operations		
Exploration and production segment	21,973	28,765
Refining segment	10,598	7,577
Marketing and distribution segment	23,006	15,284
Chemicals segment	5,176	3,992
Corporate and others	397	731
Consolidated profit from principal operations	**61,150**	**56,349**

Financial Data Prepared under the PRC Accounting Rules and Regulations:

	Unit: RMB(millions) Year ended 31 December		
	2002	2001	Change (%)
Total assets	368,375	360,294	2.24
Long-term liabilities	76,152	67,807	12.31
Shareholders' funds	146,515	139,039	5.38
Profit from principal operations	61,150	56,349	8.52
Net profit	14,121	14,018	0.73

Analysis of changes:

Total assets: As at 31 December 2002, the Company's total assets were RMB 368.375 billion, up by RMB 8.081 billion, or 2.24%, compared with RMB 360.294 billion as at 31 December 2001. In 2002, the Company increased investment in fixed assets resulting in an increase of RMB 13.042 billion in fixed assets. Other non-current assets increased by RMB 1.797 billion. Total current assets decreased by RMB 6.758 billion due to the Company's strengthened administration of daily balance of cash and cash equivalent and accounts receivable as well as inventory control.

Long-term liabilities: As at 31 December 2002, the Company's total long-term liabilities were RMB 76.152 billion, up by RMB 8.345 billion, or 12.31%, compared with RMB 67.807 billion as at 31 December 2001. The increase was largely because the Company's long-term loans increased by RMB 8.207 billion as a result of its investment programmes.

Shareholder's funds: As at 31 December 2002, the Company's shareholders' funds were RMB 146.515 billion, up by RMB 7.476 billion, or 5.38%, compared with RMB 139.039 billion as at 31 December 2001. The increase was largely due to: (i) the realization of RMB 14.121 billion of net profit in 2002; (ii) the distribution of RMB 1.734 billion as interim dividends RMB 5.202 billion as final dividends in 2002; and (iii) the subsidy of RMB 0.291 billion appropriated by the State to the Company to improve its technology and equipment.

Profit from principal operations: In 2002, the Company's realized profit from principal operations were RMB 61.15 billion, up by RMB 4.801 billion, or 8.52%, compared with RMB 56.349 billion in 2001. The increase was primarily because the Company quickly adjusted its business strategy to capture the favorable opportunities presented by the recovery of market price and market order, and additionally, the Company implemented various measures to expand markets and reduce costs, which are particularly beneficial to the refining segment and the marketing and distribution segment, both of which realized significant profit growth in 2002, and additionally, the Company's competitive strength in terms of integrated operation came into play.

Net profit: The Company's realized net profit in 2002 was RMB 14.121 billion, up by RMB 0.103 billion, or 0.73%, compared with RMB 14.018 billion in 2001. The increase was primarily due to the increase of profit from principal operations, while the increased expenses partially offset the increase of net profit.

7 SIGNIFICANT DIFFERENCES BETWEEN IFRS AND US GAAP

Other than the differences in the classification of certain items in the financial statements and the accounting treatment methods, there are no material differences between the Company's financial statements prepared under IFRS and US GAAP. Significant differences between IFRS and US GAAP that affect the Company's accounting policies are set out on page 144 to 147 of this annual report.

DISCLOSURE OF SIGNIFICANT EVENTS

1 MATERIAL GUARANTEE CONTRACTS AND THEIR PERFORMANCE

At the 14th meeting of the first session of the Board of Directors of Sinopec Corp., the Board approved the Sinopec Corp. to conditionally provide guarantee in domestic currency and foreign currency for Shanghai Seco's project loan, and the amount of guarantee was equal to RMB6.999 billion. For details, see Sinopec Corp.'s 2001 annual results announcement published in China Securities News, Shanghai Securities News and Securities Times in China and South China Morning Post and Hong Kong Economic Times in Hong Kong on April 2, 2002.

At the 22nd meeting of the first session of the Board of Directors of Sinopec Corp., the Board approved the proposal concerning Sinopec Corp.'s providing of equity mortgage for the Yangzi-BASF project loan on the condition that BASF shall povide equity mortgage on the same terms. The Board also approved the proposal concerning Sinopec Corp.'s provision of guarantee for Yueyang Sinopec Shell Coal Gasification Co. Ltd., and the amount of guarantee was RMB378.5 million.

Except the guarantee for the project of Shanghai Secco, Sinopec Corp. signed no guarantee agreement for the benefit of any other party by December 31, 2002.

Sinopec Corp. signed a Guarantee to Complete Work with domestic and foreign banks on March 7, 2003, whereby it guarantees 40% of a domestic and foreign currencies denominated loan equivalent to around RMB11.7 billion provided by such banks to Yangzi-BASF Company Limited for completion of work.

2 IMPLEMENTATION OF THE COMMITMENTS OF SINOPEC CORP. AND ITS SHAREHOLDERS HOLDING 5% OR MORE OF THE TOTAL SHARE CAPITAL, NAMELY, SINOPEC GROUP COMPANY, CHINA DEVELOPMENT BANK AND CHINA CINDA ASSET MANAGEMENT CORPORATION

(1) As at the end of the reporting period, the undertakings made by Sinopec Corp. included:

i Carrying out the reorganization of its three subsidiaries, namely, Sinopec Shengli Oilfield Company Limited, Sinopec Sales Company Limited and Sinopec International Company Limited, in accordance with the PRC Company Law within a specific period of time;

ii Changing the logo at the petrol stations within a specific period of time;

iii Setting up separate office buildings between Sinopec Group Company and Sinopec Corp. within a specific period of time; and

iv Complying with the relevant applicable provisions and rules of the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") regarding the waiver of connected transactions.

(2) As at the end of the reporting period, the major undertakings given by Sinopec Group Company included:

i Complying with the agreements concerning connected transactions;

ii Resolving the issues arising from the land use right certificates and building ownership certificates within a specific period of time;

iii Implementing the Reorganization Agreement (as referred to in the prospectus for the issue of H shares);

iv Granting licenses for intellectual property;

v Avoiding competition within the industry; and

vi Resolving the business competition and conflict of interests with Sinopec Corp.

(3) As at the end of the reporting period, China Development Bank and China Cinda Asset Management Corporation gave the material undertakings that they would not sell or transfer the shares of Sinopec Corp. held by them within a specific period of time.

Details of the above undertakings were included in the preliminary prospectus published by Sinopec Corp. in the China Securities News, Shanghai Securities News and Securities Times on June 22, 2001.

In this reporting period, Sinopec Corp. did not breach and was not aware itself or any of the principal shareholders above having breached the undertakings.

3 PLAN FOR PROFIT APPROPRIATION AND PLAN FOR TRANSFER OF STATUTORY SURPLUS RESERVE TO EQUITY FOR 2002

As determined in accordance with the PRC Accounting Rules and Regulations and IFRS, Sinopec Corp.'s audited net profits in 2002 were RMB14.121 billion and RMB16.08 billion respectively. In accordance with the provisions of the Articles of Association of Sinopec Corp., the allocation of the profit after tax for the relevant fiscal year would be conducted on the basis of the net profit after tax as determined in accordance with the PRC Accounting Rules and Regulations and under IFRS, whichever is lesser. Thus, the profit after tax to be allocated in 2002 would be RMB14.121 billion. After deducting 10% to be transferred to the statutory surplus reserve, other 10% to be transferred to the statutory public welfare fund and RMB7 billion to be transferred to discretionary surplus reserve, the remaining net profit available for distribution would be RMB4.297 billion. Together with the undistributed profit of RMB10.006 billion brought forward from the preceding year and deducting RMB1.734 billion of interim cash dividend paid in 2002, the retained profit available for distribution to shareholders was RMB12.569 billion in total. On the basis of the total number of 86,702,439,000 shares in issue as at the end of 2002 and according to the resolution adopted by the 31st meeting of the first session of the Board of Directors of Sinopec Corp., cash dividend would be distributed as RMB0.08 per share (including tax). After the interim cash dividend is deducted, the final cash dividend per share for distribution at the end of 2002 would be RMB0.06 per share and the total cash dividend for the full year would be RMB6.936 billion. The remaining undistributed profit would be RMB7.367 billion and would be carried forward to 2003. No statutory surplus reserve would be transferred to capital this year. The proposal will be effective subject to consideration and approval at the 2002 Annual General Meeting.

4 USE OF PROCEEDS FROM H SHARE ISSUE AND A SHARE ISSUE

The proceeds from the issue of H shares of Sinopec Corp. in 2000 amounted to RMB25.802 billion. After deducting the issuance expenses, the net proceeds from the issue of H shares amounted to RMB24.326 billion, of which, RMB4.5 billion was used in 2000 for repayment of loans; RMB13.735 billion was used in 2001 entirely to cover capital expenditure mainly for oil and natural gas exploration and building up production capacity, refining project construction and petrol station and oil depot acquisition. By the end of 2001, the remaining amount of the proceeds from the issue of H shares was RMB6.091 billion. In this reporting period, RMB2.818 billion was used, including RMB1.926 billion used for exploration and production, RMB792 million invested in Shanghai Seco, the Yangzi-BASF Integrated Site Project and the nitrogen facilities upgrading project of Yueyang and RMB100 million used by the headquarters and some subsidiaries of Sinopec Corp. for ERP system building. By December 31, 2002, RMB3.273 billion of the proceeds from the issue of H shares remained unused.

The proceeds from the issue of A shares of Sinopec Corp. in 2001 amounted to RMB11.816 billion. After deducting the issuance expenses, the net proceeds from the issue of A shares amounted to RMB 11.648 billion, in which RMB7.766 billion was used in 2001 mainly for acquiring Sinopec National Star and the Southwest Oil Products Pipeline Project and supplementing the Company's working capital. By the end of 2001, the remaining amount of the proceeds from the issue of A shares was RMB3.882 billion. In this reporting period, RMB696 million was used, including RMB46 million used for covering the prophase cost of the Southwest Oil Products Pipeline Project and RMB650 million for building the Ningbo-Shanghai-Nanjing Crude Oil Pipeline. By December 31, 2002, the remaining amount of the proceeds from the issue of A shares was RMB3.186 billion.

5 PROGRESS OF MAJOR JOINT VENTURES

(1) West-east Pipeline Project

In July 2002, Sinopec Corp., PetroChina and the International Investment Group entered into a Framework Agreement of Cooperation for West-East Gas Transportation for jointly making investment in the construction of the West-East Pipeline Project (the proportion of the three parties in the registered capital is 5%, 50% and 45% respectively). To cooperate with the construction of the West-East Pipeline Project, Sinopec Corp. strengthened its efforts in exploring natural gas in western China and made important breakthrough in developing Ku 1 Well which will provide rich natural gas resources for the West-East Pipeline Project. Sinopec Corp.'s preparatory work in developing natural gas market advanced smoothly and the Company made technological transformation to 10 natural gas utilization projects with an annual natural gas consumption volume of 2.5 billion cubic meters.

(2) East China Sea Natural Gas Cooperation Project

In this reporting period, Sinopec Corp. and CNOOC jointly carried out negotiations with the relevant foreign party concerning the East China Sea Natural Gas Cooperation Project, established East China Sea West Lake Natural Gas Working Company and started the construction of Chunxiao Natural Gas Group Fields Development Project.

(3) Fujian Petrochemical Integration Project

The joint feasibility study report for the Fujian Petrochemical Integration Project jointly funded by Sinopec Fujian Refining and Chemical Co., Ltd., a subsidiary of Sinopec Corp., ExxonMobil China Co., Ltd. and Aramco Overseas Company (the proportion of the three parties in the registered capital is 50%, 25% and 25% respectively) was approved by the State Council of the People's Republic of China in October 2002. The three companies are carrying out negotiation in a timely manner to finalize the joint venture contract and submitting the contract to the Ministry of Foreign Trade and Economic Cooperation of China for approval.

(4) Joint Establishment of Shandong Shihua Natural Gas Co., Ltd. and Shandong Natural Gas Pipeline Co., Ltd.

In February 2002, Sinopec Corp. established Shandong Shihua Natural Gas Co., Ltd. and Shandong Natural Gas Pipeline Co., Ltd. through joint venture respectively with Shandong International Trust and Investment Corporation and Shandong Luxin Investment and Holding Co., Ltd. respectively. Shandong Shihua Natural Gas Co., Ltd.'s registered capital is RMB100 million. The proportion of the two parties in the registered capital is 50%:50%. This company is mainly responsible for expanding the natural gas market of Shandong as well as marketing in this market. This company's particular scope of business covers the sales of pipelined natural gas, the sales of natural gas to urban residents, the construction of CNG, LNG , LPG gas and petrol filling stations, the development of comprehensive natural gas utilization projects and the sales and maintenance of gas-fired utensils. Shandong Natural Gas Pipeline Co., Ltd.'s registered capital is RMB200 million and the proportion of equity held by the two investors is 65%:35%. The scope of business of this company covers the construction, operation and maintenance of natural gas pipelines and the relevant supplementary services.

(5) Qingdao Large-scale Refining Project

At the 27th meeting of the first session of the Board of Directors of Sinopec Corp. held on January 20, 2003, the Board conditionally approved the Feasibility Study Report for the Qingdao Large-scale Refining Project and submitted the Report to the State Development Planning Commission jointly with the People's Government of Shandong Province and the People's Government of Qingdao City.

6 MATTERS CONCERNING THE TRANSFER OF THE STATE SHARES OF SINOPEC HUBEI XINGHUA CO., LTD.

At the 20th meeting of the first session of the Board of Directors of Sinopec Corp., the Board considered and approved the transfer of Hubei Xinghua Co., Ltd.'s state shares held by Sinopec Corp. to China Development and Investment Corporation. At the 24th meeting of the first session of the Board of Directors of Sinopec Corp., the Board approved Sinopec Corp.'s purchase of Hubei Xinghua's core assets, and the procedures of share transfer were completed on October 15, 2002. For details, see the relevant announcements published by Sinopec Corp. in China Securities News, Shanghai Securities News and Securities Times in China and South China Morning Post and Hong Kong Economic Times in Hong Kong on April 30, 2002 and October 10, 2002.

7 STATUS AND PLAN OF EMPLOYEE REDUCTION

In order to improve its efficiency and profitability, Sinopec Corp. planned to reduce its employees by 100,000 by way of retirement, voluntary resignation and/or lay off in the five years from 2001 to 2005. In 2002, the Company actually reduced 25,000 employees by way of retirement, voluntary resignation and termination of labor contract in combination with assets swap. By the end of 2002, Sinopec Corp. reduced about 89,000 employees in total in two years. On the basis of reasonably allocating the existing human resources, the Company plans to reduce 10,000 employees by way of retirement and voluntary resignation in 2003.

8 LITIGATION AND ARBITRATION OF MATERIAL IMPORTANCE

There was no litigation and arbitration of material importance to the Company in this reporting period.

9 AMENDMENT TO THE ARTICLES OF ASSOCIATION, ELECTION OF DIRECTORS AND SUPERVISORS FOR THE NEW SESSION OF OFFICE AND EXTRAORDINARY GENERAL MEETING

At the 2001 Annual General Meeting held on June 13, 2002, the proposal on the amendments to Article 13, item 2 of the Articles of Association of Sinopec Corp. was approved. For details about the amendment, see the relevant announcements published by Sinopec Corp. in China Securities News, Shanghai Securities News and Securities Times in China and South China Morning Post and Hong Kong Economic Times in Hong Kong on June 14, 2002.

At the 28th meeting of the first session of the Board of Directors of Sinopec Corp. held on January 21, 2003, the Board considered and approved the publishing of an announcement about the holding of the first 2003 extraordinary general meeting on March 21, 2003 for considering the proposals on the amendments to the Articles of Association of Sinopec Corp. and selection of the members of the second session of the Board of Directors and the second session of the Supervisory Committee of Sinopec Corp. Sinopec Corp. published an announcement on March 13, 2003, deciding to postpone the date of the first 2003 extraordinary general meeting to April 22, 2003. Therefore, the relevant proposals will be submitted to the postponed general meeting for consideration. For details, see the relevant announcements published by Sinopec Corp. in China Securities News, Shanghai Securities News and Securities Times in China and South China Morning Post and Hong Kong Economic Times in Hong Kong on January 23, 2003 and March 14, 2003.

10 TRUSTEESHIP, CONTRACT AND LEASEHOLD

In this reporting period, Sinopec Corp. did not have any significant trusteeship, contract and lease of any other company's assets nor placed its assets to or under any other company's trusteeship, contract or lease which were required to be disclosed.

11 TRUST FINANCIAL MANAGEMENT

In this reporting period, Sinopec Corp. did not entrust or continuously entrust any other party to carry out cash asset management for it.

12 ASSET MORTGAGE

By December 31,2002, the details regarding the Company's asset mortgage is listed in note 26 to the Financial Statements prepared under IFRS in the annual report.

13 AUDITORS

The 2001 Annual General Meeting held on June 13, 2002 approved Sinopec Corp. to reappoint KPMG Huazhen and KPMG respectively as its domestic and international auditors for the year of 2002 and authorized the Board of Directors to decide the remunerations for them. As approved by the 31st meeting of the first session of the Board of Directors of Sinopec Corp., the total audit fee for 2002 would be HK$55 million.

Beginning from the second half of 2000, the consecutive period of auditing service provided by KPMG Huazhen and KPMG to Sinopec Corp. are two and half years and the first auditing service agreement was signed in March 2001.

Auditors appointed	KPMG Huazhen (domestic)	KPMG (international)
Audit fee for 2002*	HK$3 million (unpaid)	HK$52 million (unpaid)
Audit fee for 2001	HK$3 million (paid)	HK$57 million (paid)
Travel expenses and other expenses	Borne by the firm	Borne by the firm

Note:
*Most of Sinopec Corp.'s subsidiaries listed in the PRC and overseas appointed KPMG Huazhen and KPMG as their auditors. However, some subsidiaries listed in the PRC or overseas appointed other firms as their auditors. Please refer to their annual reports for details about such subsidiaries' appointments and dismissals of auditing firms.

14 OTHER SIGNIFICANT EVENTS

(1) In this reporting period, neither Sinopec Corp., the Board of Sinopec Corp. nor the directors received any investigation from the CSRC, nor was there any administrative penalty and circular of criticism issued by the CSRC, the Securities and Futures Commission of Hong Kong and the Securities and Exchange Committee of United States nor any reprimands published by the Shanghai Stock Exchange, the Hong Kong Stock Exchange, the New York Stock Exchange and the London Stock Exchange.

(2) Basic medical insurance for employees
Sinopec Corp.'s basic medical insurance for employees was implemented in accordance with the Decision of the State Council on the Establishment of Basic Medical Insurance System for Urban Workers (GF [1998] No. 44 Document of the State Council), while the subsidiaries of Sinopec Corp. implemented the local governments' regulations on basic medical insurance respectively in accordance with the local rules of administration. The times of various local governments' promulgation of the policy on basic medical insurance were different. The developed areas began implementing this policy from an earlier time and the other areas should implement it before 2002. Sinopec Corp. had required that all its subsidiaries must ensure, after effecting medical insurance for employees in accordance with the local governments' regulations, that the medical insurance expense should firstly be covered by deposited employee welfare fund and included in the accounting item of "welfare expense payable"; in case the welfare fund is insufficient, the deficit could be included in the account item "labor insurance expense" after approved by the Sinopec Corp's headquarters. In 2002, the basic medical insurance expense paid by Sinopec Corp. was RMB457 million, which was less than 14% of the total amount of wages paid in the same year. Since employee welfare fund had already been deposited in that proportion and included in the Company's cost in the past, the implementation of the system of basic medical insurance for employees was only an systematic improvement, constituted no new burden of cost and produced few influences on the Sinopec Corp.'s overall profit, loss, assets and liabilities.

1 AGREEMENTS CONCERNING CONNECTED TRANSACTIONS ENTERED INTO BETWEEN THE COMPANY AND SINOPEC GROUP COMPANY

In order to ensure the normal operation of production and businesses of the Company and Sinopec Group Company, the two parties entered into a number of agreements on connected transactions before Sinopec Corp. was listed overseas. The particular connected transactions include the following:

(1) Agreement for Mutual Provision of Ancillary Services Including Products, Production and Construction Services ("Mutual Supply Agreement");

(2) Sinopec Group Company provides trademarks and patents proprietary and computer software licence to the Company for free of charge;

(3) Sinopec Group Company provides cultural, educational, hygiene and community services to the Company;

(4) Sinopec Group Company provides leasing of land and certain buildings to the Company;

(5) Sinopec Group Company provides consolidated insurance to the Company;

(6) Sinopec Group Company provides shareholders' loan to the Company;

(7) The Company provides agency marketing services on products to Sinopec Group Company; and

(8) The Company provides petrol stations franchise to Sinopec Group Company.

2 WAIVER IN RESPECT OF THE CONNECTED TRANSACTIONS BETWEEN THE COMPANY AND SINOPEC GROUP COMPANY GRANTED BY THE HONG KONG STOCK EXCHANGE

In accordance to the Listing Rules of the Hong Kong Stock Exchange, the above transactions are subject to full disclosure, depending on their nature and the value of consideration, with prior approval from independent directors and the Hong Kong Stock Exchange. At the time of listing, Sinopec Corp. applied for waivers from the Hong Kong Stock Exchange from full compliance with the Listing Rules for the transactions mentioned above. The Hong Kong Stock Exchange conditionally exempted Sinopec Corp. from undertaking the obligation of continuous disclosure.

At the extraordinary general meeting of Sinopec Corp. held on August 24, 2001, the Connected Transaction Adjustment Agreement was approved, and the connected transactions were adjusted accordingly. Please refer to the relevant description in section 7 of the prospectus published by Sinopec Corp. in China Securities News, Shanghai Securities News and Securities Times on June 22, 2001.

On June 29, 2001, the Hong Kong Stock Exchange conditionally agreed to grant the new waivers on continuous disclosure obligations to Sinopec Corp. and granted Sinopec Corp. a waiver from compliance with the relevant requirements of the Listing Rules in respect of these transactions for a period of three financial years expiring on December 31, 2003, but Sinopec Corp. must satisfy the conditions of waiver. The conditions for the waivers on continuous disclosure obligations were set out in Section 8 of the Letter from the Chairman that was incorporated in the circular to holders of H Shares concerning the connected transactions and on-going connected transactions which was dispatched on June 30, 2001 and published in Annex 3 to the Announcement on the 2001 Extraordinary General Meeting of Sinopec Corp. as published in China Securities News, Shanghai Securities News and Securities Times on July 10, 2001.

3 THE PROVISIONS FOR THE WAIVER ON DISCLOSURE AND APPROVAL REGULATIONS OF CONNECTED TRANSACTIONS ENTERED INTO BETWEEN SINOPEC CORP. AND SINOPEC GROUP COMPANY UNDER THE LISTING RULES OF THE SHANGHAI STOCK EXCHANGE

In the prospectus for the issue of A shares of Sinopec Corp., the above connected transactions together with agreements and arrangements between the Company and Sinopec Group Company were fully disclosed. In accordance with the Listing Rules of the Shanghai Stock Exchange, in the event that there is no significant change in the agreements governing the above connected transactions during the period under review, Sinopec Corp. would be exempted from the disclosure and approval regulations for connected transactions under the Listing Rules of the Shanghai Stock Exchange.

4 CONNECTED TRANSACTIONS ENTERED INTO BY THE COMPANY DURING THIS YEAR

As reviewed by the auditors of Sinopec Corp., the amount of the connected transactions entered into by the Company during this year amounted to an aggregate amount of RMB87.156 billion. Of which, incoming trade amounted to RMB50.672 billion and outgoing trade amounted to RMB36.484 billion (including outgoing products and services amounted to RMB36.343 billion, total amount of interest received was RMB0.104 billion, the agency fee receivable was RMB37 million). These satisfied the conditions of the waiver imposed by the Hong Kong Stock Exchange. In 2002, the products and services provided by Sinopec Group Company (purchase, storage, exploration and production services and production-related services) to the Company amounted to RMB45.365 billion, representing 14.55% of the Company's annual operating expenses, with a 1.81% increase and was within the cap of 18%; the auxiliary and community services provided by Sinopec Group Company to the Company amounted to RMB1.945 billion, representing 0.62% of operating expenses, with a slight decrease when compared with 0.69% in the preceding year and was within the cap of 3%. In 2002, the product sales from the Company to Sinopec Group Company amounted to RMB36.343 billion, representing 10.69% of the Company's operating income, and was within the cap of 16%. With regard to the Land Use Right Leasing Agreement, the amount of rental payable by the Company for the year ended December 31, 2002 was approximately RMB2.018 billion. With regard to the premium payable according to the SPI Fund Document, the amount payable by the Company per annum should not be less than the amount as stipulated in the SPI Fund Document.

Please refer to Note 31 of the Financial Statement prepared in accordance with IFRS in this Annual Report for the details of the connected transactions actually incurred during this year.

The above mentioned connected transactions in 2002 were already approved at the 31st meeting of the first session of the Board of Directors of Sinopec Corp.

The auditors of Sinopec Corp. have confirmed to the Board of Directors in writing that:

(a) The transactions have been approved by the Board of Directors;

(b) The transactions have been entered into at amounts consistent with the pricing policies as stated in the relevant agreements;

(c) The transactions have been entered into in accordance with the terms of the respective agreements and documents governing the transactions; and

(d) The relevant amount has not exceeded the relevant cap amount.

After reviewing the above relevant transactions, the independent directors of Sinopec Corp. have confirmed that:

(a) The transactions have been entered into by Sinopec Corp. in its ordinary and usual course of businesses;

(b) The transactions have been concluded:

i on normal commercial terms;

ii on terms no less favorable than those available from/to independent third parties; or

iii where there is no available comparison for the purpose of determining whether Item i or ii is satisfied, on terms that are fair and reasonable so far as the shareholders of Sinopec Corp. are concerned; and

(c) The total values of the transactions have not exceeded the respective limits.

5 OTHER MATERIAL CONNECTED TRANSACTIONS ENTERED INTO DURING THIS YEAR

(1) Connected Transaction for Assets Swap

At the 26th meeting of the first session of the Board of Directors of Sinopec Corp. held on December 19, 2002, the Board approved the proposal on assets swap with Sinopec Group Company and the two parties signed an assets swap agreement on the same day of the meeting. According to the agreement, Sinopec Corp. swapped some of the water plants, maintenance and repair equipment and physical and chemical exploration assets owned by it (including some relevant liabilities) for some petrol stations, oil depots (including the relevant liabilities) and owned by Sinopec Group Company on the basis of an equal value. Sinopec Corp. paid the value difference of RMB2.1321 million (about HK$2.0095 million) in cash to Sinopec

Group Company. Upon completion of the assets swap, industry competition in ancillary production will be reduced. The assets to be swapped by Sinopec Corp. are mainly the ancillary and service assets of its main production services, including water plants, inspection and maintenance and exploration which fall under the business scope of Sinopec Group Company and should be wholly operated and managed by Sinopec Group Company. The incorporation of such assets into Sinopec Group Company is propitious to reducing the industry competition between Sinopec Corp. and Sinopec Group Company in such area and the development of Sinopec Group Company and will enhance the profitability of Sinopec Corp. As Sinopec Group Company is the controlling shareholder of Sinopec Corp., the Assets Swap and the Assets Swap Agreement constituted a connected transaction for Sinopec Corp. under the Listing Rules of the Shanghai Stock Exchange and paragraph 14.25(1) of the Listing Rules of the Hong Kong Stock Exchange. For details, see the relevant announcement published in China Securities News, Shanghai Securities News and Securities Times in China and South China Morning Post and Hong Kong Economic Times in Hong Kong on December 21, 2002.

In accordance with the Assets Swap Agreement and the documents filed to the Ministry of Finance, the two parties appropriately adjusted the relevant assets. As jointly confirmed by Sinopec Corp. and Sinopec Group Company, the appraised value of Sinopec Group Company's assets included in this asset transaction was RMB1,039,986,200 (about HK$980,194,300); the appraised value of Sinopec Corp.'s assets was RMB1,021,424,900 (about HK$962,700,200); the difference RMB18,561,300 (about HK$17,494,200) was paid by Sinopec Corp. to Sinopec Group Company in cash; and the transfer of both physical assets and fund was completed on December 31, 2002.

(2) Connected Transaction for Leasing of Petrol Stations

On April 29, 2002, Sinopec Corp. issued an announcement about the lease of petrol stations by a number of Sinopec Corp.'s subsidiaries from some subsidiaries of Sinopec Group Company; the two parties signed lease agreements for the lease of 2,138 petrol stations and expected to sign new lease agreements for the lease of around 460 other petrol stations in 2002. Due to the situations, geographical locations and sizes of some petrol stations, the lease of about 988 petrol stations already expired or the relevant agreements were not signed at all. The total amount of rental occurring in this reporting period was RMB87.88 million, which was in conformity with the conditions of waiver approved by the Hong Kong Stock Exchange for such connected transactions. The auditors of Sinopec Corp. have issued a letter to the Board of Directors to certify that:

(a) the leasing agreements mentioned above have been approved by the Board of Directors;

(b) the leasing agreements mentioned above have been completed according to relevant terms; and

(c) the rentals paid in accordance with the leasing agreements did not exceed the cap amount.

After reviewing the connected transactions above, the independent directors of Sinopec Corp. confirmed the following:

(a) the leasing agreements mentioned above:

(i) have been concluded on normal business and procedures;

(ii) have been completed on commercial terms (the terminology hereby referred to that applicable to transactions of similar nature, and shall be made by similar Chinese entities);or (b) (where there is no available comparison), on terms that are fair and reasonable so far as the independent shareholders of Sinopec Corp. are concerned; and

(iii)have been completed in accordance with the formal provisions of the standard leasing agreement;

(b) The total rentals incurred in Sinopec Corp.'s fiscal year under the leasing agreement have not exceeded the cap amount for the relevant fiscal year.

In 2003, the Company will rent around 983 petrol stations from certain subsidiaries of Sinopec Group Company, and will sign around 983 leasing agreements. Each new agreement shall expire on December 31, 2003, with a term of one year. It is expected that the rentals incurred in 2003 under the new leasing agreements shall be around RMB120 million (or about HK$113.1 million). For details, see the relevant announcements published in China Securities News, Shanghai Securities News and Securities Times in China and South China Morning Post and Hong Kong Economic Times in Hong Kong on April 29, 2002 and January 20, 2003.

(3) Connected Transactions Regarding 450 thousand tonnes PTA per year

Sinopec Yizheng Chemical Fibre Company Limited ("Yizheng") entered into the following agreements in respect of the construction and design of a PTA production plant with annual production capacity of 450,000 tonnes of PTA and the construction of auxiliary facilities with five legal persons of Sinopec Group Company.

(I) Construction design agreement

a Date of signing: August 13, 2001
b Parties: Yizheng and CPC Construction Co., Ltd.
c This agreement is mainly for the detail design of the PTA Project and the auxiliary facilities in relation to the PTA Project.
d The consideration payable by Yizheng under this agreement is RMB42,760,000 payable in cash (equivalent to approximately by HK$40,301,602) which was determined after arm's length negotiations.

(II) Component installation construction agreement

a Date of signing: November 16, 2001
b Parties: Yizheng and CPC The Second Construction Co., Ltd.
c This agreement is mainly for the construction of the main component of the PTA project and relevant auxiliary facilities.
d After an open tender process the consideration payable by Yizheng under this agreement is RMB40,409,330 payable in cash (equivalent to approximately HK$38,086,079).

(III) PX storing section and relevant auxiliary facilities construction agreement

a Date of signing: November 16, 2001
b Parties: Yizheng and CPC The Fifth Construction Co., Ltd.
c This agreement is mainly for the construction of storage tanker in PX storing section of the PTA Project and relevant auxiliary facilities.
d After an open tender process the consideration payable by Yizheng under this agreement is RMB8,000,000 payable in cash (equivalent to approximately HK$7,540,056).

(IV) Waste water treatment plant construction contract

a Date of signing: August 31, 2001
b Parties: Yizheng and CPC The Fifth Construction Co., Ltd.
c This agreement is mainly for the construction of waster water treatment plant for the PTA Project.
d After an open tender process the consideration payable by Yizheng under the Agreement is RMB31,000,000 payable in cash (equivalent to approximately HK$29,217,719).

(V) Construction of auxiliary facilities within the PTA Project's construction site and some tankers outside the project site agreement

a Date of signing: November 16, 2001
b Parties: Yizheng and Yizheng Chemical Installation & Maintenance Engineering Company
c This agreement is mainly for the construction of auxiliary facilities within the PTA Project's construction site and some tankers outside the PTA Project site.
d After an open tender process the consideration payable by Yizheng under this agreement is RMB75,000,000 payable in cash (equivalent to approximately HK$70,688,030).

(VI) Construction of non-standard auxiliary facilities within the PTA Project site agreement.

a Date of signing: November 16, 2001
b Parties: Yizheng and Yizheng Chemical Installation & Maintenance Engineering Company
c This agreement is mainly for the construction of non-standard auxiliary facilities within the PTA Project site.
d After an open tender process the consideration payable by Yizheng under this agreement is RMB2,171,066.38 payable in cash (equivalent to approximately HK$2,046,245).

The aggregate consideration for the above six agreements is RMB199,340,396.38 (equivalent to approximately HK$187,879,732), and 40% of the agreements' total consideration is to be paid from internal resource of Yizheng. The remaining 60% is financed by bank loan.

As those legal persons are either directly or indirectly wholly-owned subsidiaries of Sinopec Group Company and Sinopec Group Company is the holding company of Sinopec Corp. and Yizheng, and Yizheng is a subsidiary of Sinopec Corp. Under Chapter 14 of the Listing Rules of the Hong Kong Stock Exchange, the legal persons are connected persons of Sinopec Corp. Thus, the transactions constitute connected transactions of Sinopec Corp. under the Listing Rules.

1 IMPROVEMENT OF CORPORATE GOVERNANCE

The year 2002 was a year of corporate governance initiated by domestic and foreign regulatory authorities and the capital market. In 2002, China Securities Regulatory Commission and the State Economic and Trade Commission jointly announced the Principles for the Corporate Governance of Listed Companies; the Hong Kong Stock Exchange announced the Consultation Paper on Proposed Amendments to the Listing Rules Relating to Corporate Governance; and the US Government announced Sarbanes-Oxley Act of 2002. Sinopec Corp. timely followed and paid great attentions to the trends of the regulations in the places where it is listed, conscientiously studied and rapidly put forward the relevant measures and further improved its corporate governance mechanism. In 2002, Sinopec Corp. mainly did the following jobs in respect of corporate governance:

(1) Taking advantage of the opportunity of the Examination of the Establishment of Modern Enterprise System in Listed Companies jointly initiated by the State Economic and Trade Commission and China Securities Regulatory Committee and the circuit examination carried out by Beijing Securities Administration Office under China Securities Regulatory Committee, Sinopec Corp. organized trainings to strengthen the sense of good faith and responsibility among the directors, supervisors and the other senior executives and enhanced and promoted all the employee's awareness of working in a listed company.

(2) In strict compliance with the latest laws, rules and regulations promulgated by the relevant domestic and foreign regulatory authorities, Sinopec Corp. comprehensively and systematically constituted and amended its Articles of Association, Rules of Procedures for Shareholders' General Meeting, Rules of Procedures for the Board of Directors and Rules of Procedures for the Supervisory Committee. The above documents have been passed at the 28th meeting of the first session of the Board of Directors and are subject to approval by the first 2003 extraordinary general meeting and the relevant government authority.

(3) Sinopec Corp. disclosed information to the investors in a prudent and responsible way for increasing Sinopec Corp.'s transparency. By these means such as public announcement, road show, teleconference, one-to-one interview and Sinopec Corp.'s website, Sinopec Corp. accurately, completely and timely briefed the domestic and foreign investors on the situations of the Company, prepared and signed annual report with a prudent and responsible attitude and strengthened communication with the investors for further increasing Sinopec Corp.'s transparency.

Sinopec Corp.'s efforts and practice in the aspect of corporate governance has been fully affirmed by the capital market. In July 2002, Sinopec Corp. was elected by the magazine "Europe Currency" as the second in Hong Kong and China region and the first in China in respect of corporate governance in the emerging capital market; in December 2002, as one of the ten advanced listed companies, Sinopec Corp. introduced its experience at the Conference for Exchanging and Summarizing the Experience of Modern Enterprise System Construction in Listed Companies jointly held by the State Economic and Trade Commission and China Securities Regulatory Commission; and in December 2002, Sinopec Corp. was granted the Prize for China's Top Ten Companies in Corporate Governance in 2002 by the Asset Benchmark Research Center.

In 2003, Sinopec Corp. will further optimize the composition of the members of the Board of Directors and the Supervisory Committee when electing members for a new term of office, strengthen training for the newly elected members of the second session of the Board of Directors and the second session of the Supervisory Committee and the other senior executives, give full play to the functions of the professional committees (especially the Audit Committee) under the Board of Directors, promptly understand and strictly abide by the latest requirements of the securities regulatory authorities of the places where Sinopec Corp. is listed (especially the securities regulatory authority of the US), improve its internal control system, set up an information disclosure committee for ensuring high-quality information disclosure to the investors and formulate a code of senior executives' occupational ethics and conducts for continuously improving Sinopec Corp.'s corporate governance level.

2 INDEPENDENT DIRECTORS' PERFORMANCE OF THEIR DUTIES

In this reporting period, the independent directors performed their duties in strict compliance with the relevant laws, rules and regulations and actively participated in Sinopec Corp.'s decision making with a diligent and responsible attitude, and all meetings of the Board of Directors were attended by independent directors. In the aspects such as Sinopec Corp.'s development strategy, the promotion of competitiveness and investment, the independent directors put forward many constructive comments and advices and independently examined the important connected transactions, including the transactions concerning Sinopec Corp.'s exchange of some of its assets for supplementary businesses with the parent company's petrol stations, Sinopec Corp.'s lease of Sinopec Group Company's petrol stations and the 450 thousand tones per year PTA project of Yizheng Chemical Fiber Co., Ltd.

3 SEPARATION OF SINOPEC CORP. FROM ITS CONTROLLING SHAREHOLDER

Sinopec Corp. has already been separated from its controlling shareholder, Sinopec Group Company, in the aspects such as business, personnel, assets, organization and finance and has its own independent and complete businesses and the ability of independent management and operation.

4 EXAMINATION AND INCENTIVE MECHANISM FOR SENIOR EXECUTIVES

Sinopec Corp. has established and continuously pursues a fair and transparent standard of performance appraisal and an incentive and constraint mechanism for the directors, supervisors and the other senior executives. It has formulated and implemented such incentive policies as the Key Performance Appraisal and Salary Incentive Plan for the Senior Executives of Sinopec Corp., the Plan of Stock Appreciation Right for the Senior Executives of Sinopec Corp. and the Detailed Rules on the first Granting of Stock Appreciation Right for the Senior Executives of Sinopec Corp. The stock appreciation right was not exercised yet in this reporting period.

SUMMARY OF SHAREHOLDERS' MEETINGS

During this reporting period, Sinopec Corp. held one Shareholders' General Meeting, being the 2001 Annual General Meeting, in strict compliance with the procedures of notification, convening and holding as stipulated in the relevant laws, rules and regulations and Sinopec Corp.'s Articles of Association. The following resolutions were examined and adopted at the meeting held at 21st Century Hotel, Beijing on June 13, 2002:

- i Report of the Board of Directors of Sinopec Corp. for the year 2001.
- ii Report of the Supervisory Committee of Sinopec Corp. for the year 2001.
- iii Audited financial statements and consolidated financial statements of Sinopec Corp. for the year 2001.
- iv Profit distribution plan of Sinopec Corp. and the appropriation of year-end dividend for the year 2001.
- v Approval of the reappointment of KPMG Peat Marwick Huazhen and KPMG respectively as the domestic and international auditors of Sinopec Corp. for the year 2002 and the resolution of authorizing the Board of Directors to determine their remunerations.
- vi Authorization of the Board of Directors to decide on matters concerning the appropriation of interim dividend.
- vii The special resolution of approving the amendment to Section 2, Article 13 of the Articles of Association.

Details of the Annual General Meeting of Sinopec Corp. for the year 2001 and Haiwen Law Firm's participation in the meeting and presentation of its legal opinion were set out in the announcements published in China Securities News, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post (in English) on June 14, 2002.

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors of Sinopec Corp. has pleasure in presenting their report for the year ended December 31, 2002.

1 THE BOARD OF DIRECTORS

All the members of the Board of Directors of Sinopec Corp. have carried out their duties in accordance with the relevant laws and regulations and the Articles of Association of Sinopec Corp., and have faithfully implemented the resolutions passed at the Annual General Meeting and proceeded with such matters proactively.

During this reporting period, ten Board meetings were held, of which seven meetings were held by way of written resolutions, details of which are as follows:

(1) Board Meetings

i The seventeenth meeting of the first session of the Board of Directors was held on January 10, 2002 by way of written resolutions. Resolutions for providing relevant documents for the loan to the Shanghai Secco joint venture project as well as resolutions for adjusting the functions of the Materials and Supply Department were reviewed and passed.

ii The eighteenth meeting of the first session of the Board of Directors was held on March 11, 2002 by way of written resolutions. Resolutions regarding capital operation were reviewed and passed.

iii The nineteenth meeting of the first session of the Board of Directors was held at the headquarters of Sinopec Corp. on March 28, 2002. The report of 2001 Business Review and 2002 Business Prospects of Sinopec Corp., the preliminary profit appropriation plan for 2001 and the policy for dividend appropriation in 2002, the Report on Operating Performance and Financial Position in 2001, the 2001 Financial Statements audited by KPMG Huazhen and KPMG, the 2001 Work Report of the Board of Directors and the submission of the report to the 2001 Annual General Meeting for approval, the 2001 Annual Report, the summary of the annual report and the report on submission of Form 20-F to U.S. Securities and Exchange Commission, and the Report on 2002 Financial Budget were reviewed and passed. Details of the nineteenth meeting of the first session of the Board of Directors of Sinopec Corp. were set out in the announcement of the resolutions published in China Securities News, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post (in English) in Hong Kong on March 29, 2002.

iv The twentieth meeting of the first session of the Board of Directors was held on April 26, 2002 by way of written resolutions. The Quarterly Report for the First Quarter of 2002, the announcement of the 2001 Annual General Meeting, the proposal on the transfer of the holding rights of Sinopec Hubei Xinghua Co., Ltd., the proposal on the amendment to Section 2, Article 13 of the Articles of Association and the proposal on the lease of Sinopec Group Company's petrol stations were reviewed and passed.

v The twenty-first meeting of the first session of the Board of Directors was held on June 28, 2002 by way of written resolutions, whereby the Self-examination Report on the Establishment of Modern Enterprise System in the Listed Company and the Report of Self-examination by Controlling Shareholders of the Listed Company were reviewed and approved.

vi The twenty-second meeting of the first session of the Board of Directors was held on August 9, 2002 by way of written resolutions. Resolutions on the realization of forecasted profit in 2001, resolutions on providing guarantee to Yueyang Sinopec Shell Coal Gasification Co., Ltd., resolutions on connected transactions between Sinopec Yizheng Chemical Fiber Co., Ltd. and five subsidiaries of Sinopec Group Company in the 450,000 tonnes/year PTA Company project and the resolutions on providing stock mortgage to Yangzi BASF joint venture project were reviewed and approved.

vii The twenty-third meeting of the first session of the Board of Directors was held on August 16, 2002 at the headquarters of Sinopec Corp. The Report on Operations in the first half of 2002 and Operations Plan for the second half of the year, the Report on Operating Performance and Financial Position in the first half of 2002, the profit distribution plan for the first half of 2002, the financial statements for the first half of 2002 audited by KPMG Huazhen and KPMG, the 2002 Interim Report of Sinopec Corp. and the Summary of the 2002 Interim Report were reviewed and approved.

viii The twenty-fourth meeting of the first session of the Board of Directors was held on September 25, 2002 by way of written resolutions, whereby the proposal on the redemption of the core petrochemical assets of Sinopec Hubei Xinghua Co., Ltd. and the relevant authorization were reviewed and approved.

ix The twenty-fifth meeting of the first session of the Board of Directors was held on October 30, 2002 by way of written resolutions, whereby the Quarterly Report for the Third Quarter of 2002 was reviewed and approved.

x The twenty-sixth meeting of the first session of the Board of Directors was held on December 19, 2002 at the headquarters of Sinopec Corp., whereby the Work Report of the President's Team, the resolutions on capital operation and the relevant authorization, the resolutions on the Company's swap of some of its assets of supplementary businesses with Sinopec Group Company's petrol stations and the relevant authorization were reviewed and passed.

2 MEETINGS OF PROFESSIONAL COMMITTEES

During this reporting period, the Audit Committee under the Board of Directors held two meetings.

i The first meeting of the first session of the Audit Committee was held on March 26, 2002 at the headquarters of Sinopec Corp., whereby the Explanations on the Operating Performance and Financial Position in 2001 and the Explanations on KPMG's Annual Audit Adjustment for 2001 were reviewed and the Opinions on the Review of the 2001 Financial Statements was issued.

ii The second meeting of the first session of the Audit Committee was held on August 15, 2002 at the headquarters of Sinopec Corp., whereby the Explanations on the 2002 Interim Operating Performance and Financial Position and the Explanations on KPMG's 2002 Interim Audit Adjustment were reviewed and the Opinions on the Review of 2002 Interim Financial Statements was issued.

3 RESULTS

The results of the Company for the year ended December 31, 2002 and its financial position as at that date and its analysis are set out on page 114 to page 142 in this Annual Report.

4 DIVIDEND

At the 31st meeting of the first session of the Board of Directors of Sinopec Corp., the Board approved the proposal to declare allcoation of a final dividend of RMB 0.08 per share (including tax). After the interim cash dividend is deducted, the year end dividend/share for allocation would be RMB 0.06 and the total cash dividend for the full year would amount to RMB 6.936 billion. The allocation proposal will be effective after the submission has been approved at the 2002 Annual General Meeting of Sinopec Corp. The proposed year end dividend will be paid on or before Friday, July 18, 2003 to those shareholders whose names appear on the register of members of Sinopec Corp. at the close of business on Friday, June 20, 2003. The register of members of Sinopec Corp.'s H shares will be closed from Monday, June 16, 2003 to Friday, June 20, 2003 (both dates inclusive). In order to qualify for the year end dividend for H shares, all share certificates, accompanied by the transfer forms, must be lodged with Hong Kong Registrars Limited, at Shops 1712 to 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:00 pm on Friday, June 13, 2003 for registration.

Dividend will be denominated and declared in Renminbi. The dividend for domestic shares will be paid in Renminbi and the dividend for foreign shares will be paid in Hong Kong dollars. The exchange rate for the dividend to be paid in Hong Kong dollars is the mean of the average rate of Hong Kong dollars to Renminbi as announced by the People's Bank of China during the week prior to the date of declaration of dividend.

Generally, an individual shareholder of H shares or a holder of American Depository Receipts (ADRs) who is resident and domiciled in the UK will be liable to UK income tax on the dividend received from Sinopec Corp. Where a shareholder of H shares receives dividend from Sinopec Corp. without deduction of tax, the amount included as income for the purposes of computing his or her UK tax liability is the gross amount of the dividend and this is taxed at the appropriate rate (currently 10 % in the case of a taxpayer of a basic rate a lower rate, and 32.5 % in the case of a taxpayer of higher rate). Where tax is withheld from the dividend, credit will be given against UK income tax for any tax withheld from the dividend up to the amount of the UK income tax liability. Sinopec Corp. will assume responsibility for withholding tax at source within the PRC if such a withholding is required. The current Chinese-UK Double Taxation Agreement provides that the maximum withholding tax on dividend payable by a Chinese-domiciled company to UK residents is 10% of the gross dividend.

UK resident shareholders of H shares or holders of ADRs who are individuals not domiciled in the UK will only be liable to income tax on any dividend from Sinopec Corp. to the extent that it is remitted to the UK.

Generally, a shareholder of H shares or a holder of ADRs which is a UK tax resident company will be liable to UK corporation tax on dividend received from Sinopec Corp., with double tax relief available for withholding tax imposed. In certain cases (not to be discussed here), a shareholder of H shares or a holder of ADRs which is a UK tax resident company may be entitled to relief for "underlying" tax paid by Sinopec Corp. or its subsidiaries.

5 MAJOR SUPPLIERS AND CUSTOMERS

The total purchase from the five largest suppliers represented 35% of the total purchase of the Company and the total purchase from the largest supplier represented 13% of the total purchase of the Company. Sales to the five largest customers of the Company represented 16% of the total annual sales of the Company.

During this reporting period, except for the connected transactions with the controlling shareholder, Sinopec Group Company, as disclosed in Section IX of this Annual Report, none of the directors, supervisors of Sinopec Corp. and their associates or any shareholders holding over 5% in Sinopec Corp. had any interest in any of the above-mentioned major suppliers and customers.

6 BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Company as at December 31, 2002 are set out in Note 26 of the Financial Statements prepared under with IFRS in this Annual Report.

7 FIXED ASSETS

During this reporting period, changes to the fixed assets of the Company are set out in Note 17 of the Financial Statements prepared under IFRS in this Annual Report.

8 RESERVES

During this reporting period, changes to the reserves of the Company are set out in the Consolidated Statement of Changes in Shareholders' Equity in the Financial Statements prepared under IFRS in this Annual Report.

9 DONATIONS

During this reporting period, donations made for charitable purposes amounted to approximately RMB 66 million.

10 PRE-EMPTIVE RIGHTS

Pursuant to the Articles of Association of Sinopec Corp. and the laws of the PRC, Sinopec Corp. is not subject to any pre-emptive rights requiring it to offer new issue of its shares to its existing shareholders in proportion to their shareholdings.

11 PURCHASE, SALES AND REDEMPTION OF SHARES

During this reporting period, the Company has not purchased, sold or redeemed any securities of Sinopec Corp.

12 COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Board of Directors believes that, during this reporting period, Sinopec Corp. complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of the Hong Kong Stock Exchange.

By Order of the Board
Li Yizhong
Chairman

Beijing, the PRC, 28 March 2003

REPORT OF THE SUPERVISORY COMMITTEE

To all shareholders:

During this reporting period, all members of the Supervisory Committee faithfully fulfilled their supervising duties to safeguard the interests of Sinopec Corp. and its shareholders in accordance with the Company Law of the People's Republic of China and the Articles of Association of Sinopec Corp.

During this reporting period, the Supervisory Committee convened two meetings. At the tenth meeting of the first session of the Supervisory Committee held on March 28, 2002, the members of the Supervisory Committee were reported on the explanations on the operating performance and financial position of Sinopec Corp. in 2001 and on the relevant matters concerning KPMG's audit report. The Committee reviewed and passed the 2001 Financial Statements of Sinopec Corp. and the 2001 Report of the Supervisory Committee of Sinopec Corp., and reviewed and approved the 2001 Annual Report of Sinopec Corp. and the 2002 Financial Budget Report of Sinopec Corp. The relevant resolutions approving the same were passed. At the eleventh meeting of the first session of the Supervisory Committee held on August 16, 2002, the members of the Supervisory Committee were reported on the operating performance and financial position of Sinopec Corp. in the first half of 2002 and the explanations on KPMG's audit report. The Committee reviewed and passed the 2002 Interim Financial Statements of Sinopec Corp. and the 2002 Interim Report of Sinopec Corp. The relevant resolutions approving the same were passed.

Mr. Yu Qingbo, Chairman of the Supervisory Comittee

In 2002, by reviewing of the Company's financial statements and carrying out investigation and inspections, the Supervisory Committee effectively supervised the Company's financial position and the senior executives' performance of their duties. In the opinion of the Supervisory Committee, in 2002, Sinopec Corp. abided by the operation principles of standardization, precision and integrity and carried out operations in strict compliance with the relevant law and regulations; the Company's economic benefits achieved stable growth; and the Company's overall strength was further enhanced.

First, the financial statements for 2002 have been prepared in compliance with the PRC Accounting Rules and Regulations and IFRS, and the accounting policy has been consistent. The figures in the statements truly and fairly reflect the financial position and operating performance of Sinopec Corp. In 2002, Sinopec Corp. overcame many unfavorable factors such as the decrease in oil prices in the early part of the year and the appearance of more uncertainties in the market, implemented the operating strategy of "expanding resources, expanding markets, reducing costs, disciplining investments" and realized the goals of both operation and economic benefit. The costs of all the four segments, namely, exploration and production, refining, chemicals and marketing and distribution have been controlled within the budgets. Under the PRC Accounting Rules and Regulations, the Company achieved a sales revenue of RMB324.184 billion and the net profit of RMB14.121 billion from its principal operations. Under IFRS, the Company's sales revenue and net profit were RMB340.042 billion and RMB16.080 billion, respectively.

Secondly, the Company's asset reorganization and capital operation were in conformity with the relevant regulations and effective. By taking such measures as asset reorganization, Sinopec Corp. further optimized its upstream oil and gas resources and enhanced the integration of asset resources, production and marketing of its lubricating oil subsidiaries. The use of proceeds raised did not exceed the boundary of what the Company had promised. Sound capital operation further clarified the relationship between Sinopec Corp. and its subsidiaries. As for the transactions such as the transfer of the state-owned shares of Hubei Xinghua Co., Ltd. and the redemption of the said company's core petrochemical assets, the Supervisory Committee is of the opinion that the pricing of transfer and redemption are fair and reasonable, and neither the shareholders' interests were infringed nor it caused a reduction of the assets of Sinopec Corp.

Thirdly, the Company's internal management was further strengthened. In respect of production and marketing, the Company established a mechanism of co-ordination and centralized decision-making, strengthened the linking of industrial chain which gave full play to the advantages of the integration of the upstream, midstream and downstream businesses, adjusted its marketing strategy, flexibly adapted itself to changes in the market and realized the maximum overall efficiency. The Company also made progress in the pilot program in refining and marketing subsidiaries for management hierarchy reduction and specialization. In respect of financial management, the Company emphatically strengthened budget management, centralized cash management and cost control. In respect of materials procurement management, the Company newly promulgated regulations such as the Detailed Rules for the Implementation of Centralized Materials Procurement by the Headquarters of Sinopec Corp., which further standardized the behavior of materials procurement and achieved progress in centralized management by dedicated departments, centralized procurement and online procurement.

Fourthly, the operation of connected transactions was in conformity with the relevant regulations. The Supervisory Committee is of the opinion that all connected transactions between the Company and Sinopec Group Company were in conformity with the relevant regulations of the Hong Kong Stock Exchange and Shanghai Stock Exchange, and that the pricing of the connected transaction of assets swap that happened was reasonable, fair and in compliance with the principle of "fairness, justness and openness". Neither the interests of the non-connected shareholders nor Sinopec Corp. were found infringed.

Fifthly, the senior management including the Directors and the President of Sinopec Corp. adhered to the principles of diligence and integrity, and faithfully carried out business operations aiming at maximizing the interests of the Company. The Supervisory Committee was not aware of any violation of laws, regulations and the Articles of Association of Sinopec Corp., or any infringement of the shareholders' interests by the above personnel during the discharge of their duties in this reporting period.

In the year ahead, the Supervisory Committee will focus on the research and investigations on the execution of the fixed asset investment plan, asset acquisition or swap, the operation of connected transactions, the improvement and implementation of internal control and the execution of financial budget. The Supervisory Committee will further strengthen its supervision and investigation on the Company's financial conditions and, based on the principle of moving ahead in an aggressive spirit and of integrity, perform its supervisory functions thoroughly promoting the growth of the Company's profit in 2003 and safeguarding the shareholders' interests.

Yu Qingbo
Chairman of the Supervisory Committee

Beijing, the PRC, March 28, 2003

1 GENERAL INFORMATION ON DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(1) Directors

Li Yizhong, 57, Chairman of the Board of Directors of Sinopec Corp. Mr. Li is also President of China Petrochemical Corporation. Mr. Li graduated from Beijing Petroleum Institute in July 1966 specialising 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 December 1984 to July 1987, Mr. Li was President of Qilu Petroleum and Petrochemical Company under China Petrochemical Corporation before the industry reorganisation ("Old Sinopec"). From July 1987 to August 1997, Mr. Li was 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 Company Limited, and Chairman of Yizheng Chemical Fibre Company Limited. Mr. Li has been President of China Petrochemical Corporation since April 1998. Mr. Li was elected as 2002 CCTV Celebrity of Economy, and he was also elected as the member of 16th session central committee of the Chinese Communist Party in November 2002. Mr Li was elected as Director and Chairman of the Board of Directors of Sinopec Corp. in February 2000.

Chen Tonghai, 54, Vice Chairman of the Board of Directors of Sinopec Corp. Mr. Chen is also Vice President of China Petrochemical Corporation. Mr. Chen graduated from Northeast Petroleum Institute in September 1976 specialising in exploration engineering. Mr. Chen is a senior economist. He has extensive experience in petrochemical industry administration and macro-economic management. From March 1983 to December 1986, Mr. Chen was Deputy Head and then Head of Zhenhai Petroleum and Petrochemical Plant under Old Sinopec. From December 1986 to July 1989, Mr. Chen served as Deputy Mayor of Ningbo City. From July 1989 to June 1991, Mr. Chen served as Deputy Managing Director of Planning and Economic Committee of Zhejiang Province. From June 1991 to February 1992, Mr. Chen served as Acting Mayor of Ningbo City. From February 1992 to January 1994 , Mr. Chen served as Mayor of Ningbo City, Zhejiang Province. From January 1994 to April 1998, Mr. Chen served as Vice Minister of the State Development and Planning Commission. Mr. Chen has been Vice President of China Petrochemical Corporation since April 1998. Mr. Chen was elected as Director and Vice Chairman of the Board of Directors of Sinopec Corp. in February 2000.

Wang Jiming, 60, Director and President of Sinopec Corp. Mr. Wang graduated from East China Chemical Institute in September 1964 specialising in petroleum refining. Mr. Wang is a professor level senior engineer with over 30 years' management experience in China's petroleum and petrochemical industry. From November 1984 to June 1993, Mr. Wang served as Vice President, Acting President and President of Shanghai Petrochemical Plant under Old Sinopec. Mr. Wang served as Chairman and President of Shanghai Petrochemical Company Limited from June 1993 to February 1994. He served as Vice President of Old Sinopec and Chairman of Shanghai Petrochemical Company from February 1994 to April 1998. Mr. Wang served as Vice President of China Petrochemical Corporation from April 1998 to February 2000. Mr. Wang is President of Sinopec Corp. and was also elected as Director in February 2000. Since December 2001, Mr. Wang has also been Chairman of Shanghai SECCO Petrochemical Company Limited.

Mou Shuling, 58, Director and Vice President of Sinopec Corp. Mr. Mou graduated from Beijing Petroleum Institute in July 1968 specialising 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 1990 to April 1997, Mr. Mou served as Deputy Director and Director of Jiangsu Petroleum Exploration Bureau. From April 1997 to April 1998, Mr. Mou served as Director of Shengli Petroleum Administration Bureau. Mr. Mou served as Vice President of China Petrochemical Corporation from April 1998 to February 2000. Mr. Mou is Vice President of Sinopec Corp. and was also elected as Director in February 2000.

Zhang Jiaren, 58, Director, Vice President and Chief Financial Officer of Sinopec Corp. Mr. Zhang graduated from Hefei Industrial University in July 1966 specialising in electrical engineering. Mr. Zhang is a professor level senior economist with over 30 years' management experience in China's petrochemical industry. From August 1987 to July 1994, Mr. Zhang served as Vice President and President of Zhenhai Petroleum and Petrochemical Plant under Old Sinopec. From July 1994 to April 1998, Mr. Zhang served as Chairman and President of Zhenhai Refining and Chemical Company. Mr. Zhang served as Vice President of China Petrochemical Corporation from April 1998 to February 2000. Mr. Zhang is Vice President of Sinopec Corp. and was also elected as Director of Sinopec Corp. in February 2000 and then Chief Financial Officer in March 2000.

Cao Xianghong, 57, Director and Vice President of Sinopec Corp. Mr. Cao graduated from Nanjing Petrochemical Institute in July 1967 specialising in macro molecular chemistry. Mr. Cao is a professor level senior engineer and an academician of the 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 Vice President and Chief Engineer of Beijing Yansan Petrochemical Company under Old Sinopec. From August 1997 to February 2000, Mr. Cao served as President, Vice Chairman and Chairman of Beijing Yansan Petrochemical Company Limited and Chairman of Beijing Yanhua Petrochemical

Company Limited. Mr. Cao is Vice President of Sinopec Corp. and was also elected as Director in February 2000.

Wang Yi, 46, Director of Sinopec Corp. Mr. Wang graduated from Peking University majoring in Chinese history in August 1982. He then obtained a master's degree from Peking University in contemporary Chinese history in December 1984. In June 1997, 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 long period of time, and has accumulated extensive experience in these areas. From October 1985 to September 1992, he was Secretary of the Bureau of Central Government Consultant Committee . 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. Mr. Wang was elected as Director of Sinopec Corp. in August 2001.

Zhang Enzhao, 56, Director of Sinopec Corp. Mr. Zhang graduated from Fudan University specialising in Finance in July 1984. He is a senior economist. Mr. Zhang has been working in the financial management for many years, and has accumulated extensive experience in this 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 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. Mr. Zhang was elected as Director of Sinopec Corp. in August 2001.

Chen Qingtai, 65, Independent Non-executive Director of Sinopec Corp. Mr. Chen graduated from Tsinghua University in February 1964 specialising in power and dynamics engineering. Mr. Chen is a researcher and professor. From October 1982 to July 1992, Mr. Chen was Chief Engineer, President and Chairman of China No. 2 Automobile Works and Chairman of Shenlong Automobile Works Ltd.. From July 1992 to April 1993, Mr. Chen served as Deputy Director of the State Council Economic and Trade Office. From April 1993 to March 1998, Mr. Chen served as Deputy Director of State Economic and Trade Commission. Mr. Chen has been Vice Minister of State Council Development and Research Center and a member of the 9th session of Chinese People's Political Consultative Conference since March 1998. Since July 2000, he has been Director of the Public Management College under Tsinghua University. Mr. Chen was elected as Independent Non-executive Director of Sinopec Corp. in February 2000.

Liu Guoguang, 79, Independent Non-executive Director of Sinopec Corp. Mr. Liu is a well-known economist in China and is a Member of the Standing Committee of the 8th National People's Congress. Mr. Liu graduated from National Southwest United University in 1946 specialising in economics. He later graduated from the Graduate School of Moscow National Institute of Economics in 1955, where he obtained a researcher qualification and doctorate degree. From 1955 to 1982, Mr. Liu served as Researcher and Vice President of Economic Research Institute of China Academy of Social Science and as Deputy Director of the National Statistics Bureau. From 1982 to 1983, Mr. Liu served as Vice Chancellor of China Academy of Social Science and President of Economic Research Institute of China Academy of Social Science. Since 1993, Mr. Liu has been a special consultant for China Academy of Social Science. Mr. Liu was elected as Independent Non-executive Director of Sinopec Corp. in February 2000.

Ho Tsu Kwok Charles, 53, Independent Non-executive Director of Sinopec Corp. Mr. Ho is Chairman of Hong Kong Tobacco Company Limited, a cigarette manufacturer and distributor in the Asia Pacific. Mr. Ho is also Chairman and Director of Global China Investments Limited, a joint venture between a Canadian provincial government pension fund and the Ontario Municipal Employees Retirement System. He is responsible for devising investment and management strategies for Global China Investments Limited. Mr. Ho is Chairman of Global China Investments Holdings Limited and 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 Shandong provincial government. He is a member of the Board of Trustees of the University of International Business and Economics of China and Honorary member of the Board of Trustees of Peking University and Chinese University of Hong Kong. Mr. Ho was elected as Independent Non-executive Director of Sinopec Corp. in June 2000.

Huang Min, female, 59, Employee Representative Director of Sinopec Corp. Ms. Huang graduated from Beijing Petroleum Institute in July 1968 specialising in petroleum exploration engineering. She is a professor level economist. Ms. Huang has extensive experience in personnel management in petroleum industry. Ms. Huang was President of the Labour Union of Shengli Petroleum Administration Bureau from December 1992 to December 2002. She was elected as Employee Representative Director of Sinopec Corp. in February 2000.

Information of Directors

Name	Gender	Age	Position with Sinopec Corp.	Term of Office	Paid (P) or Unpaid (U)	Sinopec Corp.'s Shares Held (as at 31st December) 2001	2002
Li Yizhong	M	57	Chairman	2000.2-2003.4	P	0	0
Chen Tonghai	M	54	Vice Chairman	2000.2-2003.4	P	0	0
Wang Jiming	M	60	Director; President	2000.2-2003.4	P	0	0
Mou Shuling	M	58	Director; Vice President	2000.2-2003.4	P	0	0
Zhang Jiaren	M	58	Director; Vice President and Chief Financial Officer	2000.2-2003.4	P	0	0
Cao Xianghong	M	57	Director; Vice President	2000.2-2003.4	P	0	0
Wang Yi	M	46	Director	2001.8-2003.4	U	0	0
Zhang Enzhao	M	56	Director	2001.8-2003.4	U	0	0
Chen Qingtai	M	65	Independent Non-executive Director	2000.2-2003.4	U	0	0
Liu Guoguang	M	79	Independent Non-executive Director	2000.2-2003.4	U	0	0
Ho Tsu Kwok Charles	M	53	Independent Non-executive Director	2000.6-2003.4	U	0	0
Huang Min	F	59	Employee Representative Director	2000.2-2003.4	P	0	0

Note: Mr. Wang Yi and Mr. Zhang Enzhao receive salary from China Development Bank and China Construction Bank, respectively.

(2) Supervisors

Yu Qingbo, 65, Chairman of the Supervisory Committee of Sinopec Corp. Mr. Yu graduated from Harbin Military Engineering Institute in April 1964 specialising in automation. Mr. Yu is a professor level senior economist. He has extensive experience in personnel supervision and management. From August 1983 to September 1995, Mr. Yu served as Deputy Director of the General Administrative Office and Deputy Secretary General of the Organization Department of the CPC. From September 1995 to July 2001, Mr. Yu was Director of Disciplinary Supervisory Committee of Old Sinopec and China Petrochemical Corporation. Mr. Yu was elected as Supervisor and Chairman of the Supervisory Committee of Sinopec Corp. in February 2000.

Wang Zuoran, 52, Supervisor of Sinopec Corp. Mr. Wang graduated from Shandong Economic Administration Institute in September 1994 specialising in economic administration. Mr. Wang is a professor level economist and he has extensive experience in the management of petrochemical industry. From July 1994 to February 2000, Mr. Wang served as Deputy Director and Party Secretary of Shengli Petroleum Administration Bureau. From February 2000 to July 2001, Mr. Wang was Assistant to President of China Petrochemical Corporation. Mr. Wang has been Director of Disciplinary Supervision Committee of China Petrochemical Corporation since July 2001. He was elected as Supervisor of Sinopec Corp. in February 2000.

Zhang Chongqing, 58, Supervisor of Sinopec Corp. Mr. Zhang graduated from China University of Science and Technology in July 1967 specialising in macro molecular chemistry. He is a professor level economist. From April 1991 to February 1993, Mr. Zhang served as Deputy President of Planning Institute of Old Sinopec. From February 1993 to December 1998, Mr. Zhang served as Deputy Director and Director of General Administrative Office of Old Sinopec. Mr. Zhang has been Director of General Administrative Office of China Petrochemical Corporation since December 1998. Mr. Zhang was elected as Supervisor of Sinopec Corp. in February 2000.

Wang Peijun, 57, Supervisor of Sinopec Corp. Mr. Wang graduated from Northeast Petroleum Institute in July 1970 specialising in oil and gas field engineering. He is a professor level senior economist. From June 1989 to August 1991, Mr. Wang was Head of Qilu Petroleum and Petrochemical Company under Old Sinopec. From August 1991 to December 1998, he served as Deputy Director and Director of Human Resources Department of Old Sinopec. Since December 1998, Mr. Wang has been Director of Human Resources Department of China Petrochemical Corporation. Mr. Wang was elected as Supervisor of Sinopec Corp. in February 2000.

Wang Xianwen, 58, Supervisor of Sinopec Corp. Mr. Wang graduated from Jilin University in July 1968 specialising in chemistry. He is a professor level senior economist. From April 1984 to March 1990, Mr. Wang served as Deputy Manager of Jinzhou Petrochemical Company of Old

Sinopec. From March 1990 to December 1998, Mr. Wang served as Deputy Director and Director of Old Sinopec's Auditing Bureau. Mr. Wang has been Head of China Petrochemical Corporation's Auditing Bureau since December 1998. Mr. Wang has been Director of Sinopec Corp.'s Auditing Bureau since February 2000. Mr. Wang was elected as Supervisor of Sinopec Corp. in February 2000.

Hou Shaojian, 60, Supervisor of Sinopec Corp. Mr. Hou graduated from Shandong University in July 1967 specialising in chemistry. He is a professor level senior economist. Mr. Hou previously served as Deputy Director of Lanzhou Chemical Industrial Company and President of Urumqi Petrochemical Works under Old Sinopec from June 1983 to March 1997. From March 1997 to March 2001, Mr. Hou was Deputy Director of Disciplinary Supervision Committee and Director of Supervisory Bureau of Old Sinopec and China Petrochemical Corporation. Since March 2001, Mr. Hou has been a researcher of the Supervisory Bureau of China Petrochemical Corporation. Mr. Hou was elected as Supervisor of Sinopec Corp. in February 2000.

Jiang Baoxing, 57, Employee Representative Supervisor of Sinopec Corp. Mr. Jiang graduated from Shanghai Television University in September 1987, specialising in political science and administration. He is a senior economist. Mr. Jiang was Chairman of the Labor Union of Shanghai Petrochemical General Plant of Old Sinopec from August 1990 to June 1993. Mr. Jiang has been Chairman of the Labor Union and an executive director of Shanghai Petrochemical Company Limited since June 1993. Mr. Jiang was elected as Employee Representative Supervisor of Sinopec Corp. in February 2000.

Cui Jianmin, 70, Independent Supervisor of Sinopec Corp. Mr. Cui graduated from the Renmin University of China in October 1962 specialising in planning. Mr. Cui is a senior auditor, certified accountant and has extensive management experience in audit and finance fields. From June 1983 to January 1985, Mr. Cui served as Director of Industry and Transportation Bureau of State Audit Office. From January 1985 to April 1995, Mr. Cui has been Deputy Auditor-General and Managing Deputy Auditor-General of State Audit Office. Mr. Cui has been Chairman of the Chinese Certified Public Accountants Association since December 1995. Mr. Cui was elected as Independent Supervisor of Sinopec Corp. in April 2000.

Information of Supervisors

Name	Gender	Age	Position with Sinopec Corp.	Term of Office	Paid (P) or Unpaid (U)	Sinopec Corp.'s Shares Held (as at 31st December) 2001	2002
Yu Qingbo	M	65	Chairman of the Supervisory Committee	2000.2-2003.4	P	0	0
Wang Zuoran	M	52	Supervisor	2000.2-2003.4	P	0	0
Zhang Chongqing	M	58	Supervisor	2000.2-2003.4	P	0	0
Wang Peijun	M	57	Supervisor	2000.2-2003.4	P	0	0
Wang Xianwen	M	58	Supervisor	2000.2-2003.4	P	0	0
Hou Shaojian	M	60	Supervisor	2000.2-2003.4	P	0	0
Jiang Baoxing	M	57	Employee Representative Supervisor	2000.2-2003.4	P	0	0
Cui Jianmin	M	70	Independent Supervisor	2000.4-2003.4	U	0	0

(3) Other Members of the Senior Management

Wang Tianpu, 40, Vice President of Sinopec Corp. Mr. Wang graduated from Qingdao Chemical Institute specialising 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 relatively 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 China Petrochemical Corporation. From February 2000 to September 2000, he was Vice President of China Petroleum & Chemical Corporation Qilu branch company. From September 2000 to August 2001, he was President of China Petroleum & Chemical Corporation Qilu branch company. Mr. Wang was appointed as Vice President of Sinopec Corp. in August 2001.

Zhang Honglin, 60, Secretary to the Board of Directors of Sinopec Corp. Mr. Zhang graduated from Nanjing Chemical Institute in July 1967 specialising in chemical machinery 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 Deputy Director of Enterprise Management Department and President of Shanlong Economic Development Company under 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 June 1998, he served as Director and Vice President of China Eastern United Petrochemical Group Company Limited. From June 1998 to December 2001, Mr. Zhang has been Director of China Petrochemical Corporation's Assets Operation and Management Department and Enterprise Reforming Department, and Director of Sinopec Corp.'s Secretariat to the Board of Directors. Mr. Zhang was appointed as Secretary to the Board of Directors of Sinopec Corp. in February 2000.

2 INTERESTS OF DIRECTORS, SUPERVISORS AND OTHER MEMBERS OF THE SENIOR MANAGEMENT IN THE SHARE CAPITAL OF SINOPEC CORP.

None of the directors or supervisors or senior management or any of their spouses or children under age of 18 had, as at 31st December 2002, any interests in any shares or debentures of Sinopec Corp. or its associated corporations (within the meaning of the SDI Ordinance) which are required to be notified to Sinopec Corp. and the Hong Kong Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which they have taken or are deemed to have taken under Section 31 or Part 1 of the Schedule to the SDI Ordinance) or which are required pursuant to Section 29 of the SDI Ordinance to be entered in the register referred to therein, or any interests in warrants to subscribe for shares in Sinopec Corp. or its associated corporations which are required to be notified to Sinopec Corp. and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

3 DIRECTORS' OR SUPERVIOSRS' INTERESTS IN CONTRACTS

None of the Directors nor the Supervisors of Sinopec Corp. had any beneficial interests in any material contracts to which Sinopec Corp., its holding company or any of its subsidiaries or fellow subsidiaries was a party subsisted at 31st December 2002 or at any time during the year.

No director or supervisor has entered into any service contracts with Sinopec Corp., which is not terminable by Sinopec Corp. within one year without payment other than statutory compensation.

4 SALARIES OF DIRECTORS, SUPERVISORS AND MEMBERS OF THE SENIOR MANAGEMENT

Sinopec Corp. has established and is continuously enhancing a fair and transparent reward and supervision system for directors, supervisors and other senior management. Sinopec Corp. adopted initiative policies approved by the first extraordinary shareholders' meeting on 7th September 2000 such as the Performance Evaluation and Remunerations Incentive Scheme for the Senior Management of Sinopec Corp., the Share Appreciation Rights Scheme of Sinopec Corp., and the Conditions for the Implementation of the Initial Granting of Share Appreciation Rights Scheme of Sinopec Corp.

Other Members of the Senior Management

Name	Gender	Age	Position with Sinopec Corp.	Term of Office	Paid (P) or Unpaid (U)	Sinopec Corp.'s Shares Held (as at 31st December) 2001	**2002**
Wang Tianpu	M	40	Vice President	2001.8 -	P	0	0
Zhang Honglin	M	60	Secretary to the Board of Directors	2000.2-2003.4	P	0	0

The directors and supervisors of Sinopec Corp. received their remuneration in the form of basic salary and performance rewards, including the amount granted by Sinopec Corp. to the directors and supervisors according to the retirement pension plan. During the reporting period, no share appreciation right is exercised.

During this reporting period, directors in office (excluding directors and independent non-executive directors who do not hold any working post with Sinopec Corp.), supervisors (excluding independent supervisors) and senior management were paid RMB1,822,757 in total as annual emoluments. The three highest paid directors and senior management respectively received RMB418,372 and RMB452,192 emoluments in total. Independent Non-executive Directors Mr. Chen Qingtai, Mr. Liu Guoguang and Mr. Ho Tsu Kwok Charles and Independent Supervisor Mr. Cui Jianmin each received RMB16,000 remuneration. Directors Mr. Wang Yi and Mr. Zhang Enzhao are not paid any emolument by Sinopec Corp.

During this reporting period, amongst the 16 directors (excluding directors and independent non-executive directors who do not hold any working post with Sinopec Corp.), supervisors (excluding independent supervisors) and senior management who are in office, one of them received annual emoluments for an amount of above RMB150,000, 11 of them received annual emoluments between RMB100,000 and RMB150,000, and 4 of them received annual emoluments between RMB50,000 and RMB100,000.

5 THE COMPANY'S EMPLOYEES

As at 31st December 2002, the Company had a total of 418,871 employees, details are shown as follows:

Breakdown according to operation departments structure:

	Number of Employees	Percentage to Total Employees
Exploration and Production	144,142	34.4%
Refining	82,921	19.8%
Marketing and Distribution	91,169	21.8%
Chemicals	96,009	22.9%
R&D and Others	4,630	1.1%
Total	**418,871**	**100%**

Breakdown according to functions:

	Number of Employees	Percentage to Total Employees
Production	187,574	44.8%
Sales	89,901	21.5%
Technical	47,178	11.3%
Finance	11,471	2.7%
Administration	34,446	8.2 %
Others	48,301	11.5%
Total	**418,871**	**100%**

Breakdown according to education level:

	Number of Employees	Percentage to Total Employees
Master's degree or above	2,657	0.6%
University	42,669	10.2%
Tertiary education	64,757	15.5%
Technical/polytechnic school	51,437	12.3%
Secondary, technical/polytechnic school or below	257,351	61.4%
Total	**418,871**	**100%**

6 EMPLOYEES' RETIREMENT SCHEME

Details of the employees' retirement scheme of the Company are set out in note 32 on the financial statements prepared under IFRS in this Annual Report.

As at 31st December 2002, the Company had a total of 91,912 retired employees, and all of them have participated in basic pension schemes administered by provincial (autonomous regions and municipalities) governments. Government-administered pension schemes are responsible for the payments of basic pensions.

PRINCIPAL WHOLLY-OWNED AND NON WHOLLY-OWNED SUBSIDIARIES

As at December 31, 2002, details of the principal wholly-owned and non wholly-owned subsidiaries of Sinopec Corp. and companies in which Sinopec Corp. holds shares are as follows:

Name of Company	Registered share capital (RMB million)	Percentage of shares held by Sinopec Corp. (%)	Total assets (RMB million)	Net profit (RMB million)	Auditor	Principal activities
Sinopec Beijing Yanhua Petrochemical Company Limited	3,374	70.01	the results have yet to be published	the results have yet to be published	KPMG Huazhen	Manufacturing of chemical products
Sinopec Shengli Oilfield Company Limited	30,028	100.00	49,379	7,062	KPMG Huazhen	Exploration and production of crude oil and natural gas
Sinopec Sales Company Limited	1,700	100.00	10,401	690	KPMG Huazhen	Marketing and distribution of refined oil products
Sinopec International Company Limited	1,400	100.00	15,496	287	Beijing Zhonglunxin	Trading of crude oil and petrochemical products
Sinopec Shanghai Petrochemical Company Limited	7,200	55.56	26,562	909	KPMG Huazhen	Manufacturing of synthetic fibres, resin and plastics, intermediate petrochemical products and petroleum products
Sinopec Yangzi Petrochemical Company Limited	2,330	84.98	13,474	625	KPMG Huazhen	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Qilu Petrochemical Company Limited	1,950	82.05	the results have yet to be published	the results have yet to be published	KPMG Huazhen	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Yizheng Chemical Fibre Company Limited	4,000	42.00	the results have yet to be published	the results have yet to be published	KPMG Huazhen	Production and sale of polyester chips and polyester fibres
Sinopec Zhenhai Refining and Chemical Company Limited	2,524	71.32	the results have yet to be published	the results have yet to be published	KPMG Huazhen	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Wuhan Phoenix Company Limited	519	40.72	the results have yet to be published	the results have yet to be published	KPMG	Manufacturing of petrochemical products and pertoleum products
Sinopec Shijiazhuang Refinery Corp.	1,154	79.73	the results have yet to be published	the results have yet to be published	Huazheng CPA Company Ltd.	Manufacturing of intermediate petrochemical products and petroleum products

Name of Company	Registered share capital (RMB million)	Percentage of shares held by Sinopec Corp. (%)	Total assets (RMB million)	Net profit (RMB million)	Auditor	Principal activities
Sinopec Zhongyuan Petroleum Company Limited	816	75.00	4,016	468	Beijing Zhong Zhou Guanghua CPA Company Ltd.	Exploration of crude oil and natural gas
Sinopec Wuhan Petroleum Group Company Ltd.	147	46.25	964	23	Wuhan Zhonghuan CPA Company Ltd.	Marketing and distribution of refined oil products
Sinopec Fujian Refinery Company Limited	2,253	50.00	3,416	174	KPMG Huazhen	Manufacturing of plastics, intermediate petrochemical products and petroleum products
Sinopec Maoming Refining and Chemical Company Limited	1,064	99.81	the results have yet to be published	the results have yet to be published	KPMG Huazhen	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Kantons Holdings Limited	HK$104 million	72.40	the results have yet to be published	the results have yet to be published	KPMG Huazhen	Trading of crude oil and petroleum products

The above indicated total assets and net profit are prepared in accordance with the PRC Accounting Rules and Regulations. Except for Sinopec Kantons Holdings Limited, which is incorporated in Bermuda, all of the above wholly-owned and non wholly-owned subsidiaries are incorporated in the PRC. The above wholly-owned and non wholly-owned subsidiaries are limited liability companies. The Directors considered that it would be redundant to disclose the particulars of all subsidiaries and, therefore, only those have a significant influence on Sinopec Corp.'s results or net assets are set out above.

KPMG Huazhen

To the shareholders of China Petroleum & Chemical Corporation:

We accepted the appointment and have audited the Company's consolidated balance sheet and balance sheet at 31 December 2002, and the consolidated income statement and profit appropriation statement, income statement and profit appropriation statement, consolidated cash flow statement and cash flow statement for the year then ended. These financial statements are the responsibility of the Company. Our responsibility is to express an audit opinion on these financial statements based on our audit. We have conducted our audit in accordance with the "Independent Auditing Standards for Chinese Certified Public Accountants". In the course of our audit, we considered the circumstances of the Company and its subsidiaries, and carried out such audit procedures, including an examination of the accounting records on a test basis, as we deemed necessary.

In our opinion, the above-mentioned financial statements comply with the relevant requirements of the "Accounting Standards for Business Enterprises" and the "Accounting Regulations for Business Enterprises" and present fairly, in all material respects, the Company's consolidated financial position and financial position at 31 December 2002, and the consolidated results of operations, results of operations, consolidated cash flows and cash flows for the year then ended, and the accounting policies have been consistently applied.

KPMG Huazhen

Certified Public Accountants
Registered in the People's Republic of China

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No. 1, Jian Guo Men Wai Avenue
Beijing, The People's Republic of China
Post Code: 100004

Luo Zheng
Jin Naiwen

28 March 2003

(A) FINANCIAL STATEMENTS PREPARED UNDER THE PRC ACCOUNTING RULES AND REGULATIONS

CONSOLIDATED BALANCE SHEET

at 31 December 2002

	Note	2002 RMB millions	2001 RMB millions
Assets			
Current assets			
Cash at bank and in hand	4	18,712	22,854
Bills receivable	5	4,684	3,542
Trade accounts receivable	6	10,670	11,082
Other receivables	7	16,817	19,818
Advance payments	8	3,193	4,021
Inventories	9	44,932	45,448
Total current assets		**99,008**	**106,765**
Long-term equity investments (Including equity investment differences of RMB 532 million (2001: RMB 438 million))	10	**11,025**	**8,910**
Fixed assets			
Fixed assets, at cost		431,391	390,533
Less: Accumulated depreciation		199,602	177,040
	11	231,789	213,493
Less: Provision for impairment loss on fixed assets	11	391	391
Net book value of fixed assets		231,398	213,102
Construction materials	12	1,403	774
Construction in progress	13	21,122	26,006
Total fixed assets		**253,923**	**239,882**
Intangible assets	14	**4,062**	**3,977**
Deferred tax assets	15	**357**	**760**
Total assets		**368,375**	**360,294**
Liabilities and shareholders' funds			
Current liabilities			
Short-term loans	16	26,979	37,915
Bills payable	17	30,139	26,022
Trade accounts payable	18	19,212	16,793
Receipts in advance	19	3,767	2,884
Wages payable		1,447	1,020
Staff welfare payable		1,024	888
Dividend payable	38	5,202	6,936
Taxes payable	20	3,380	3,587
Other payables	21	1,054	1,035
Other creditors	22	19,787	20,112
Accrued expenses	23	561	873
Current portion of long-term liabilities	24	8,573	11,296
Total current liabilities		**121,125**	**129,361**
Long-term liabilities			
Long-term loans	25	73,708	65,501
Debentures payable	26	1,500	1,500
Other long-term payables	27	944	806
Total long-term liabilities		**76,152**	**67,807**
Deferred tax liabilities	15	**474**	**679**
Total liabilities		**197,751**	**197,847**
Minority interests		**24,109**	**23,408**
Shareholders' funds			
Share capital	28	86,702	86,702
Capital reserve	29	36,588	36,297
Surplus reserves (Including statutory public welfare fund of RMB 4,429 million (2001: RMB 3,017 million))	30	15,858	6,034
Undistributed profits		7,367	10,006
Total shareholders' funds		**146,515**	**139,039**
Total liabilities and shareholders' funds		**368,375**	**360,294**

Approved by the Board of Directors on 28 March 2003.

Li Yizhong
Chairman
(Authorized representative)

Wang Jiming
Director and President

Zhang Jiaren
Director, Vice President and Chief Financial Officer

Liu Yun
Head of Accounting Division

The notes on pages 89 to 112 form part of these financial statements.

BALANCE SHEET

at 31 December 2002

	Note	2002 RMB millions	2001 RMB millions
Assets			
Current assets			
Cash at bank and in hand	4	8,428	11,825
Bills receivable	5	1,478	1,464
Trade accounts receivable	6	9,885	9,461
Other receivables	7	23,661	24,303
Advance payments	8	2,189	2,590
Inventories	9	24,907	27,187
Total current assets		**70,548**	**76,830**
Long-term equity investments (Including equity investment differences of RMB 537 million (2001: RMB 385 million))	10	**91,501**	**91,105**
Fixed assets			
Fixed assets, at cost		201,705	181,967
Less: Accumulated depreciation		84,891	76,204
	11	116,814	105,763
Less: Provision for impairment loss on fixed assets	11	391	391
Net book value of fixed assets		116,423	105,372
Construction materials	12	283	140
Construction in progress	13	15,394	16,481
Total fixed assets		**132,100**	**121,993**
Intangible assets	14	**3,659**	**3,753**
Deferred tax assets	15	**108**	**337**
Total assets		**297,916**	**294,018**
Liabilities and shareholders' funds			
Current liabilities			
Short-term loans	16	14,828	26,106
Bills payable	17	23,055	19,291
Trade accounts payable	18	18,310	12,727
Receipts in advance	19	2,008	1,444
Wages payable		443	320
Staff welfare payable		450	438
Dividend payable	38	5,202	6,936
Taxes payable	20	1,094	845
Other payables	21	302	285
Other creditors	22	17,134	22,819
Accrued expenses	23	221	613
Current portion of long-term liabilities	24	5,996	6,949
Total current liabilities		**89,043**	**98,773**
Long-term liabilities			
Long-term loans	25	61,890	55,555
Other long-term payables	27	411	618
Total long-term liabilities		**62,301**	**56,173**
Deferred tax liabilities	15	**57**	**33**
Total liabilities		**151,401**	**154,979**
Shareholders' funds			
Share capital	28	86,702	86,702
Capital reserve	29	36,588	36,297
Surplus reserves (Including statutory public welfare fund of RMB 4,429 million (2001: RMB 3,017 million))	30	15,858	6,034
Undistributed profits		7,367	10,006
Total shareholders' funds		**146,515**	**139,039**
Total liabilities and shareholders' funds		**297,916**	**294,018**

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The notes on pages 89 to 112 form part of these financial statements.

CONSOLIDATED INCOME STATEMENT AND PROFIT APPROPRIATION STATEMENT

for the year ended 31 December 2002

	Note	**2002 RMB millions**	2001 RMB millions
Income from principal operations	31	324,184	304,347
Less: Cost of sales		251,182	236,135
Sales taxes and surcharges	32	11,852	11,863
Profit from principal operations		**61,150**	**56,349**
Add: Profit from other operations		889	1,535
Less: Selling expenses		13,279	12,300
Administrative expenses		17,253	14,369
Financial expenses	33	4,327	3,596
Exploration expenses, including dry holes	34	4,363	3,775
Operating profit		**22,817**	**23,844**
Add: Investment income	35	505	546
Non-operating income		333	769
Less: Non-operating expenses	36	1,643	3,508
Profit before taxation		**22,012**	**21,651**
Less: Taxation	37	6,809	7,092
Minority interests		1,082	541
Net profit		**14,121**	**14,018**
Add: Undistributed profits at the beginning of the year		10,006	5,728
Distributable profits		**24,127**	**19,746**
Less: Transfer to statutory surplus reserve	30	1,412	1,402
Transfer to statutory public welfare fund	30	1,412	1,402
Transfer to discretionary surplus reserve	30	7,000	—
Distributable profits to shareholders		**14,303**	**16,942**
Less: Interim dividend	38	1,734	—
Final dividend	38	5,202	6,936
Undistributed profits		**7,367**	**10,006**

The notes on pages 89 to 112 form part of these financial statements.

INCOME STATEMENT AND PROFIT APPROPRIATION STATEMENT

for the year ended 31 December 2002

	Note	**2002 RMB millions**	2001 RMB millions
Income from principal operations	31	215,862	218,675
Less: Cost of sales		177,346	186,674
Sales taxes and surcharges	32	7,381	7,488
Profit from principal operations		**31,135**	**24,513**
Add: Profit from other operations		120	951
Less: Selling expenses		8,940	8,635
Administrative expenses		10,540	8,933
Financial expenses	33	2,793	1,859
Exploration expenses, including dry holes	34	2,965	2,375
Operating profit		**6,017**	**3,662**
Add: Investment income	35	15,580	19,329
Non-operating income		169	265
Less: Non-operating expenses	36	1,142	2,353
Profit before taxation		**20,624**	**20,903**
Less: Taxation	37	6,503	6,885
Net profit		**14,121**	**14,018**
Add: Undistributed profits at the beginning of the year		10,006	5,728
Distributable profits		**24,127**	**19,746**
Less: Transfer to statutory surplus reserve	30	1,412	1,402
Transfer to statutory public welfare fund	30	1,412	1,402
Transfer to discretionary surplus reserve	30	7,000	—
Distributable profits to shareholders		**14,303**	**16,942**
Less: Interim dividend	38	1,734	—
Final dividend	38	5,202	6,936
Undistributed profits		**7,367**	**10,006**

The notes on pages 89 to 112 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2002

	Note	RMB millions
Cash flows from operating activities		
Cash received from sale of goods and rendering of services		392,486
Rentals received		344
Other cash received relating to operating activities		2,481
Sub-total of cash inflows		395,311
Cash paid for goods and services		(276,520)
Cash paid for operating leases		(3,441)
Cash paid to and on behalf of employees		(13,020)
Value added tax paid		(15,159)
Income tax paid		(6,599)
Taxes paid other than value added tax and income tax		(12,062)
Other cash paid relating to operating activities		(8,441)
Sub-total of cash outflows		**(335,242)**
Net cash inflow from operating activities	(a)	**60,069**
Cash flows from investing activities		
Cash received from sales of investments		150
Dividend received		278
Net cash received from sales of fixed assets and intangible assets		579
Maturity of time deposits with financial institutions		2,160
Other cash received relating to investing activities		353
Sub-total of cash inflows		**3,520**
Cash paid for acquisition of fixed assets and intangible assets		(43,066)
Cash paid for purchases of investments		(2,357)
Increase in time deposits with financial institutions		(1,342)
Sub-total of cash outflows		**(46,765)**
Net cash outflow from investing activities		**(43,245)**
Cash flows from financing activities		
Proceeds from contribution from minority interests		230
Proceeds from borrowings		252,675
Sub-total of cash inflows		**252,905**
Repayments of borrowings		(258,343)
Cash paid for dividends, distribution of profit or interest		(14,262)
Dividend paid to minority shareholders by subsidiaries		(455)
Sub-total of cash outflows		**(273,060)**
Net cash outflow from financing activities		**(20,155)**
Effect of foreign exchange rate		**7**
Net decrease in cash and cash equivalents	(b)	**(3,324)**

The notes on pages 89 to 112 form part of these financial statements.

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2002

	RMB millions
(a) Reconciliation of net profit to cash flows from operating activities	
Net profit	14,121
Add: Depreciation of fixed assets	26,327
Amortisation of intangible assets	286
Net loss on disposal of fixed assets and intangible assets	663
Financial expenses	4,306
Dry hole costs	1,771
Investment income	(315)
Deferred tax credits	198
Decrease in inventories	482
Decrease in operating receivables	2,530
Increase in operating payables	8,618
Minority interests	1,082
Net cash inflow from operating activities	**60,069**

	RMB millions
(b) Net decrease in cash and cash equivalents	
Cash and cash equivalents at the end of the year	17,699
Less: Cash and cash equivalents at the beginning of the year	21,023
Net decrease in cash and cash equivalents	**(3,324)**

The notes on pages 89 to 112 form part of these financial statements.

CASH FLOW STATEMENT

for the year ended 31 December 2002

	Note	RMB millions
Cash flows from operating activities		
Cash received from sale of goods and rendering of services		259,558
Rentals received		180
Other cash received relating to operating activities		1,915
Sub-total of cash inflows		**261,653**
Cash paid for goods and services		(187,446)
Cash paid for operating leases		(1,918)
Cash paid to and on behalf of employees		(5,933)
Value added tax paid		(8,648)
Income tax paid		(1,736)
Taxes paid other than value added tax and income tax		(7,501)
Other cash paid relating to operating activities		(15,667)
Sub-total of cash outflows		**(228,849)**
Net cash inflow from operating activities	(a)	**32,804**
Cash flows from investing activities		
Net cash received from sales of fixed assets and intangible assets		417
Dividend received		5,317
Maturity of time deposits with financial institutions		207
Other cash received relating to investing activities		235
Sub-total of cash inflows		**6,176**
Cash paid for acquisition of fixed assets and intangible assets		(22,100)
Cash paid for purchases of investments		(1,737)
Increase in time deposits with financial institutions		(198)
Sub-total of cash outflows		**(24,035)**
Net cash outflow from investing activities		**(17,859)**
Cash flows from financing activities		
Proceeds from borrowings		108,662
Sub-total of cash inflows		**108,662**
Repayments of borrowings		(114,670)
Cash paid for dividends, distribution of profit or interest		(12,325)
Sub-total of cash outflows		**(126,995)**
Net cash outflow from financing activities		**(18,333)**
Net decrease in cash and cash equivalents	(b)	**(3,388)**

The notes on pages 89 to 112 form part of these financial statements.

NOTES TO THE CASH FLOW STATEMENT

for the year ended 31 December 2002

	RMB millions
(a) Reconciliation of net profit to cash flows from operating activities	
Net profit	14,121
Add: Depreciation of fixed assets	11,012
Amortisation of intangible assets	378
Net loss on disposal of fixed assets and intangible assets	412
Financial expenses	2,736
Dry hole costs	951
Investment income	(11,317)
Deferred tax credits	253
Decrease in inventories	2,283
Decrease in operating receivables	619
Increase in operating payables	11,356
Net cash inflow from operating activities	**32,804**

	RMB millions
(b) Net decrease in cash and cash equivalents	
Cash and cash equivalents at the end of the year	8,207
Less: Cash and cash equivalents at the beginning of the year	11,595
Net decrease in cash and cash equivalents	**(3,388)**

The notes on pages 89 to 112 form part of these financial statements.

1 STATUS OF THE COMPANY

China Petroleum & Chemical Corporation (the "Company") was established in the PRC on 25 February 2000 as a joint stock limited company.

According to the State Council's approval to the "Preliminary Plan for the Reorganisation of China Petrochemical Corporation" (the "Reorganisation"), the Company was established by China Petrochemical Corporation ("Sinopec Group Company"), which transferred its core businesses together with the related assets and liabilities at 30 September 1999 to the Company. Such assets and liabilities had been valued jointly by China United Assets Appraisal Corporation, Beijing Zhong Zheng Appraisal Company, CIECC Assets Appraisal Corporation and Zhong Fa International Properties Valuation Corporation ("registered valuers"). The net asset value was determined at RMB 98,249,084,000. The valuation was reviewed and approved by the Ministry of Finance ("MOF") (Cai Ping Zi [2000] No. 20 "Comments on the Review of the Valuation Regarding the Formation of a Joint Stock Limited Company by China Petrochemical Corporation").

In addition, pursuant to the notice Cai Guan Zi [2000] No. 34 "Reply to the Issue Regarding Management of State-Owned Equity by China Petroleum and Chemical Corporation" issued by the MOF, 68.8 billion domestic state-owned shares with a par value of RMB 1.00 each were issued to Sinopec Group Company, the amount of which is equivalent to 70% of the above net asset value transferred from Sinopec Group Company to the Company in connection with the Reorganization.

Pursuant to the notice Guo Jing Mao Qi Gai [2000] No. 154 "Reply on the Formation of China Petroleum and Chemical Corporation", the Company obtained the approval from the State Economic and Trade Commission on 21 February 2000 for the formation of a joint stock limited company.

The Company took over the exploration, development and production of crude oil and natural gas, refining, chemicals and related sales and marketing business of Sinopec Group Company after the establishment of the Company.

Pursuant to the resolution passed at the extraordinary general meeting held on 24 August 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").

2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by the Company and its subsidiaries (the "Group") in the preparation of the financial statements are in conformity with the "Accounting Standards for Business Enterprises" and "Accounting Regulations for Business Enterprises"and other relevant regulations issued by the MOF.

(a) Accounting year

The accounting year of the Group is from 1 January to 31 December.

(b) Basis of consolidation

The Group prepared the consolidated financial statements according to "Accounting Regulations for Business Enterprises" and Cai Kuai Zi [1995] No.11 "Provisional regulations on consolidated financial statements" issued by the MOF.

The consolidated financial statements include the financial statements of the Company and all of its principal subsidiaries made up to 31 December each year. 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 consolidated income statement of the Company only includes the results of the subsidiaries during the period when such control effectively commences until the date that control effectively ceases. The effect of minority interests on equity and profit/loss attributable to minority interests are separately shown in the consolidated financial statements.

Where the accounting policies adopted by the subsidiaries are different from the policies adopted by the Company, the financial statements of the subsidiaries have been adjusted in accordance with the accounting policies adopted by the Company on consolidation. All significant inter-company balances and transactions, and any unrealised gains arising from inter-company transactions, have been eliminated on consolidation. For those subsidiaries whose assets and results of operation are not significant and have no significant effect on the Group's consolidated financial statements, the Company does not consolidate these subsidiaries, but includes in the long-term equity investments.

For those jointly controlled entities which the Company has joint control with other investors under contractual arrangement, the Company consolidates their assets, liabilities, revenues, costs and expenses based on the proportionate consolidation method according to its percentage of holding of equity interest in those entities in the consolidated financial statements.

(c) Basis of preparation

The financial statements of the Group have been prepared on an accrual basis under the historical costs convention, unless otherwise stated.

(d) Reporting currency and translation of foreign currencies

The Group's financial statements are prepared in Renminbi. Foreign currency transactions during the year are translated into Renminbi at exchange rates 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 PBOC rates at the balance sheet date. Exchange differences, other than those arising from foreign currency loans using to finance the construction of fixed assets before they are ready for their intended use are capitalised, are recognised as income or expenses in the income statement.

The results of overseas subsidiaries are translated into Renminbi at the annual average PBOC rates. The balance sheet items are translated into Renminbi at the PBOC rates at the balance sheet date. The resulting exchange gains or losses are accounted for as foreign currency exchange differences in the income statement.

(e) Cash equivalents

Cash equivalents are short-term and highly liquid investments which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value, including time deposits with financial institutions with an initial term of less than three months.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Allowance for doubtful accounts

Doubtful debts are accounted for based on allowance method which are estimated periodically. Trade accounts receivable showing signs of uncollectibility are identified individually and allowance is then made based on the probability of being uncollectible. In respect of trade accounts receivable showing no sign of uncollectibility, allowance is made with reference to the ageing analysis and management's estimation based on past experience. Allowances for other receivables are determined based on the nature and corresponding collectibility. Specific approval from management is required for allowances made in respect of significant doubtful receivables.

(g) Inventories

Inventories, other than spare parts and consumables, are stated at the lower of cost and net realisable value. Difference between the cost and net realisable value of each category of inventories is recognised as provision for diminution in value of inventories. Cost of inventories includes the cost of purchase of raw material computed using the weighted average method. In addition to the purchase cost of raw material, work in progress and finished goods include direct labour and appropriate proportion of production overheads, also computed using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs and related taxes necessary to make the sale.

Spare parts and consumables are stated at cost less any provision for obsolescence. Consumables are expensed when being consumed.

Inventories are recorded by perpetual method.

(h) Long-term equity investments

The Group's investments in the associates and the Company's investments in subsidiaries, associates and the related investment income and long-term equity investment are accounted for using the equity method. Equity investments difference is the difference between initial investment cost and the share of shareholders' funds of the investee companies, which is amortised on a straight-line basis and recognised in the investment income. The amortisation period is determined according to the investment period as stipulated in the relevant agreement or 10 years if not specified.

An associate is a company in which the Group holds, for long-term purposes, not less than 20% but not more than 50% of its equity interests and exercises significant influence in its management. A jointly controlled entity is an entity over which the Group can exercise joint control with other ventures.

Long-term investments in entities in which the Group does not hold more than 20% of their equity interests or those in which the Group holds more than 20% of their equity interests but does not exercise significant influence in their management are stated at cost .

Disposals or transfers of long-term equity investments are recognised in the income statement based on the difference between the disposal proceeds and the carrying amount of the investments.

Long-term equity investments are valued at the lower of the carrying amount and the recoverable amount. A provision for impairment of loss is made when the recoverable amount is lower than the carrying amount.

(i) Fixed assets and construction in progress

Fixed assets represent the assets held by the Group for production of products and administrative purpose with useful life over 1 year and comparatively high unit value.

Fixed assets and construction in progress are stated in the balance sheet at cost or revalued amount less accumulated depreciation and impairment losses. Valuation is carried out in accordance with the relevant rules and regulations in the PRC and fixed assets and construction in progress are adjusted to the revalued amounts accordingly.

All direct and indirect costs related to the purchase or construction of fixed assets, incurred before the assets are ready for its intended use, are capitalised as construction in progress. Those costs included borrowing costs, which include foreign exchange gains or losses on specific borrowings for the construction of the fixed assets during the construction period.

Construction in progress is transferred to fixed assets when the asset is ready for its intended use.

Depreciation is provided to write off the cost of fixed assets over their estimated useful lives on a straight-line basis, after taking into account their estimated residual values.

The respective estimated useful lives, residual values and annual depreciation rates on fixed assets are as follows:

	Depreciation life	Residual value	Annual depreciation rate
Land and buildings	15-45 years	3%-5%	2.1%-6.7%
Oil and gas properties	10-14 years	0%-3%	6.9%-10.0%
Plant, machinery, equipment and vehicles	4-18 years	3%	5.4%-24.3%
Oil depots and storage tanks	8-14 years	3%	6.9%-12.1%
Service station equipment	8-14 years	3%	6.9%-12.1%

No depreciation is provided in respect of construction in progress.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Oil and gas properties

Costs of development wells and the related support equipment are capitalised. The cost of exploratory wells is initially capitalised as construction in progress pending determination of whether the well has found proved reserves. Exploratory well costs is charged to expenses upon the determination that the well has not found proved reserves. 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, are charged to the income statement in the period as incurred.

(k) Intangible assets

Intangible assets are carried in the balance sheet at cost or valuation less accumulated amortisation and provision for impairment losses. Amortisation is provided on a straight-line basis. The amortisation period is the shorter of the beneficial period as specified in the related agreement and the legal life of the intangible asset. Amortisation is provided over 10 years if it is not specified in agreements or stipulated by law.

Intangible assets include exploration and production right. Exploration and production right are amortised on a straight-line basis over the average period of the production rights of the related oil fields.

(l) Debentures payable

Debentures payable is valued based on the proceeds received upon issuance and the related interest payable. Interest expenses are calculated using actual interest rate.

(m)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. No revenue is recognised 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.

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue from the rendering of services is recognised in the income statement in proportion to the stage of completion of the transaction based on the progress of work performed. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenues recognised only to the extent that costs incurred are expected to be recoverable.

Interest income is recognised on a time apportioned basis by reference to the principal outstanding and the rate applicable.

(n) Income tax

Income tax is the provision for income tax recognised in the income statement for the period using the tax effect accounting method. It comprises current and deferred tax.

Deferred tax is provided using the liability method, for timing differences between accounting profit before tax and the taxable income arising from the differences in the tax and accounting treatment of income and expenses or loss.

The tax value of losses expected to be available for utilisation against future taxable income is set off against the deferred tax liability within the same legal tax unit and jurisdiction. A valuation allowance is provided for the tax value of losses to reduce the deferred tax asset to the amount that is more likely than not to be realised through future taxable income.

(o) Borrowing costs

Borrowing costs represent interest expenses and foreign exchange difference on loans. Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being attributable to the construction of an asset which necessarily takes a period of time to get ready for its intended use.

(p) Repairs and maintenance expenses

Repairs and maintenance expenses, including cost of major overhaul, are expensed as incurred.

(q) Environmental expenditures

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

(r) Research and development costs

Research and development costs are recognised as expenses in the period in which they are incurred.

(s) Operating leases

Operating lease payments are charged to the income statement on a straight-line basis over the period of the respective leases.

(t) Retirement benefits

The contributions payable under the Group's retirement plans are charged to the income statement according to the contribution determined by the plans.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Impairment loss

The carrying amounts of long-lived assets are reviewed by the Group 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 recognised as an expense in the income statement.

The Group assesses at each balance sheet date whether there is any indication that an impairment loss recognised for an asset in prior years may no longer exist. The provision for impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount by which the impairment loss is reduced. The reversed amount is recognised as income in the period in the income statement.

(v) Related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or entities.

3 TAXATION

Major taxes applicable to the Group and the Company comprise income tax, consumption tax, resources tax and value added tax.

Income tax rate is 33% and that of certain subsidiaries is 15%.

Consumption tax is levied on gasoline and diesel at a rate of RMB 277.6 per tonne and RMB 117.6 per tonne respectively.

Resources tax is levied on crude oil and natural gas at rates ranging from RMB 8 per tonne to RMB 30 per tonne and RMB 2 to RMB 15 per 1000 cubic metre respectively.

Value added tax rate for liquefied petroleum gas, natural gas and certain agricultural products is 13% and that for other products is 17%.

The subsidiaries granted with tax concession are set out below:

Name of subsidiaries	Applicable tax rate	Reasons for granting concession
Sinopec Shanghai Petrochemical Company Limited	15%	Among the first batch of joint stock enterprises which successfully launched their overseas listings
Sinopec Yizheng Chemical Fibre Company Limited	15%	Among the first batch of joint stock enterprises which successfully launched their overseas listings
Sinopec Qilu Petrochemical Company Limited	15%	Hi-tech enterprise
Sinopec Yangzi Petrochemical Company Limited	15%	Hi-tech enterprise
Sinopec Zhongyuan Petroleum Company Limited	15%	Hi-tech enterprise
Petro-CyberWorks Information Technology Company Limited	15%	Hi-tech enterprise

4 CASH AT BANK AND IN HAND

		The Group			The Company		
	Exchange rates	Original currency millions	**2002 RMB millions**	2001 RMB millions	Original currency millions	**2002 RMB millions**	2001 RMB millions
Cash in hand							
Renminbi			29	79		26	31
Cash at bank							
Renminbi			11,576	12,300		5,622	7,595
US Dollars	8.2770	154	1,275	958	6	47	37
Hong Kong Dollars	1.0610	73	77	2,332	26	28	2,217
Deutsche Marks			—	6		—	—
Japanese Yen	0.0696	201	14	17		—	—
Pound sterling	13.1935	0.23	3	3		—	—
Swiss Francs			—	1		—	—
Euro	8.5783	4	36	29		—	—
			13,010	**15,725**		**5,723**	**9,880**
Deposits at related parties							
Renminbi			5,650	7,129		2,653	1,945
US Dollars	8.2770	6	52	—	6	52	—
Total cash at bank and in hand			**18,712**	**22,854**		**8,428**	**11,825**

Deposits at related parties represent deposits placed at Sinopec Finance Company Limited. Deposits interest is calculated at market rate.

5 BILLS RECEIVABLE

Bills receivable represents mainly the bills of acceptance issued by banks for sales of goods and products.

6 TRADE ACCOUNTS RECEIVABLE

	The Group 2002 RMB millions	The Group 2001 RMB millions	The Company 2002 RMB millions	The Company 2001 RMB millions
Subsidiaries	—	—	4,521	2,910
Sinopec Group Company and fellow subsidiaries	2,628	3,503	1,513	2,080
Associates and jointly controlled entities	65	10	8	8
Others	10,643	10,049	5,710	6,237
	13,336	**13,562**	**11,752**	**11,235**
Less: Allowance for doubtful accounts	2,666	2,480	1,867	1,774
	10,670	**11,082**	**9,885**	**9,461**

Ageing analysis on trade accounts receivable are as follows:

The Group	2002 Amount RMB millions	2002 %	2002 Allowance RMB millions	2002 %	2001 Amount RMB millions	2001 %	2001 Allowance RMB millions	2001 %
Within one year	9,298	69.7	90	1.0	9,237	68.1	13	0.1
Between one and two years	778	5.8	248	31.9	962	7.1	254	26.4
Between two and three years	461	3.5	173	37.5	714	5.3	346	48.5
Over three years	2,799	21.0	2,155	77.0	2,649	19.5	1,867	70.5
	13,336	**100.0**	**2,666**		**13,562**	**100.0**	**2,480**	

The Company	2002 Amount RMB millions	2002 %	2002 Allowance RMB millions	2002 %	2001 Amount RMB millions	2001 %	2001 Allowance RMB millions	2001 %
Within one year	9,167	77.9	89	1.0	8,449	75.2	7	0.1
Between one and two years	371	3.2	130	35.0	656	5.8	131	20.0
Between two and three years	312	2.7	144	46.2	442	3.9	212	48.0
Over three years	1,902	16.2	1,504	79.1	1,688	15.1	1,424	84.4
	11,752	**100.0**	**1,867**		**11,235**	**100.0**	**1,774**	

Major trade accounts receivable of the Group at 31 December 2002 are set out below:

Name of entity	Balance RMB millions	Percentage of trade accounts receivable for the year %
China Petrochemical International Guangzhou Company Limited	206	1.5
Jinan Petrochemical Plant	164	1.2
Zhanjiang Dongxin Petroleum Company Limited	133	1.0
Chevrontexaco Global Trading	117	0.9
China Aviation Oil (Singapore) Pte Ltd	116	0.9

Major trade accounts receivable of the Group at 31 December 2001 are set out below:

Name of entity	Balance RMB millions	Percentage of trade accounts receivable for 2001 %
China Petrochemical Corporation	627	4.6
Shanghai Gaoqiao Petrochemical International Trading Company	200	1.5
Jinling Petrochemical Export Company	164	1.2
Jinan Petrochemical Factory	164	1.2
Qingdao Petrochemical Factory	131	1.0

Except for the balances disclosed in Note 39, there is no amount due from shareholders who hold 5% or more voting right of the Company included in the balance of trade accounts receivable.

During the year ended 31 December 2002, the Group and the Company had no individually significant write off or write back of doubtful debts which had been fully or substantially provided in prior years.

At 31 December 2002, the Group and the Company did not have individually significant trade accounts receivable that aged over three years.

7 OTHER RECEIVABLES

	The Group 2002 RMB millions	The Group 2001 RMB millions	The Company 2002 RMB millions	The Company 2001 RMB millions
Subsidiaries	—	—	9,961	8,802
Sinopec Group Company and fellow subsidiaries	11,130	8,289	9,562	6,763
Associates and jointly controlled entities	310	373	310	373
Others	7,249	12,706	5,021	9,607
	18,689	**21,368**	**24,854**	**25,545**
Less: Allowance for doubtful accounts	1,872	1,550	1,193	1,242
	16,817	**19,818**	**23,661**	**24,303**

Ageing analyses of other receivables are as follows:

The Group	2002 Amount RMB millions	2002 %	2002 Allowance RMB millions	2002 %	2001 Amount RMB millions	2001 %	2001 Allowance RMB millions	2001 %
Within one year	12,156	65.0	310	2.6	10,800	50.5	16	0.1
Between one and two years	2,513	13.5	126	5.0	7,715	36.1	3	0.0
Between two and three years	2,258	12.1	211	9.3	585	2.7	201	34.4
Over three years	1,762	9.4	1,225	69.5	2,268	10.7	1,330	58.6
	18,689	**100.0**	**1,872**		**21,368**	**100.0**	**1,550**	

The Company	2002 Amount RMB millions	2002 %	2002 Allowance RMB millions	2002 %	2001 Amount RMB millions	2001 %	2001 Allowance RMB millions	2001 %
Within one year	19,334	77.8	21	0.1	16,538	64.7	8	0.0
Between one and two years	2,110	8.5	28	1.3	7,563	29.6	1	0.0
Between two and three years	2,123	8.5	169	8.0	226	0.9	150	66.4
Over three years	1,287	5.2	975	75.8	1,218	4.8	1,083	88.9
	24,854	**100**	**1,193**		**25,545**	**100.0**	**1,242**	

Major other receivables of the Group at 31 December 2002 are set out below:

Name of entity	Particulars	Balance RMB millions	Percentage of other receivables for the year %
China Petroleum Corporation	Current Account	3,509	18.8
Baling Petrochemical Company Limited	Current Account	967	5.2
Yuelian Wanda Petrochemical Company Limited	Current Account	423	2.3
Jinhuang Real Estate Company Limited	Current Account	370	2.0
Changling Petrochemical Company Limited	Current Account	315	1.7

Major other receivables of the Group at 31 December 2001 are set out below:

Name of entity	Particulars	Balance RMB millions	Percentage of other receivables for 2001 %
Daqing Petrochemical Company	Current Account	2,105	9.9
Fushun Petrochemical Company	Current Account	1,194	5.6
Baling Petrochemical Company Limited	Current Account	967	4.5
Yuelian Wanda Petrochemical Company Limited	Current Account	543	2.5
Lanzhou Chemical Industrial Company	Current Account	447	2.1

Except for the balances disclosed in Note 39, there is no amount due from shareholders who hold 5% or more voting right of the Company included in the balance of other receivables.

During the year ended 31 December 2002, the Group and the Company had no individually significant write off of other receivables.

At 31 December 2002, the Group and the Company did not have individually significant other receivables that aged over three years.

During the year ended 31 December 2002, pursuant to Cai Qi [2002] No. 625 "Reply to the adjustment on State Capital of China National Petroleum Corporation and China Petrochemical Corporation" issued by the MOF, the receivable and payable of the Group with China National Petroleum Corporation of RMB 4,014 million and RMB 505 million respectively is eliminated. The net amounts of RMB 3,509 million is borne by Sinopec Group Company.

8 ADVANCE PAYMENTS

All advance payments are due within a year.

Except for the balances disclosed in Note 39, there is no amount due from shareholders who hold 5% or more voting right of the Company included in the balance of advance payments.

9 INVENTORIES

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB millions	RMB millions	**RMB millions**	RMB millions
Raw materials	21,333	17,777	10,426	9,954
Work in progress	6,192	5,050	3,387	3,556
Finished goods	15,086	20,442	10,248	12,925
Spare parts and consumables	2,807	2,781	1,070	1,044
	45,418	**46,050**	**25,131**	**27,479**
Less: Provision for diminution in value of inventories	486	602	224	292
	44,932	**45,448**	**24,907**	**27,187**

Provision for diminution in value of inventories is mainly against finished goods.

Provision for diminution in value of inventories are analysed as follows:

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB millions	RMB millions	**RMB millions**	RMB millions
Balance at 1 January	602	841	292	560
Provision for the year	172	114	54	27
Written back for the year	(214)	(161)	(71)	(114)
Written off	(74)	(192)	(51)	(181)
Balance at 31 December	**486**	**602**	**224**	**292**

The cost of inventories recognised as cost and expense by the Group and the Company amounted to RMB 260,829 million (2001: RMB 251,922 million) and RMB 182,757 million (2001: RMB 191,673 million) for the year ended 31 December 2002.

10 LONG-TERM EQUITY INVESTMENTS

The Group

	Listed stock investment RMB millions	Unlisted stock and other equity investment RMB millions	Equity investment differences RMB millions	Provision for impairment losses RMB millions	Total RMB millions
Balance at 1 January 2002	691	7,962	438	(181)	8,910
Addition for the year	—	2,064	293	—	2,357
Share of profits less losses from investments accounted for under the equity method	43	228	—	—	271
Dividends received	(8)	(143)	—	—	(151)
Disposal for the year	—	(160)	(53)	—	(213)
Amortisation for the year	—	—	(146)	—	(146)
Movement of provision for impairment losses	—	—	—	(3)	(3)
Balance at 31 December 2002	**726**	**9,951**	**532**	**(184)**	**11,025**

The Company

	Listed stock investment RMB millions	Unlisted stock and other equity investment RMB millions	Equity investment differences RMB millions	Provision for impairment losses RMB millions	Total RMB millions
Balance at 1 January 2002	35,971	54,898	385	(149)	91,105
Addition for the year	—	1,222	293	—	1,515
Share of profits less losses from investments accounted for under the equity method	2,243	8,970	—	—	11,213
Dividends received	(365)	(11,288)	—	—	(11,653)
Disposal for the year	(502)	(36)	—	—	(538)
Amortisation for the year	—	—	(141)	—	(141)
Balance at 31 December 2002	**37,347**	**53,766**	**537**	**(149)**	**91,501**

10 LONG-TERM EQUITY INVESTMENTS *(Continued)*

Provision for impairment losses are analysed as follows:

	The Group 2002 RMB millions	The Group 2001 RMB millions	The Company 2002 RMB millions	The Company 2001 RMB millions
Balance at 1 January	181	210	149	140
Provision for the year	8	18	—	9
Written back for the year	(5)	(42)	—	—
Written off	—	(5)	—	—
Balance at 31 December	**184**	**181**	**149**	**149**

At 31 December 2002, the Group and the Company did not have individually significant provision for impairment losses on long-term equity investments.

Other equity investments represent the Group's interests in PRC domiciled enterprises which are mainly engaged in non oil and gas and chemical activities and operations. This includes non-consolidated investments which the Group has over 50% equity interest but the costs of investment are not significant or the Group has no control on the entities. Stock investment of the Company represents investment in subsidiaries and associates. Details of the Company's principal subsidiaries are set out in Note 40.

At 31 December 2002, details of listed stock investment of the Group are as follows:

Name of invested company	Type of investment	No. of shares millions	Percentage of equity interest held by the Group	Initial investment cost RMB millions	**Balance at 1 January 2002 RMB millions**	Shares of profits accounted for under the equity method RMB millions	Dividends received RMB millions	**Balance at 31 December 2002 RMB millions**	**Market value as at 31 December 2002* RMB millions**
Sinopec Shengli Oil Field Dynamic Co Ltd	Legal person shares	80	26.33%	223	393	32	(8)	417	625
Sinopec Shandong Taishan Petroleum Co Ltd	Legal person shares	186	38.68%	124	298	11	—	309	1,764
					691	**43**	**(8)**	**726**	

* Information of market price is sourced from Shenzhen Stock Exchange.

At 31 December 2002, details of principal unlisted stock and other equity investment of the Group are as follows:

Name of invested company	Initial investment cost RMB millions	Investment period	Percentage of equity interest held by the Group	**Balance at 1 January 2002 RMB millions**	Addition for the year RMB millions	Share of profits/ (losses) accounted for under the equity method RMB millions	Dividends received RMB millions	**Balance at 31 December 2002 RMB millions**
BASF-YPC Company Limited (i)	1,935	—	40%	1,231	704	—	—	1,935
Sinopec Finance Company Limited	1,205	—	40%	1,205	—	78	(5)	1,278
Shanghai Petroleum National Gas Corporation	300	—	30%	584	—	148	(60)	672
Shanghai Chemical Industry Park Development Company Limited	608	30 years	38%	560	48	23	—	631
Shanghai Secco Petrochemical Company Limited (ii)	559	50 years	50%	165	394	—	—	559
Block A Oil Field in the Western Area Chengda in Bohai Bay	435	15 years	43%	237	198	(41)	—	394
中石化長江燃料有限公司	190	20 years	50%	25	165	4	—	194
Shanghai Jinpu Packaging Material Company Limited	102	30 years	50%	78	24	18	(6)	114
湖南高速實業發展有限公司 (i)	103	—	49%	50	53	—	—	103
The East China Sea Xihu Oil and Gas Project	184	30 years	50%	—	184	(28)	—	156

No provision for impairment losses or significant equity investment difference was made for the long-term equity investments as set out above.

(i) Due to the fact that the projects in these companies are still under construction, there are no income statements for these companies. Accordingly the Group did not have any share of profits or losses of these companies for the year ended 31 December 2002.

(ii) Due to the fact that the project in this subsidiary is still under contruction, there are no income statement for this subsidiary. This subsidiary whose assets and results of operation is not significant and have no significant effect on the Group's consolidated financial statements, therefore, costing method is adopted.

11 FIXED ASSETS

The Group - by segment

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Others RMB millions	Total RMB millions
Cost / valuation						
Balance at 1 January 2002	142,354	93,357	40,683	112,482	1,657	390,533
Addition for the year	1,623	468	1,860	326	102	4,379
Swap in from Sinopec Group Company (Note 39)	—	—	1,040	—	—	1,040
Transferred from construction in progress	17,236	6,657	6,286	11,016	559	41,754
Swap out to Sinopec Group Company (Note 39)	(1,799)	(266)	—	(144)	—	(2,209)
Disposals	(1,485)	(1,308)	(521)	(704)	(88)	(4,106)
Balance at 31 December 2002	**157,929**	**98,908**	**49,348**	**122,976**	**2,230**	**431,391**
Accumulated depreciation:						
Balance at 1 January 2002	74,697	40,385	6,788	54,757	413	177,040
Depreciation charge for the year	11,367	6,009	1,931	6,894	126	26,327
Swap out to Sinopec Group Company (Note 39)	(619)	(125)	—	(68)	—	(812)
Written back on disposal	(1,177)	(939)	(247)	(523)	(67)	(2,953)
Balance at 31 December 2002	**84,268**	**45,330**	**8,472**	**61,060**	**472**	**199,602**
Net book value:						
At 31 December 2002	**73,661**	**53,578**	**40,876**	**61,916**	**1,758**	**231,789**
At 31 December 2001	**67,657**	**52,972**	**33,895**	**57,725**	**1,244**	**213,493**

The Company - by segment

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Others RMB millions	Total RMB millions
Cost / valuation						
Balance at 1 January 2002	46,748	64,392	39,671	30,309	847	181,967
Addition for the year	884	941	1,785	196	46	3,852
Swap in from Sinopec Group Company (Note 39)	—	—	1,040	—	—	1,040
Transferred from construction in progress	7,471	4,571	6,245	242	435	18,964
Swap out to Sinopec Group Company (Note 39)	(1,235)	(266)	—	(144)	—	(1,645)
Disposals	(766)	(1,057)	(504)	(76)	(70)	(2,473)
Balance at 31 December 2002	**53,102**	**68,581**	**48,237**	**30,527**	**1,258**	**201,705**
Accumulated depreciation:						
Balance at 1 January 2002	23,965	30,001	6,648	15,361	229	76,204
Depreciation charge for the year	3,672	3,762	1,856	1,664	58	11,012
Swap out to Sinopec Group Company (Note 39)	(460)	(125)	—	(68)	—	(653)
Written back on disposal	(562)	(769)	(232)	(48)	(61)	(1,672)
Balance at 31 December 2002	**26,615**	**32,869**	**8,272**	**16,909**	**226**	**84,891**
Net book value:						
At 31 December 2002	**26,487**	**35,712**	**39,965**	**13,618**	**1,032**	**116,814**
At 31 December 2001	**22,783**	**34,391**	**33,023**	**14,948**	**618**	**105,763**

11 FIXED ASSETS *(Continued)*

The Group - by asset class

	Land and buildings RMB millions	Oil and gas properties RMB millions	Oil depots, storage tanks and service stations RMB millions	Plant, machinery, equipment and others RMB millions	Total RMB millions
Cost/valuation:					
Balance at 1 January 2002	35,804	125,119	33,321	196,289	390,533
Addition for the year	400	52	1,160	2,767	4,379
Swap in from Sinopec Group Company (Note 39)	—	—	1,040	—	1,040
Transferred from construction in progress	1,407	16,431	5,889	18,027	41,754
Reclassification	1,077	295	(4,361)	2,989	—
Swap out to Sinopec Group Company (Note 39)	(185)	(196)	—	(1,828)	(2,209)
Disposals	(317)	(769)	(252)	(2,768)	(4,106)
Balance at 31 December 2002	**38,186**	**140,932**	**36,797**	**215,476**	**431,391**
Accumulated depreciation:					
Balance at 1 January 2002	13,226	69,055	5,902	88,857	177,040
Depreciation charge for the year	1,589	9,900	1,387	13,451	26,327
Reclassification	384	118	(748)	246	—
Swap out to Sinopec Group Company (Note 39)	(56)	(51)	—	(705)	(812)
Written back on disposal	(116)	(667)	(163)	(2,007)	(2,953)
Balance at 31 December 2002	**15,027**	**78,355**	**6,378**	**99,842**	**199,602**
Net book value:					
At 31 December 2002	**23,159**	**62,577**	**30,419**	**115,634**	**231,789**
At 31 December 2001	**22,578**	**56,064**	**27,419**	**107,432**	**213,493**

The Company - by asset class

	Land and buildings RMB millions	Oil and gas properties RMB millions	Oil depots, storage tanks and service stations RMB millions	Plant, machinery, equipment and others RMB millions	Total RMB millions
Cost/valuation:					
Balance at 1 January 2002	17,221	39,869	32,397	92,480	181,967
Addition for the year	316	52	1,132	2,352	3,852
Swap in from Sinopec Group Company (Note 39)	—	—	1,040	—	1,040
Transferred from construction in progress	1,024	6,899	5,708	5,333	18,964
Reclassification	175	(380)	(4,361)	4,566	—
Swap out to Sinopec Group Company (Note 39)	(91)	(196)	—	(1,358)	(1,645)
Disposals	(206)	(272)	(251)	(1,744)	(2,473)
Balance at 31 December 2002	**18,439**	**45,972**	**35,665**	**101,629**	**201,705**
Accumulated depreciation:					
Balance at 1 January 2002	5,651	22,196	5,828	42,529	76,204
Depreciation charge for the year	836	3,174	1,315	5,687	11,012
Reclassification	67	(165)	(748)	846	—
Swap out to Sinopec Group Company (Note 39)	(36)	(51)	—	(566)	(653)
Written back on disposal	(89)	(217)	(163)	(1,203)	(1,672)
Balance at 31 December 2002	**6,429**	**24,937**	**6,232**	**47,293**	**84,891**
Net book value:					
At 31 December 2002	**12,010**	**21,035**	**29,433**	**54,336**	**116,814**
At 31 December 2001	**11,570**	**17,673**	**26,569**	**49,951**	**105,763**

The fixed assets and construction in progress of the Group at 30 September 1999 were valued by registered valuers in the PRC. The valuation was reviewed and approved by the MOF (Note 1). Surplus on revaluation was RMB 29,093 million and deficit on revaluation was RMB 3,210 million. A net surplus on revaluation of RMB 25,883 million was resulted which has been incorporated in the Group's financial statements since the year ended 31 December 1999.

In accordance with the relevant rules and regulations in respect of the acquisition of Sinopec National Star, the fixed assets and construction in progress of Sinopec National Star have been valued by a firm of independent valuers in the PRC. Surplus on revaluation of RMB 541 million has been incorporated in the Group's financial statements since the year ended 31 December 2001.

At 31 December 2002, the carrying amounts of fixed assets that were pledged by the Group and the Company are RMB 146 million (2001: RMB 233 million) and RMB 20 million (2001: RMB 104 million) respectively.

11 FIXED ASSETS *(Continued)*

Provision for impairment losses on fixed assets are analysed as follows:

	The Group and the Company RMB millions
Balance at 1 January and 31 December 2002	**391**

The Group's and the Company's provision for impairment losses on fixed asset were with respect to the exploration and production segment for the year ended 31 December 2002.

At 31 December 2002, the Group and the Company had no individually significant fixed assets which are temporarily idle or ready for disposal.

12 CONSTRUCTION MATERIALS

At 31 December 2002, the Group's and the Company's construction materials mainly represent the actual cost of materials such as steel and copper to be used for construction projects.

13 CONSTRUCTION IN PROGRESS

The Group

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Others RMB millions	Total RMB millions
Balance at 1 January 2002	3,163	6,468	8,592	7,274	509	26,006
Addition for the year	20,376	5,918	4,982	6,938	443	38,657
Dry hole costs written off	(1,771)	—	—	—	—	(1,771)
Swap out to Sinopec Group Company (Note 39)	(6)	(10)	—	—	—	(16)
Transferred to fixed assets	(17,236)	(6,657)	(6,286)	(11,016)	(559)	(41,754)
Balance at 31 December 2002	**4,526**	**5,719**	**7,288**	**3,196**	**393**	**21,122**

The interest rates at which borrowing costs were capitalised during the year by the Group was ranging from 3.1% to 6.2% p.a (2001: 3.4% to 8.0% p.a).

At 31 December 2002, major projects of the Group are as follows:

Project name	Budgeted amount RMB millions	**Balance at 1 January 2002 RMB millions**	Additions for the year RMB millions	**Balance at 31 December 2002 RMB millions**	Percentage of completion	Source of funding	Interest capitalised for the year RMB millions
450,000 tonnes PTA Project	2,055	380	508	888	43%	Bank loans & self-financing	29
Ningbo · Shanghai Pipeline Project	2,855	40	425	465	16%	Bank loans & self-financing	1
PX United Project	1,201	93	317	410	34%	Bank loans & self-financing	6
Union Equipment Reforming Project	399	18	301	319	80%	Bank loans	4
Zibo · Qingdao Gas Pipeline Project	360	—	281	281	78%	Self-financing	—

The Company

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Others RMB millions	Total RMB millions
Balance at 1 January 2002	1,893	5,046	8,346	728	468	16,481
Addition for the year	9,653	3,660	4,806	382	343	18,844
Dry hole costs written off	(951)	—	—	—	—	(951)
Swap out to Sinopec Group Company (Note 39)	(6)	(10)	—	—	—	(16)
Transferred to fixed assets	(7,471)	(4,571)	(6,245)	(242)	(435)	(18,964)
Balance at 31 December 2002	**3,118**	**4,125**	**6,907**	**868**	**376**	**15,394**

The interest rates at which borrowing costs were capitalised during the year by the Company was ranging from 3.1% to 6.2% p.a (2001: 3.4% to 8.0% p.a).

14 INTANGIBLE ASSETS

The Group

	Computer Software licence RMB millions	Technical know-how RMB millions	Exploration and production right RMB millions	Others RMB millions	Total RMB millions
Cost:					
Balance at 1 January 2002	296	993	3,163	100	4,552
Addition for the year	72	316	—	73	461
Disposals	(37)	(20)	—	(71)	(128)
Balance at 31 December 2002	**331**	**1,289**	**3,163**	**102**	**4,885**
Accumulated Amortisation:					
Balance at 1 January 2002	38	367	117	53	575
Amortisation charge for the year	29	122	117	18	286
Written back on disposal	(20)	(2)	—	(16)	(38)
Balance at 31 December 2002	**47**	**487**	**234**	**55**	**823**
Net book value:					
At 31 December 2002	**284**	**802**	**2,929**	**47**	**4,062**
At 31 December 2001	**258**	**626**	**3,046**	**47**	**3,977**

Except for exploration and production right, the above intangible assets were acquired from third parties. The Company acquired Sinopec National Star together with the exploration and production right from Sinopec Group Company. The exploration and production right was valued with reference to the proved reserves of the associated oil fields. The amortisation period and remaining amortisation period of exploration and production right was 27 years and 25 years respectively. The amortisation periods of other intangible assets range from 4 to 10 years.

The Company

	Computer Software licence RMB millions	Technical know-how RMB millions	Exploration and production right RMB millions	Others RMB millions	Total RMB millions
Cost:					
Balance at 1 January 2002	156	918	3,163	43	4,280
Addition for the year	46	101	—	23	170
Disposals	(31)	(12)	—	(12)	(55)
Balance at 31 December 2002	**171**	**1,007**	**3,163**	**54**	**4,395**
Accumulated Amortisation:					
Balance at 1 January 2002	24	358	117	28	527
Amortisation charge for the year	15	95	117	10	237
Written back on disposals	(18)	(1)	—	(9)	(28)
Balance at 31 December 2002	**21**	**452**	**234**	**29**	**736**
Net book value:					
At 31 December 2002	**150**	**555**	**2,929**	**25**	**3,659**
At 31 December 2001	**132**	**560**	**3,046**	**15**	**3,753**

Except for exploration and production right, the above intangible assets were acquired from third parties. The Company acquired Sinopec National Star together with the exploration and production right from Sinopec Group Company. The exploration and production right was valued with reference to the proved reserves of the associated oil fields. The amortisation period and remaining amortisation period of exploration and production right was 27 years and 25 years respectively. The amortisation periods of other intangible assets range from 4 to 10 years.

15 DEFERRED TAX ASSETS AND LIABILITIES

The Group

	Assets		Liabilities		Net balance	
	2002	2001	**2002**	2001	**2002**	2001
	RMB millions	RMB millions	**RMB millions**	RMB millions	**RMB millions**	RMB millions
Current						
Provision primarily for receivables and inventories	264	423	—	—	264	423
Non-current						
Property, plant and equipment	47	35	(460)	(671)	(413)	(636)
Tax value of losses carried forward, net of valuation allowance	30	173	—	—	30	173
Others	16	129	(14)	(8)	2	121
Deferred tax assets/(liabilities)	**357**	**760**	**(474)**	**(679)**	**(117)**	**81**

The Company

	Assets		Liabilities		Net balance	
	2002	2001	**2002**	2001	**2002**	2001
	RMB millions	RMB millions	**RMB millions**	RMB millions	**RMB millions**	RMB millions
Current						
Provision primarily for receivables and inventories	57	281	—	—	57	281
Non-current						
Property, plant and equipment	36	3	(54)	(33)	(18)	(30)
Others	15	53	(3)	—	12	53
Deferred tax assets/(liabilities)	**108**	**337**	**(57)**	**(33)**	**51**	**304**

16 SHORT-TERM LOANS

The Group's and the Company's short-term loans represent:

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB millions	RMB millions	**RMB millions**	RMB millions
Short-term bank loans	22,839	34,424	12,514	23,460
Short-term other loans	19	43	15	24
Loans from Sinopec Group Company and fellow subsidiaries	4,121	3,448	2,299	2,622
	26,979	**37,915**	**14,828**	**26,106**

The Group's and the Company's weighted average interest rate on short-term loans was 4.3% (2001: 5.1%) and 4.2% (2001: 5.1%) respectively at 31 December 2002. The majority of the above loans are unsecured.

The Group and the Company had no overdue short-term loan at 31 December 2002 (2001: nil).

17 BILLS PAYABLE

Bills payable primarily represented the bank accepted bills for the purchase of material, goods and products. The repayment term is normally from three to six months.

18 TRADE ACCOUNTS PAYABLE

The ageing analysis of trade accounts payable are as follows:

The Group

	2002		2001	
	RMB millions	**%**	RMB millions	%
Within 3 months	11,058	57.6	12,494	74.4
Between 3 and 6 months	5,688	29.6	1,866	11.1
Over 6 months	2,466	12.8	2,433	14.5
	19,212	**100.0**	**16,793**	**100.0**

The Company

	2002		2001	
	RMB millions	**%**	RMB millions	%
Within 3 months	13,975	76.3	9,735	76.5
Between 3 and 6 months	2,588	14.2	1,313	10.3
Over 6 months	1,747	9.5	1,679	13.2
	18,310	**100.0**	**12,727**	**100.0**

Except for the balances disclosed in Note 39, there is no amount due to shareholders who hold 5% or more voting right of the Company included in the balance of trade accounts payable.

At 31 December 2002, the Group and the Company had no individually significant trade accounts payable aged over three years.

19 RECEIPTS IN ADVANCE

Except for the balances disclosed in Note 39, there is no amount due to shareholders who hold 5% or more voting right of the Company included in the balance of receipts in advance.

At 31 December 2002, the Group and the Company had no individually significant receipts in advance aged over one year.

20 TAXES PAYABLE

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB millions	RMB millions	**RMB millions**	RMB millions
Value added tax	(1,200)	(1,211)	(1,077)	(914)
Consumption tax	947	979	733	742
Income tax	2,776	2,809	1,307	837
Business tax	88	89	20	33
Other taxes	769	921	111	147
	3,380	**3,587**	**1,094**	**845**

The provision for PRC current income tax is based on a statutory rate of 33% of the assessable income of the Group and the Company as determined in accordance with the relevant income tax rules and regulations of the PRC during the years ended 31 December 2001 and 2002, except for certain subsidiaries of the Company, which are taxed at a preferential rate of 15%.

21 OTHER PAYABLES

At 31 December 2002, the Group's and the Company's other payables primarily represented payables for resources compensation fee and education surcharge.

22 OTHER CREDITORS

Except for the balances disclosed in Note 39, there is no amount due to shareholders who hold 5% or more voting right of the Company included in the balance of other creditors.

At 31 December 2002, the Group and the Company had no individually significant other payables aged over three years.

23 ACCRUED EXPENSES

At 31 December 2002, the Group's and the Company's accrued expenses primarily represented accrued interest expenses, repair and maintenance expenses, research and development expenses and other production expenses.

24 CURRENT PORTION OF LONG-TERM LOANS

The Group's and the Company's current portion of long-term loans represent:

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB millions	RMB millions	**RMB millions**	RMB millions
Long-term bank loans				
— Renminbi loans	6,436	8,490	5,194	5,752
— Japanese Yen loans	294	240	243	192
— US Dollar loans	1,337	1,365	237	481
— Deutsche Marks loans *(Note)*	—	30	—	29
— Hong Kong Dollar loans	3	4	—	—
— Dutch Guilders loans *(Note)*	—	11	—	11
— Euro loans	50	—	47	—
	8,120	**10,140**	**5,721**	**6,465**
Long-term other loans				
— Renminbi loans	148	372	12	68
— US Dollar loans	152	370	110	2
	300	**742**	**122**	**70**
Long-term loans from Sinopec Group Company and fellow subsidiaries				
— Renminbi loans	144	345	144	345
— US Dollar loans	9	69	9	69
	153	**414**	**153**	**414**
Total current portion of long-term loans	**8,573**	**11,296**	**5,996**	**6,949**

Note: Loans denominated in European currencies in 2001 were converted to Euro during the year ended 31 December 2002.

25 LONG-TERM LOANS

The Group's and the Company's long-term loans represent:

	Interest rate and final maturity	The Group 2002 RMB millions	The Group 2001 RMB millions	The Company 2002 RMB millions	The Company 2001 RMB millions
Third parties debts					
Long-term bank loans					
Renminbi loans	Interest rates ranging from interest free to 11.2% per annum at 31 December 2002 with maturities through 2013	36,855	32,231	25,884	21,473
Japanese Yen loans	Interest rates ranging from 0.2% to 7.3% per annum at 31 December 2002 with maturities through 2024	2,373	2,401	2,280	2,272
US Dollar loans	Interest rates ranging from interest free to 7.9% per annum at 31 December 2002 with maturities through 2031	4,294	4,300	1,323	1,884
Deutsche Marks loans	Fixed rates ranging from 6.6% to 6.8% per annum at 31 December 2001 which was converted to Euro denominated during 2002	—	151	—	144
Dutch Guilders loans	Fixed rate at 7.9% per annum at 31 December 2001 which was converted to Euro denominated during 2002	—	28	—	28
Hong Kong Dollar loans	Floating rate at Hong Kong Prime Rate per annum plus 0.25% with maturities through 2006	10	14	—	—
Euro loans	Fixed rates ranging from 6.0% to 7.9% per annum at 31 December 2002 with maturities through 2006	162	—	155	—
Less: Current portion		8,120	10,140	5,721	6,465
Long-term bank loans		**35,574**	**28,985**	**23,921**	**19,336**
Other long-term loans					
Renminbi loans	Interest rates ranging from interest free to 7.5% per annum at 31 December 2002 with maturities through 2015	277	596	61	123
US Dollar loans	Interest rates ranging from interest free to 3.4% per annum at 31 December 2002 with maturities through 2015	438	522	398	34
French Francs loans	Interest rates ranging from 1.8% to 8.1% per annum at 31 December 2001 which was converted to Euro denominated during 2002	—	15	—	15
Euro loans	Interest rates ranging from 1.8% to 8.1% per annum at 31 December 2002 with maturities through 2025	16	—	16	—
Less: Current portion		300	742	122	70
Other long-term loans		**431**	**391**	**353**	**102**
Long-term loans from Sinopec Group Company and fellow subsidiaries					
Renminbi loans	Interest free with maturity in 2020	35,561	35,561	35,561	35,561
Renminbi loans	Interest rates ranging from 5.0% to 6.0% per annum at 31 December 2002 with maturities through 2007	2,272	796	2,187	790
US Dollar loans	Interest rates ranging from 2.4% to 2.8% per annum at 31 December 2002 with maturities through 2006	23	182	21	180
Less: Current portion		153	414	153	414
Long-term loans from Sinopec Group Company and fellow subsidiaries		**37,703**	**36,125**	**37,616**	**36,117**
		73,708	**65,501**	**61,890**	**55,555**

25 LONG-TERM LOANS *(Continued)*

The maturity analysis of the Group's and the Company's long-term loans are as follows:

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB millions	RMB millions	**RMB millions**	RMB millions
Between one to two years	7,177	10,383	3,876	6,043
Between two to five years	25,564	13,108	17,458	7,931
After five years	40,967	42,010	40,556	41,581
Total long-term loans	**73,708**	**65,501**	**61,890**	**55,555**

At 31 December 2002, the Group and the Company had secured loans from third parties amounting to RMB 85 million (2001: RMB 171 million) and RMB 23 million (2001: RMB 76 million) respectively.

Except for the balances disclosed in Note 39, there is no amount due to shareholders who held 5% or more voting right of the Company included in the balance of long term loans.

26 DEBENTURES PAYABLE

	Interest rate and final maturity	The Group **2002** **RMB millions**	2001 RMB millions
Convertible bonds	Fixed rate at 2.2% per annum at 31 December 2002 and redeemable in July 2004	1,500	1,500

Convertible bonds amounting to RMB 1,500 million were issued by a subsidiary of the Group on 28 July 1999. The bonds are convertible upon an initial public offering ("IPO") into ordinary shares of the subsidiary from the date of IPO to 27 July 2004.

27 OTHER LONG-TERM PAYABLES

Other long-term payables primarily represent provision for future dismantlement of oil and gas properties, the costs arising from environmental restoration and specific research and development projects.

28 SHARE CAPITAL

	The Group and the Company	
	2002	2001
	RMB millions	RMB millions
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 H shares of RMB 1.00 each	16,780	16,780
2,800,000,000 A shares of RMB 1.00 each	2,800	2,800
	86,702	**86,702**

The Company was established on 25 February 2000 with a registered capital of 68.8 billion state-owned domestic shares with a par value of RMB 1.00 each, which were all held by Sinopec Group Company (see Note 1).

Pursuant to the resolutions passed in an extraordinary general meeting of the Company held on 25 July 2000 and the approval from relevant authorities, the Company issued 15,102,439,000 H shares with a par value of RMB 1.00 each in its initial global offering in October 2000. The shares include 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 and US$ 20.645 respectively. As part of the offering, 1,678,049,000 shares were offered in placing to Hong Kong and overseas investors.

According to Sinopec Group Company's debt-to-equity arrangement, some of the Company's shares held by Sinopec Group Company were transferred to the following state-owned bank and asset management companies. Pursuant to the notice Cai Qi [2000] No. 261 issued by MOF, the Company, having made its global offer of H shares, adjusted the price of shares to be transferred to the following entities, based on the issue price of the H shares, in connection with the debt-to-equity arrangement and the proportion of its state-owned shares. As a result, shares of the Company held by the State Development Bank of China, China Cinda Asset Management Corporation, China Orient Asset Management Corporation, China Huarong Asset Management Corporation are 8,775,570,000 shares, 8,720,650,000 shares, 1,296,410,000 shares and 586,760,000 shares respectively. Shares of the Company held by Sinopec Group Company was adjusted to 47,742,600,000 shares accordingly. Such arrangement was approved by MOF in Cai Qi [2000] No. 754 "Comments on the issues relating to the management of the state-owned equity in China Petroleum and Chemical Corporation".

In July 2001, the Company issued 2,800,000,000 domestic listed A shares with a par value of RMB 1.00 each at RMB 4.22.

All the domestic state-owned ordinary shares and H shares rank pari passu in all material respects.

KPMG Huazhen had verified the above paid-in capital. The capital verification reports, KPMG-C (2000) CV No. 0007, KPMG-C (2001) CV No. 0002 and KPMG-C (2001) CV No.0006 were issued on 22 February 2000, 27 February 2001 and 23 July 2001 respectively.

29 CAPITAL RESERVE

The movements in capital reserve are as follows:

	The Group and the Company	
	2002	2001
	RMB millions	RMB millions
Balance at 1 January	36,297	27,449
Share premium from issuance of share	—	9,016
Less: Underwriting and issuing expenses	—	168
Government grants	291	—
Balance at 31 December	**36,588**	**36,297**

During the year ended 31 December 2002, the Group received subsidy on investments amounted to RMB 291 million, pursuant to Guo Jing Mao Tou Zi [2002] No. 847 "Notice on the State's Key Technology Reform on Project Fund Plan regarding the Third Batch of State Debt's Special Fund in 2002" issued by MOF. This fund is used for technology improvement projects.

30 SURPLUS RESERVES

Movements in statutory surplus reserve and statutory public welfare fund are as follows:

	The Group and the Company			
	Statutory surplus reserve RMB millions	Statutory public welfare fund RMB millions	Discretionary surplus reserve RMB millions	Total RMB millions
Balance at 1 January 2001	1,615	1,615	—	3,230
Appropriation of net profit	1,402	1,402	—	2,804
Balance at 31 December 2001	3,017	3,017	—	6,034
Balance at 1 January 2002	3,017	3,017	—	6,034
Appropriation of net profit	1,412	1,412	7,000	9,824
Balance at 31 December 2002	**4,429**	**4,429**	**7,000**	**15,858**

The Articles of Association of the Company and the following profit appropriation plans had been approved at the Extraordinary General Meeting held on 25 July 2000:

(a) 10% of the net profit is transferred to the statutory surplus reserve;

(b) 5% to 10% of the net profit is transferred to the statutory public welfare fund;

(c) after the transfer to the statutory surplus reserve, a transfer to discretionary surplus reserve can be made upon the passing of a resolution at the Annual General Meeting.

31 INCOME FROM PRINCIPAL OPERATIONS

The income from principal operations represents revenue from sales of crude oil, natural gas, petroleum and chemical products net of value added tax. The Group's segmental information is set out in note 43.

For the year ended 31 December 2002, revenue from sales to top five customers are RMB 51,896 million (2001: RMB 51,372 million) which accounts for 16% (2001: 17%) of income from principal operations of the Group.

32 SALES TAX AND SURCHARGES

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB millions	RMB millions	**RMB millions**	RMB millions
Consumption tax	8,823	9,025	5,909	6,088
City construction tax	1,636	1,615	896	820
Education surcharge	782	707	420	396
Resources tax	499	406	96	106
Business tax	112	110	60	78
	11,852	**11,863**	**7,381**	**7,488**

33 FINANCIAL EXPENSES

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB millions	RMB millions	**RMB millions**	RMB millions
Interest expenses incurred	4,951	5,692	3,060	3,372
Less: Capitalised interest expenses	551	542	271	378
Financial expenses-interest expenses	**4,400**	**5,150**	**2,789**	**2,994**
Interest income	(338)	(1,183)	(200)	(824)
Foreign exchange losses	312	222	235	45
Foreign exchange gains	(47)	(593)	(31)	(356)
	4,327	**3,596**	**2,793**	**1,859**

34 EXPLORATION EXPENSES

Exploration expenses include geological and geophysical expenses and write off of dry hole costs.

35 INVESTMENT INCOME

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB millions	RMB millions	**RMB millions**	RMB millions
Investment income accounted for under the cost method	190	199	16	37
Investment income accounted for under the equity method	315	347	15,564	19,292
	505	**546**	**15,580**	**19,329**

36 NON-OPERATING EXPENSES

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB millions	RMB millions	**RMB millions**	RMB millions
Loss on disposal of fixed assets	748	323	469	165
Fines, penalties and compensation	74	87	71	83
Donation	66	62	38	23
Employee reduction expenses (i)	244	2,546	244	1,767
Others	511	490	320	315
	1,643	**3,508**	**1,142**	**2,353**

(i) During the year ended 31 December 2002, in connection with the assets swap agreement between the Company and Sinopec Group Company (Note 39), the Company made payment of RMB 244 million related to approximately 11,000 employees that were transferred to Sinopec Group Company.

In accordance with the Group's voluntary employee reduction plan, the Group recorded employee reduction expenses of RMB 2,546 million during the year ended 31 December 2001 in respect of the voluntary termination and the transfer to Sinopec Group Company totalling approximately 68,000 employees. The RMB 2,546 million expense included approximately RMB 1,245 million paid to employees that accepted offers to transfer to Sinopec Group Company. As at 31 December 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.

37 INCOME TAX

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB millions	RMB millions	**RMB millions**	RMB millions
Provision for PRC income tax	6,611	6,445	6,250	6,455
Deferred taxation	198	647	253	430
	6,809	**7,092**	**6,503**	**6,885**

38 DIVIDENDS

Pursuant to the shareholder's approval at the Annual General Meeting on 13 June 2002, the Board of Directors was authorised to declare the interim dividends for the year ended 2002. According to the resolution passed at the Director's meeting on 16 August 2002, an interim dividend of RMB 0.02 (2001: nil) per share totalling RMB 1,734 million (2001: nil) was declared.

Pursuant to a resolution passed at the Director's meeting on 28 March 2003, a final dividend of RMB 0.06 per share (2001: RMB 0.08 per share) totalling RMB 5,202 million (2001: RMB 6,936 million) was proposed for shareholders' approval at the Annual General Meeting.

Final dividend for the year ended 31 December 2002 has provided for in the financial statements.

39 RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(a) Related parties having the ability to exercise control over the Group

The name of the company	:	China Petrochemical Corporation ("Sinopec Group Company")
Registered address	:	No. 6A, Huixin East Street, Chaoyang District, Beijing
Principal activities	:	Processing crude oil into refined products and petrochemical products, petrochemical products which include: petrochemical products made from crude oil and natural gas; production, sale and import and export of synthetic fibre and synthetic fibre monomer.
Relationship with the Group	:	Ultimate holding company
Types of legal entity	:	State-owned
Authorised representative	:	Li Yizhong
Registered capital	:	RMB 104,912 million

There is no movement in the above registered capital for the year ended 31 December 2002.

As at 31 December 2002, Sinopec Group Company held 55.1% shares of the Company and there is no change on percentage shareholdings during this reporting period.

(b) Related parties not having the ability to exercise control over the Group

Sinopec Finance Company Limited
Nanjing Chemical Industry Company Limited
Zhongyuan Petrochemical Company
Sichuan Vinylon Company
Nanjing Petrochemical Company
Qingjiang Petrochemical Limited Liability Company
Baoding Petrochemical Company
Maoming Ethylene Plant
Luoyang Petrochemical Polypropylene Industrial Company
Baling Petrochemical Yueyang Petrochemical Company
Tianjin United Chemical Company

The above companies and the Company are under common control of a parent company.

(c) The principal related party transactions carried out in the ordinary course of business are as follows:

	Note	**2002 RMB millions**	2001 RMB millions
Sales of goods	(i)	36,343	37,261
Purchases	(ii)	26,225	19,264
Transportation and storage	(iii)	1,514	1,471
Exploration and development services	(iv)	10,310	10,250
Production related services	(v)	7,316	6,116
Ancillary and social services	(vi)	1,945	2,000
Operating lease charges	(vii)	2,716	2,489
Agency commission income	(viii)	37	7
Intellectual property license fee paid	(ix)	10	10
Interest received	(x)	104	153
Interest paid	(xi)	636	534
Net deposits (withdrawn from)/placed with related parties	(xii)	(1,427)	528
Net loans obtained from/(repaid to) related parties	(xiii)	1,990	(5,034)

The amounts set out in the table above in respect of the years ended 31 December 2002 and 2001 represent the relevant costs to the Group as determined by the corresponding contracts with the related parties.

At 31 December 2002 and 2001, there was no guarantees given to banks by the Group in respect of banking facilities to Sinopec Group Company and fellow subsidiaries.

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 transactions, and this has been confirmed by the independent non-executive directors.

39 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

Notes:

(i) Sales of goods represent the sale of crude oil, intermediate petrochemical 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 storage facilities.

(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, buildings and service stations.

(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 license fee represents reimbursement paid to Sinopec Group Company for fees required to maintain the validity of certain licenses 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 at 31 December 2001 and 2002 were RMB 7,129 million and RMB 5,702 million respectively.

(xi) Interest paid represents interest charges on the loans 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 from/to Sinopec Group Company and Sinopec Finance Company Limited. The calculated yearly balance of average loan for the year ended 31 December 2002, which is based on monthly average balances, was RMB 40,019 million (2001: RMB 42,120 million).

In connection with the Reorganisation, 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 operating results of the Group for the year ended 31 December 2002. The terms of these agreements are summarised as follows:

(a) The Company entered into a three-year Agreement for Mutual Provision of Products and Ancillary Services ("Mutual Provision Agreement") with Sinopec Group Company 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 agrees 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 1 January 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 1 January 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 million and RMB 482 million per annum respectively. The Company and Sinopec Group Company can renegotiate the rental amount every three years for land and every year for buildings, such amounts 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 1 January 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 1 January 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 for a term of ten years under which its service stations and retail stores would exclusively sell the refined products supplied by the Group.

39 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(g) Balances with related parties

The balances with the Group's related parties at 31 December 2002 are as follows:

	The ultimate holding company		Other related companies	
	2002	2001	**2002**	2001
	RMB millions	RMB millions	**RMB millions**	RMB millions
Trade accounts receivable	62	627	2,566	2,876
Advance payments	6	151	578	981
Other receivables	3,509	357	7,621	7,932
Trade accounts payable	—	1,244	2,103	1,989
Receipts in advance	77	—	264	—
Other creditors	18	2,818	9,608	7,402
Short-term loans	—	—	4,121	3,448
Long-term loans (Note)	—	—	37,856	36,539

Note: The Sinopec Group Company had borrowed an interest free loan for 20 years amounted to RMB 35,561 million to the Group through Sinopec Finance Company Limited which was included in long-term loans.

On 19 December 2002, the Company and Sinopec Group Company entered into an asset swap agreement whereby the Company transferred to Sinopec Group Company certain individual assets and liabilities, consisting principally of, water plants, inspection, maintenance, geology and geophysical assets and related liabilities. The carrying amount of the net assets transferred to Sinopec Group Company approximated the net appraised amount of RMB 1,021 million. In return, Sinopec Group Company transferred to the Company certain gas stations and oil depot assets. The appraised amount of such assets transferred to the Company was RMB 1,040 million. The difference between the carrying and appraised amounts of the assets exchanged amounted to RMB 19 million was paid in cash by the Company. This asset swap agreement was effective from 31 December 2002 and reflected in the financial statements for the year ended 31 December 2002.

40 PRINCIPAL SUBSIDIARIES

The Company's principal subsidiaries are limited companies operating in the PRC and had been consolidated into the Group's financial statements for the year ended 31 December 2002. Except for Sinopec Kantons Holdings Limited, which is incorporated in Bermuda, the companies below are incorporated in the PRC. The following list contains only the particulars of subsidiaries which principally affected the results or assets of the Group.

Name of company	Registered capital/ paid-up capital RMB millions	Percentage of equity held by the Company	Principal activities
China Petrochemical International Company Limited	1,400	100.00	Trading of crude oil and petrochemical products
Sinopec Beijing Yanhua Petrochemical Company Limited	3,374	70.01	Manufacturing of chemical products
Sinopec Sales Company Limited	1,700	100.00	Marketing and distribution of refined petroleum products
Sinopec Shengli Oilfield Company Limited	30,028	100.00	Exploration and production of crude oil and natural gas
Sinopec Fujian Petrochemical Company Limited	2,253	(i) 50.00	Manufacturing of plastics, intermediate petrochemical products and petroleum products
Sinopec Maoming Refining and Chemical Company Limited	1,064 and RMB 1,500 convertible bonds	99.81	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Qilu Petrochemical Company Limited	1,950	82.05	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Shanghai Petrochemical Company Limited	7,200	55.56	Manufacturing of synthetic fibres, resin and plastics, intermediate petrochemical products and petroleum products
Sinopec Shijiazhuang Refining Chemical Company Limited	1,154	79.73	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Kantons Holdings Limited	HK$104	72.40	Trading of crude oil and petroleum products
Sinopec Wuhan Petroleum Group Company Limited	147	(i) 46.25	Marketing and distribution of refined petroleum products
Sinopec Wuhan Phoenix Company Limited	519	(i) 40.72	Manufacturing of petrochemical products and petroleum products
Sinopec Yangzi Petrochemical Company Limited	2,330	84.98	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Yizheng Chemical Fibre Company Limited	4,000	(i) 42.00	Production and sale of polyester chips and polyester fibres
Sinopec Zhenhai Refining and Chemical Company Limited	2,524	71.32	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Zhongyuan Petroleum Company Limited	816	75.00	Exploration and production of crude oil and natural gas

(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.

41 COMMITMENTS

Operating lease commitments

The Group and the Company lease service stations and other equipment through non-cancellable 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 31 December 2002, the future minimum lease payments under operating leases are as follows:

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB millions	RMB millions	**RMB millions**	RMB millions
Within one year	2,726	2,844	2,629	2,590
Between one to two years	2,666	2,736	2,585	2,565
Between two to three years	2,647	2,563	2,568	2,494
Between three to four years	2,635	2,559	2,557	2,492
Between four to five years	2,609	2,550	2,531	2,484
After five years	83,718	85,368	82,231	84,250
	97,001	**98,620**	**95,101**	**96,875**

Capital commitments

At 31 December 2002, the Group and the Company had capital commitments as follows:

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB millions	RMB millions	**RMB millions**	RMB millions
Authorised and contracted for	30,245	21,636	15,218	8,436
Authorised but not contracted for	41,015	18,204	27,115	12,437
	71,260	**39,840**	**42,333**	**20,873**

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.

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 the production licenses issued to the Group is extended to 55 years as a special dispensation is given by the State Council. The Group's production license is renewable upon application by the Group 30 days prior to expiration. The Group is required to make payments for its exploration and production licenses and the amounts are recognised in the income statement.

The Group has to make payments of exploration license fees and the production right usage fees to the Ministry of Land and Resources annually. Payments incurred for the year ended 31 December 2002 was approximately RMB 65 million (2001: RMB 29 million).

Estimated annual payments as to exploration and production licenses in the future are as follows:

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB millions	RMB millions	**RMB millions**	RMB millions
Within one year	55	43	37	28
Between one to two years	76	39	45	26
Between two to three years	66	51	35	26
Between three to four years	63	62	28	31
Between four to five years	43	56	12	24
After five years	263	284	109	114
	566	**535**	**266**	**249**

42 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 Reorganisation, 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 Reorganisation.

(b) At 31 December 2002, guarantees given by the Group and the Company to banks in respect of banking facilities granted to the parties below were as follows:

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB millions	RMB millions	**RMB millions**	RMB millions
Associated and jointly controlled entities	7,492	546	7,017	—
Third parties	30	322	—	—
	7,522	**868**	**7,017**	—

The Company monitors the conditions that are subject to the guarantees to identify whether it is probable that a loss has occurred, and recognise any such losses under guarantees when those losses are estimable. At 31 December 2001 and 2002, it is not probable that the Company will be required to make payments under the guarantees. Thus no liability has been accrued for a loss related to the Company's obligation under the guarantees arrangement.

In March 2003, the Company made guarantees of RMB 4,680 million given to banks in respect of banking facilities granted to an associate.

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 fee of approximately RMB 287 million for the year ended 31 December 2002 (2001: RMB 221 million).

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.

43 SEGMENTAL INFORMATION

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 Company 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 Company 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 petrochemical products, derivative petrochemical products and other chemical products to external customers.

(v) 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 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.

43 SEGMENTAL INFORMATION *(Continued)*

Reportable information on the Group's business segments is as follows:

	2002 RMB millions	2001 RMB millions
Turnover		
Exploration and production		
External sales	10,920	11,095
Inter-segment sales	39,407	43,332
	50,327	**54,427**
Refining		
External sales	47,555	49,497
Inter-segment sales	161,340	156,782
	208,895	**206,279**
Marketing and distribution		
External sales	184,378	180,610
Inter-segment sales	2,329	2,460
	186,707	**183,070**
Chemicals		
External sales	58,401	48,945
Inter-segment sales	7,204	5,626
	65,605	**54,571**
Others		
External sales	22,930	14,200
Inter-segment sales	19,845	8,875
	42,775	**23,075**
Elimination of inter-segment sales	(230,125)	(217,075)
Turnover	**324,184**	**304,347**
Cost of sales, sales tax and surcharges		
Exploration and production	28,788	27,738
Refining	198,115	199,272
Marketing and distribution	163,701	167,786
Chemicals	60,429	50,580
Others	42,378	22,343
Elimination of inter-segment cost of sales	(230,377)	(219,721)
Cost of sales, sales tax and surcharges	**263,034**	**247,998**
Operating profit		
Exploration and production	21,973	28,765
Refining	10,598	7,577
Marketing and distribution	23,006	15,284
Chemicals	5,176	3,992
Others	397	731
Total operating profit	**61,150**	**56,349**

44 POST BALANCE SHEET EVENTS

Except for disclosed in Note 42, the Company made guarantees to banks in respect of banking facilities granted to an associate in March 2003, the Group and the Company do not have other post balance sheet event.

45 OTHER SIGNIFICANT EVENTS

The Group does not have any other significant event required to disclose as at the approval date of this financial statements.

KPMG

To the Shareholders of
China Petroleum & Chemical Corporation
(Established in The People's Republic of China with limited liability)

We have audited the financial statements on pages 114 to 142 which have been prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2002 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
Hong Kong, China, 28 March 2003

(B) FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")
CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2002
(Amounts in millions except per share data)

	Note	2002 RMB	2001 RMB
Turnover and other operating revenues			
Turnover	3	324,184	304,347
Other operating revenues	4	15,858	14,124
		340,042	**318,471**
Operating expenses			
Purchased crude oil, products and operating supplies and expenses		(235,245)	(220,313)
Selling, general and administrative expenses	5	(21,088)	(17,138)
Depreciation, depletion and amortisation		(24,282)	(22,430)
Exploration expenses, including dry holes		(4,363)	(3,775)
Personnel expenses	6	(13,625)	(12,889)
Employee reduction expenses	7	(244)	(2,546)
Taxes other than income tax	8	(11,852)	(11,887)
Other operating expenses, net	9	(1,066)	(193)
Total operating expenses		**(311,765)**	**(291,171)**
Operating profit		**28,277**	**27,300**
Finance costs			
Interest expense	10	(4,018)	(4,706)
Interest income		338	1,183
Foreign exchange losses		(312)	(222)
Foreign exchange gains		47	593
Net finance costs		**(3,945)**	**(3,152)**
Investment income		190	199
Share of profits less losses from associates and jointly controlled entities		310	320
Profit from ordinary activities before taxation		**24,832**	**24,667**
Taxation	11	(7,635)	(8,029)
Profit from ordinary activities after taxation		**17,197**	**16,638**
Minority interests		(1,117)	(613)
Profit attributable to shareholders		**16,080**	**16,025**
Basic earnings per share	15	**0.19**	**0.19**
Dividends attributable to the year:	16		
Interim dividend declared during the year		1,734	—
Final dividend proposed after the balance sheet date		5,202	6,936
		6,936	**6,936**

The notes on pages 120 to 142 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

at 31 December 2002
(Amounts in millions)

	Note	2002 RMB	2001 RMB
Non-current assets			
Property, plant and equipment	17	238,822	217,757
Construction in progress	18	21,504	26,450
Investments	20	2,554	3,282
Interests in associates and jointly controlled entities	21	7,917	5,172
Deferred tax assets	25	732	769
Lease prepayments		803	2,115
Other assets		1,665	1,369
Total non-current assets		**273,997**	**256,914**
Current assets			
Cash and cash equivalents		17,699	21,023
Time deposits with financial institutions		1,013	1,831
Trade accounts receivable	22	10,670	11,082
Bills receivable	22	4,684	3,542
Inventories	23	46,297	46,194
Prepaid expenses and other current assets	24	21,521	26,123
Total current assets		**101,884**	**109,795**
Current liabilities			
Short-term debts	26	31,278	45,349
Loans from Sinopec Group Company and fellow subsidiaries	26	4,274	3,862
Trade accounts payable	27	19,212	16,793
Bills payable	27	30,139	26,022
Accrued expenses and other payables	28	29,755	29,876
Income tax payable		2,776	2,809
Total current liabilities		**117,434**	**124,711**
Net current liabilities		**(15,550)**	**(14,916)**
Total assets less current liabilities		**258,447**	**241,998**
Non-current liabilities			
Long-term debts	26	37,505	30,876
Loans from Sinopec Group Company and fellow subsidiaries	26	37,703	36,125
Deferred tax liabilities	25	3,599	2,981
Other liabilities		1,235	806
Total non-current liabilities		**80,042**	**70,788**
Minority interests		**23,920**	**23,541**
Net assets		**154,485**	**147,669**
Shareholders' funds			
Share capital	29	86,702	86,702
Reserves		67,783	60,967
		154,485	147,669

Approved and authorised for issue by the board of directors on 28 March 2003

Li Yizhong
Chairman

Wang Jiming
Director and President

Zhang Jiaren
Director, Vice President and Chief Financial Officer

The notes on pages 120 to 142 form part of these financial statements.

BALANCE SHEET

at 31 December 2002
(Amounts in millions)

	Note	2002 RMB	2001 RMB
Non-current assets			
Property, plant and equipment	17	118,562	107,040
Construction in progress	18	15,695	16,753
Interests in subsidiaries	19	89,332	89,608
Investments	20	486	462
Interests in associates and jointly controlled entities	21	5,679	4,155
Deferred tax assets	25	108	337
Other assets		1,267	1,092
Total non-current assets		**231,129**	**219,447**
Current assets			
Cash and cash equivalents		8,207	11,595
Time deposits with financial institutions		221	230
Trade accounts receivable	22	9,885	9,461
Bills receivable	22	1,478	1,464
Inventories	23	25,190	27,327
Prepaid expenses and other current assets	24	26,599	28,453
Total current assets		**71,580**	**78,530**
Current liabilities			
Short-term debts	26	18,372	30,019
Loans from Sinopec Group Company and fellow subsidiaries	26	2,452	3,036
Trade accounts payable	27	18,310	12,727
Bills payable	27	23,055	19,291
Accrued expenses and other payables	28	21,094	27,552
Income tax payable		1,307	837
Total current liabilities		**84,590**	**93,462**
Net current liabilities		**(13,010)**	**(14,932)**
Total assets less current liabilities		**218,119**	**204,515**
Non-current liabilities			
Long-term debts	26	24,274	19,438
Loans from Sinopec Group Company and fellow subsidiaries	26	37,616	36,117
Deferred tax liabilities	25	1,042	673
Other liabilities		702	618
Total non-current liabilities		**63,634**	**56,846**
Net assets		**154,485**	**147,669**
Shareholders' funds			
Share capital	29	86,702	86,702
Reserves		67,783	60,967
		154,485	**147,669**

Approved and authorised for issue by the board of directors on 28 March 2003

Li Yizhong
Chairman

Wang Jiming
Director and President

Zhang Jiaren
Director, Vice President and Chief Financial Officer

The notes on pages 120 to 142 form part of these financial statements

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2002
(Amounts in millions)

	Note	2002 RMB	2001 RMB
Cash flows from operating activities	(a)	**53,890**	**55,279**
Cash flow from investing activities			
Capital expenditure		(41,941)	(55,935)
Purchase of investments and investments in associates and jointly controlled entities		(2,064)	(3,375)
Proceeds from disposal of investments and investments in associates and jointly controlled entities		97	307
Proceeds from disposal of property, plant and equipment		432	374
Repayments from associates and jointly controlled entities		—	117
Increase in time deposits with financial institutions		(1,342)	(18,698)
Maturity of time deposits with financial institutions		2,160	38,727
Net cash used in investing activities		**(42,658)**	**(38,483)**
Cash flow from financing activities			
Proceeds from public offering, net of issuing expenses		—	11,648
Proceeds from bank and other loans		252,675	258,928
Repayments of bank and other loans		(258,343)	(272,410)
Distributions to minority interests		(455)	(682)
Contributions from minority interests		230	287
Dividend paid		(8,670)	(6,712)
Cash and cash equivalents distributed to Sinopec Group Company		—	(6,446)
Net cash used in financing activities		**(14,563)**	**(15,387)**
Net (decrease)/increase in cash and cash equivalents		**(3,331)**	**1,409**
Effect of foreign exchange rate		**7**	**(7)**
Cash and cash equivalents at beginning of year		**21,023**	**19,621**
Cash and cash equivalents at end of year		**17,699**	**21,023**

The notes on pages 120 to 142 form part of these financial statements.

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2002
(Amounts in millions)

(a) Reconciliation of profit from ordinary activities before taxation to cash flows from operating activities

	2002 RMB	2001 RMB
Profit from ordinary activities before taxation	24,832	24,667
Adjustments for:		
Depreciation, depletion and amortisation	24,282	22,430
Dry hole costs	1,771	1,770
Share of profits less losses from associates and jointly controlled entities	(310)	(320)
Investment income	(190)	(199)
Interest income	(338)	(1,183)
Interest expense	4,018	4,706
Unrealised foreign exchange loss/(gain)	244	(413)
Loss on disposal of property, plant and equipment	721	67
Decrease in trade accounts receivable	326	1,990
Increase in bills receivable	(1,144)	(823)
(Increase)/decrease in inventories	(137)	4,319
Decrease in prepaid expenses and other current assets	4,122	668
(Increase)/decrease in lease prepayments	(11)	50
Increase in other assets	(612)	(43)
Increase/(decrease) in trade accounts payable	2,517	(2,761)
Increase in bills payable	4,165	14,819
Increase/(decrease) in accrued expenses and other payables	572	(4,972)
Increase in other liabilities	622	360
Cash generated from operations	**65,450**	**65,132**
Interest received	353	1,237
Interest paid	(5,592)	(5,057)
Investment and dividend income received	278	293
Income tax paid	(6,599)	(6,326)
Cash flows from operating activities	**53,890**	**55,279**

The notes on pages 120 to 142 form part of these financial statements.

(Amounts in millions except per share data)

THE GROUP AND THE COMPANY

	Share capital RMB	Capital reserve RMB	Share premium RMB	Revaluation reserve RMB	Statutory surplus reserve RMB	Statutory public welfare fund RMB	Discretionary surplus reserve RMB	Other reserves RMB	Retained earnings RMB	Total RMB
Shareholders' fund at 1 January 2001	83,902	(14,579)	9,224	33,257	1,615	1,615	—	2,147	15,973	133,154
Final dividend for 2000 (Note 16)	—	—	—	—	—	—	—	—	(6,712)	(6,712)
Issue of shares, net of issuing expenses of RMB 168 million	2,800	—	8,848	—	—	—	—	—	—	11,648
Profit attributable to shareholders	—	—	—	—	—	—	—	—	16,025	16,025
Appropriation (Note (a) and (b))	—	—	—	—	1,402	1,402	—	—	(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 realised	—	—	—	(232)	—	—	—	—	232	—
Shareholders' fund at 31 December 2001	86,702	(18,878)	18,072	33,025	3,017	3,017	—	—	22,714	147,669
Final dividend for 2001 (Note 16)	—	—	—	—	—	—	—	—	(6,936)	(6,936)
Interim dividend for 2002 (Note 16)	—	—	—	—	—	—	—	—	(1,734)	(1,734)
Profit attributable to shareholders	—	—	—	—	—	—	—	—	16,080	16,080
Appropriation (Note (a), (b) and (c))	—	—	—	—	1,412	1,412	7,000	—	(9,824)	—
Revaluation surplus realised	—	—	—	(544)	—	—	—	—	544	—
Elimination of surplus on land use rights (Note (e))	—	—	—	(840)	—	—	—	246	—	(594)
Deferred tax on land use rights (Note (e))	—	—	—	—	—	—	—	(5)	5	—
Shareholders' fund at 31 December 2002	**86,702**	**(18,878)**	**18,072**	**31,641**	**4,429**	**4,429**	**7,000**	**241**	**20,849**	**154,485**

Notes:

(a) According to the Company's Articles of Association, the Company is required to transfer 10% of its net profit, 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 year ended 31 December 2002, the Company transferred RMB 1,412 million (2001: RMB 1,402 million), being 10% of the current year's net profit 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 profit, as determined in accordance with the PRC Accounting Rules and Regulations, to the statutory public welfare fund. This fund can only be utilised 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.

Pursuant to the shareholders' approval at the Annual General Meeting on 13 June 2002, the Board of Directors was authorised to determine the amount of the transfer. The directors authorised the transfer of RMB 450 million (2001: RMB nil), being 10% of the net profit for the six-month period ended 30 June 2002 as determined in accordance with the PRC Accounting Rules and Regulations, to this fund.

The directors authorised the transfer of RMB 962 million, subject to the shareholders' approval, being 10% of the net profit for the six-month period ended 31 December 2002 determined in accordance with the PRC Accounting Rules and Regulations, to this fund. The transfer to this fund for the year ended 31 December 2001 was RMB 1,402 million.

(c) The directors authorised the transfer of RMB 7,000 million (2001: Rmb nil), subject to the shareholders' approval at the Annual General Meeting to the discretionary surplus reserve. Its usage is similar to that of statutory surplus reserve.

(d) According to the Company's Articles of Association, the amount of retained profits 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 IFRS. At 31 December 2002, the amount of retained profits available for distribution was RMB 12,569 million (2001: RMB 16,942 million), being the amount determined in accordance with the PRC Accounting Rules and Regulations. Final dividend of RMB 5,202 million (2001: RMB 6,936 million) proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(e) Effective 1 January 2002, land use rights which are included in lease prepayments are carried at historical cost. Accordingly, the surplus on the revaluation of land use rights credited to revaluation reserve previously, net of minority interests, was eliminated during the year. The effect of this change did not have a material impact on the Group's financial condition and results of operations in the years prior to the change. As a result of the tax deductibility of the revaluation surplus, a deferred tax asset, net of minority interests, is created with a corresponding increase in other reserves.

(f) The capital reserve represents (i) the difference between the total amount of the par value of shares issued and the amount of the net assets transferred from Sinopec Group Company in connection with the Reorganisation and (ii) the difference between the consideration paid over the amount of the net assets acquired from Sinopec National Star.

(g) The application of the share premium account is governed by Sections 178 and 179 of the PRC Company Law.

The notes on pages 120 to 142 form part of these financial statements

1 PRINCIPAL ACTIVITIES, ORGANISATION 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.

Organisation

The Company was established in the PRC on 25 February 2000 as a joint stock limited company as part of the reorganisation ("the Reorganisation") 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 Reorganisation, 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 31 December 1999. On 25 February 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 state-owned ordinary shares with a par value of RMB 1.00 each to Sinopec Group Company. The shares issued to Sinopec Group Company on 25 February 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").

Basis of presentation

Pursuant to the resolution passed at the Extraordinary General Meeting held on 24 August 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 results of operations of Sinopec National Star on a combined basis. The consideration paid by the Group was treated as an equity transaction.

The accompanying financial statements have been prepared in accordance with IFRS promulgated by the International Accounting Standards Board. IFRS includes International Accounting Standards ("IAS") and related interpretations. These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accompanying financial statements are prepared on the historical cost basis as modified by the revaluation of certain property, plant and equipment (Note 17). The accounting policies described in Note 2 have been consistently applied by the Group. As described in note (e) to the statements of changes in shareholders' funds, land use rights are carried at cost effective 1 January 2002. The effect of this change resulted in a decrease in the revaluation reserve and an increase in other reserves relating to the recognition of the deferred tax asset as at 1 January 2002. The effect of this change did not have a material impact on the Group's financial condition and results of operations in prior years.

The preparation of financial statements in accordance with IFRS 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.

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 income statement 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 profit from ordinary activities after taxation. All significant inter-company balances and transactions and any unrealised gains arising from intercompany transactions are eliminated on consolidation.

The particulars of the Group's principal subsidiaries are set out in Note 34.

(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 capitalised as construction in progress, are recognised as income or expense in the income statement.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Cash and cash equivalents

Cash equivalents consist of time deposits with financial institutions with an initial term of less than three months when purchased. Cash equivalents are stated at cost, which approximates fair value.

(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 realisable 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 labour and an appropriate proportion of production overheads. Net realisable 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 17), 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 capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is charged to the income statement 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 recognised as income or expense in the income statement 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

(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 capitalised. The cost of exploratory wells is initially capitalised 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. Capitalised costs relating to proved properties are amortised at the field level on a unit-of-production method. The amortisation 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 recognised unless the disposal encompasses an entire property. The proceeds on such disposals are credited to the carrying amounts of oil and gas properties.

(h) Lease prepayments

Lease prepayments represent land use rights paid to the PRC's land bureau. Land use rights are carried at cost and amortised on a straight-line basis over the respective periods of the rights. At 31 December 2002, lease prepayments which comprise of land use rights have been presented in a separate balance sheet caption. Accordingly, the comparative amount at 31 December 2001 which was previously included in property, plant and equipment was reclassified to conform with the current year's presentation.

(i) 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.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) Interests in subsidiaries

In the Company's stand-alone balance sheet, interests in subsidiaries are accounted for using the equity method.

(k) 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, the carrying amount of the investments exceeds its recoverable amount.

(l) Interests in associates and jointly controlled entities

An associate is a company, not being a subsidiary, in which the Group exercises significant influence over 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.

Investments in associates and jointly controlled entities are accounted for using the equity method in the Company's and the Group's financial statements, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

(m)Provisions

A provision is recognised 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.

(n) 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 recognised in the income statement upon performance of the services. No revenue is recognised 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 recognised on a time apportioned basis that takes into account the effective yield on the asset.

(o) Borrowing costs

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

(p) Repairs and maintenance expenditure

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

(q) 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.

(r) Research and development costs

Research and development costs are recognised as expenses in the period in which they are incurred.

(s) Operating leases

Operating lease payments are charged to the income statement on a straight-line basis over the period of the respective leases.

(t) Retirement benefits

The contributions payable under the Group's retirement plans are charged to the income statement according to the contribution determined by the plans. Further information is set out in Note 32.

(u) 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 recognised as an expense in the income statement unless the asset is carried at revalued amount for which an impairment loss is recognised 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 recognised for an asset in prior years may no longer exist. An impairment loss is reversed if there has been a favourable 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 recognised 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 recognised as an expense in the income statement; a reversal of such impairment loss is recognised as income. The reversal is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(v) Income tax

Income tax comprises current and deferred tax. Current tax is calculated on taxable income by applying the applicable tax rates. 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 realised or the liability is settled. The effect on deferred tax of any changes in tax rates is charged or credited to the income statement.

The tax value of losses expected to be available for utilisation 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. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(w) Dividends

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

(x) 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 TURNOVER

Turnover represents revenue from the sales of crude oil, natural gas, petroleum and chemical products, net of value-added tax.

4 OTHER OPERATING REVENUES

	The Group	
	2002	2001
	RMB millions	RMB millions
Sale of materials, service and others	15,515	13,948
Rental income	343	176
	15,858	14,124

5 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The following items are included in selling, general and administrative expenses:

	The Group	
	2002	2001
	RMB millions	RMB millions
Research and development costs	1,514	1,290
Operating lease charges	3,192	2,832
Auditors' remuneration	82	89

6 PERSONNEL EXPENSES

	The Group	
	2002	2001
	RMB millions	RMB millions
Wages and salaries	9,871	9,402
Staff welfare	1,375	1,311
Contributions to retirement schemes	1,549	1,358
Social security contributions	830	818
	13,625	**12,889**

7 EMPLOYEE REDUCTION EXPENSES

During the year ended 31 December 2002, in connection with the assets swap agreement between the Company and Sinopec Group Company (Note 31), the Company made payments of RMB 244 million relating to approximately 11,000 employees that were transferred to Sinopec Group Company.

In accordance with the Group's voluntary employee reduction plan, the Group recorded employee reduction expenses of RMB 2,546 million during the year ended 31 December 2001 in respect of the voluntary termination and the transfer to Sinopec Group Company totalling approximately 68,000 employees. The RMB 2,546 million expense included approximately RMB 1,245 million paid to employees that accepted offers to transfer to Sinopec Group Company. As at 31 December 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.

8 TAXES OTHER THAN INCOME TAX

	The Group 2002 RMB millions	2001 RMB millions
Consumption tax	8,823	9,025
City construction tax	1,636	1,615
Education surcharge	782	707
Resources tax	499	406
Business tax	112	110
Others	—	24
	11,852	**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.

9 OTHER OPERATING EXPENSES, NET

	The Group 2002 RMB millions	2001 RMB millions
Fines, penalties and compensations	71	80
Donations	66	62
Loss on disposal of property, plant and equipment, net	721	67
Others	208	(16)
	1,066	**193**

10 INTEREST EXPENSE

	The Group 2002 RMB millions	2001 RMB millions
Interest expense incurred	4,951	5,692
Less: Interest expense capitalised*	(933)	(986)
Interest expense	**4,018**	**4,706**
* Interest rates per annum at which borrowing costs were capitalised for construction in progress	**3.1% to 6.2%**	**3.4% to 8.0%**

11 TAXATION

Taxation in the consolidated income statement represents:

	The Group 2002 RMB millions	2001 RMB millions
Provision for PRC income tax		
– the Group	6,566	6,414
– associates and jointly controlled entities	43	23
Deferred taxation (Note 25)	1,026	1,592
	7,635	**8,029**

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

	The Group 2002 RMB millions	2001 RMB millions
Profit from ordinary activities before taxation	24,832	24,667
Expected PRC income tax expense at a statutory tax rate of 33%	8,195	8,140
Non-deductible expenses	208	398
Non-taxable income	(441)	(261)
Differential tax rate on subsidiaries' income (Note i)	(491)	(390)
Tax losses not recognised for deferred tax	164	142
	7,635	**8,029**

Note:

(i) 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, except for certain subsidiaries of the Company, which are taxed at a preferential rate of 15%.

12 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Directors' and supervisors' emoluments are as follows:

	2002 RMB'000	2001 RMB'000
Fees	64	64
Salaries and other emoluments	1,429	1,267
Retirement scheme contributions	128	104
	1,621	**1,435**

Included in the directors' and supervisors' emoluments were fees of RMB 64,000 (2001: RMB 64,000) paid to the independent non-executive directors and an independent supervisor during the year ended 31 December 2002.

An analysis of directors' and supervisors' emoluments by number of directors and supervisors and emolument range is as follows:

	2002 Number	2001 Number
Nil to HK$ 1,000,000	**20**	**20**

13 SENIOR MANAGEMENT'S EMOLUMENTS

Details of emoluments paid to the five highest paid individuals (none of them is a director or a supervisor) of the Group during the year are as follows:

	2002 RMB'000	2001 RMB'000
Salaries and other emoluments	1,250	1,362
Retirement scheme contributions	121	51
	1,371	**1,413**

An analysis of emoluments paid to the five highest paid individuals by number of individuals and emolument range is as follows:

	2002 Number	2001 Number
Nil to HK$ 1,000,000	**5**	**5**

14 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders includes a profit of RMB 16,080 million (2001: RMB 16,025 million) which has been dealt with in the financial statements of the Company.

15 BASIC EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2002 is based on the profit attributable to shareholders of RMB 16,080 million and the weighted average number of shares of 86,702,439,000 during the year.

The calculation of basic earnings per share for the year ended 31 December 2001 is based on the profit attributable to shareholders of RMB 16,025 million and the weighted average number of shares of 85,168,192,425 during the year. The weighted average number of shares for the year ended 31 December 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 Shanghai Stock Exchange (Note 29).

The amount of diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence during the years presented.

16 DIVIDENDS

Dividends attributable to the year represent:

	2002 RMB millions	2001 RMB millions
Dividends declared and paid during the year of RMB 0.02 per share (2001: RMB nil per share)	1,734	—
Dividends proposed after the balance sheet date of RMB 0.06 per share (2001: RMB 0.08 per share)	5,202	6,936
	6,936	**6,936**

Pursuant to the shareholders' approval at the Annual General Meeting on 13 June 2002, the Board of Directors was authorised to declare the interim dividends for the year ended 31 December 2002. According to the resolution passed at the Directors' meeting on 16 August 2002, an interim dividend of RMB 0.02 (2001: RMB nil) per share totalling RMB 1,734 million (2001: RMB nil) was declared.

Pursuant to a resolution passed at the Directors' meeting on 28 March 2003, a final dividend of RMB 0.06 (2001: RMB 0.08) per share totalling RMB 5,202 million (2001: RMB 6,936 million) was proposed for shareholders' approval at the Annual General Meeting. Final dividend of RMB 5,202 million (2001: RMB 6,936 million) proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

16 DIVIDENDS *(Continued)*

Dividends attributable to the previous financial year, approved and paid during the year represent:

	2002 RMB millions	2001 RMB millions
Final dividends in respect of the previous financial year, approved and paid during the year, of RMB 0.08 per share (2001: RMB 0.08 per share)	6,936	6,712

17 PROPERTY, PLANT AND EQUIPMENT

The Group - by segment:

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals millions	Corporate and others RMB millions	Total RMB millions
Cost/valuation:						
Balance at 1 January 2002	142,354	93,003	40,683	110,429	1,657	388,126
Additions	1,623	453	1,860	306	102	4,344
Transferred from Sinopec Group Company (Note 31)	—	—	1,040	—	—	1,040
Transferred from construction in progress	17,236	6,825	6,416	11,162	559	42,198
Transferred to Sinopec Group Company (Note 31)	(1,799)	(266)	—	(144)	—	(2,209)
Disposals	(1,485)	(1,308)	(521)	(704)	(88)	(4,106)
Balance at 31 December 2002	**157,929**	**98,707**	**49,478**	**121,049**	**2,230**	**429,393**
Accumulated depreciation:						
Balance at 1 January 2002	68,318	40,338	6,788	54,512	413	170,369
Depreciation charge for the year	9,024	6,002	1,935	6,880	126	23,967
Transferred to Sinopec Group Company (Note 31)	(619)	(125)	—	(68)	—	(812)
Written back on disposals	(1,177)	(939)	(247)	(523)	(67)	(2,953)
Balance at 31 December 2002	**75,546**	**45,276**	**8,476**	**60,801**	**472**	**190,571**
Net book value:						
At 31 December 2002	**82,383**	**53,431**	**41,002**	**60,248**	**1,758**	**238,822**
At 31 December 2001	**74,036**	**52,665**	**33,895**	**55,917**	**1,244**	**217,757**

The Company - by segment:

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals millions	Corporate and others RMB millions	Total RMB millions
Cost/valuation:						
Balance at 1 January 2002	46,748	64,392	39,671	30,309	847	181,967
Additions	884	941	1,785	196	46	3,852
Transferred from Sinopec Group Company (Note 31)	—	—	1,040	—	—	1,040
Transferred from construction in progress	7,471	4,704	6,375	251	435	19,236
Transferred to Sinopec Group Company (Note 31)	(1,235)	(266)	—	(144)	—	(1,645)
Disposals	(766)	(1,057)	(504)	(76)	(70)	(2,473)
Balance at 31 December 2002	**53,102**	**68,714**	**48,367**	**30,536**	**1,258**	**201,977**
Accumulated depreciation:						
Balance at 1 January 2002	22,688	30,001	6,648	15,361	229	74,927
Depreciation charge for the year	3,454	3,772	1,860	1,669	58	10,813
Transferred to Sinopec Group Company (Note 31)	(460)	(125)	—	(68)	—	(653)
Written back on disposals	(562)	(769)	(232)	(48)	(61)	(1,672)
Balance at 31 December 2002	**25,120**	**32,879**	**8,276**	**16,914**	**226**	**83,415**
Net book value:						
At 31 December 2002	**27,982**	**35,835**	**40,091**	**13,622**	**1,032**	**118,562**
At 31 December 2001	**24,060**	**34,391**	**33,023**	**14,948**	**618**	**107,040**

17 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Group - by asset class:

	Buildings RMB millions	Oil and gas properties RMB millions	Oil depots, storage tanks and service stations RMB millions	Plant, machinery, equipment and others RMB millions	Total RMB millions
Cost/valuation:					
Balance at 1 January 2002	33,397	125,119	33,321	196,289	388,126
Additions	365	52	1,160	2,767	4,344
Transferred from Sinopec Group Company (Note 31)	—	—	1,040	—	1,040
Transferred from construction in progress	1,407	16,431	6,019	18,341	42,198
Reclassification	1,077	295	(4,361)	2,989	—
Transferred to Sinopec Group Company (Note 31)	(185)	(196)	—	(1,828)	(2,209)
Disposals	(317)	(769)	(252)	(2,768)	(4,106)
Balance at 31 December 2002	**35,744**	**140,932**	**36,927**	**215,790**	**429,393**
Accumulated depreciation:					
Balance at 1 January 2002	12,934	62,676	5,902	88,857	170,369
Depreciation charge for the year	1,539	7,557	1,391	13,480	23,967
Reclassification	384	118	(748)	246	—
Transferred to Sinopec Group Company (Note 31)	(56)	(51)	—	(705)	(812)
Written back on disposals	(116)	(667)	(163)	(2,007)	(2,953)
Balance at 31 December 2002	**14,685**	**69,633**	**6,382**	**99,871**	**190,571**
Net book value:					
At 31 December 2002	**21,059**	**71,299**	**30,545**	**115,919**	**238,822**
At 31 December 2001	**20,463**	**62,443**	**27,419**	**107,432**	**217,757**

The Company - by asset class:

	Buildings RMB millions	Oil and gas properties RMB millions	Oil depots, storage tanks and service stations RMB millions	Plant, machinery, equipment and others RMB millions	Total RMB millions
Cost/valuation:					
Balance at 1 January 2002	17,221	39,869	32,397	92,480	181,967
Additions	316	52	1,132	2,352	3,852
Transferred from Sinopec Group Company (Note 31)	—	—	1,040	—	1,040
Transferred from construction in progress	1,024	6,899	5,839	5,474	19,236
Reclassification	175	(380)	(4,361)	4,566	—
Transferred to Sinopec Group Company (Note 31)	(91)	(196)	—	(1,358)	(1,645)
Disposals	(206)	(272)	(251)	(1,744)	(2,473)
Balance at 31 December 2002	**18,439**	**45,972**	**35,796**	**101,770**	**201,977**
Accumulated depreciation:					
Balance at 1 January 2002	5,651	20,919	5,828	42,529	74,927
Depreciation charge for the year	836	2,955	1,319	5,703	10,813
Reclassification	67	(165)	(748)	846	—
Transferred to Sinopec Group Company (Note 31)	(36)	(51)	—	(566)	(653)
Written back on disposals	(89)	(217)	(163)	(1,203)	(1,672)
Balance at 31 December 2002	**6,429**	**23,441**	**6,236**	**47,309**	**83,415**
Net book value:					
At 31 December 2002	**12,010**	**22,531**	**29,560**	**54,461**	**118,562**
At 31 December 2001	**11,570**	**18,950**	**26,569**	**49,951**	**107,040**

As required by the relevant PRC regulations with respect to the Reorganisation, the property, plant and equipment of the Group at 30 September 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, independent valuers registered in the PRC, on a depreciated replacement cost basis. The value of property, plant and equipment was determined at RMB 159,788 million. The surplus on revaluation of RMB 32,320 million, net of amounts allocated to minority interests, was incorporated in the financial statements of the Group at 31 December 1999. In connection with the Acquisition, the property, plant and equipment of Sinopec National Star were revalued at 31 December 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 million, resulting in a surplus on revaluation of RMB 1,136 million, net of amounts allocated to minority interests.

18 CONSTRUCTION IN PROGRESS

The Group:

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals millions	Corporate and others RMB millions	Total RMB millions
Balance at 1 January 2002	3,163	6,636	8,722	7,420	509	26,450
Additions	20,376	6,080	5,122	7,018	443	39,039
Dry hole costs written off	(1,771)	—	—	—	—	(1,771)
Amount transferred to Sinopec Group Company (Note 31)	(6)	(10)	—	—	—	(16)
Transferred to fixed assets	(17,236)	(6,825)	(6,416)	(11,162)	(559)	(42,198)
Balance at 31 December 2002	**4,526**	**5,881**	**7,428**	**3,276**	**393**	**21,504**

The Company:

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals millions	Corporate and others RMB millions	Total RMB millions
Balance at 1 January 2002	1,893	5,179	8,476	737	468	16,753
Additions	9,653	3,772	4,946	431	343	19,145
Dry hole costs written off	(951)	—	—	—	—	(951)
Amount transferred to Sinopec Group Company (Note 31)	(6)	(10)	—	—	—	(16)
Transferred to fixed assets	(7,471)	(4,704)	(6,375)	(251)	(435)	(19,236)
Balance at 31 December 2002	**3,118**	**4,237**	**7,047**	**917**	**376**	**15,695**

19 INTERESTS IN SUBSIDIARIES

	The Company	
	2002 RMB millions	2001 RMB millions
Share of net assets	**89,332**	**89,608**

Details of the Company's principal subsidiaries at 31 December 2002 are set out in Note 34.

20 INVESTMENTS

	The Group		The Company	
	2002 RMB millions	2001 RMB millions	**2002 RMB millions**	2001 RMB millions
Unlisted investments, at cost	2,738	3,463	635	611
Less: Provision for impairment losses	(184)	(181)	(149)	(149)
	2,554	**3,282**	**486**	**462**

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.

21 INTERESTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB millions	RMB millions	**RMB millions**	RMB millions
Share of net assets	**7,917**	**5,172**	**5,679**	**4,155**

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 accounted for under equity method and 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 Company's subsidiaries %	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
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 petrochemical products
Shanghai Secco Petrochemical Company Limited	Incorporated	Registered capital USD 901,440,964	30.00	20.00	Manufacturing and distribution of petrochemical products
Shanghai Chemical Industry Park Development Company Limited	Incorporated	Registered capital RMB 2,372,439,000	—	38.26	Planning, development and operation of the Chemical Industry Park in Shanghai, the PRC

* 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 market value of the Group's and the Company's investments in Dynamic and Taishan based on the quoted market price are RMB 625 million (2001: RMB 1,074 million) and RMB 1,764 million (2001: RMB 1,465 million) respectively at 31 December 2002.

22 TRADE ACCOUNTS AND BILLS RECEIVABLES

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB millions	RMB millions	**RMB millions**	RMB millions
Third parties	10,643	10,049	5,710	6,237
Subsidiaries	—	—	4,521	2,910
Sinopec Group Company and fellow subsidiaries	2,628	3,503	1,513	2,080
Associates and jointly controlled entities	65	10	8	8
	13,336	**13,562**	**11,752**	**11,235**
Less: Allowance for doubtful accounts	(2,666)	(2,480)	(1,867)	(1,774)
	10,670	**11,082**	**9,885**	**9,461**
Bills receivable	4,684	3,542	1,478	1,464
	15,354	**14,624**	**11,363**	**10,925**

The ageing analysis of trade accounts and bills receivables (net of allowance for doubtful accounts) is as follows:

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB millions	RMB millions	**RMB millions**	RMB millions
Within one year	13,892	12,766	10,556	9,906
Between one and two years	530	708	241	525
Between two and three years	288	368	168	230
Over three years	644	782	398	264
	15,354	**14,624**	**11,363**	**10,925**

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 fellow subsidiaries are repayable under the same terms.

23 INVENTORIES

	The Group		The Company	
	2002 RMB millions	2001 RMB millions	**2002 RMB millions**	2001 RMB millions
Crude oil and other raw materials	21,295	17,749	10,426	9,954
Work in progress	6,192	5,050	3,387	3,556
Finished goods	15,086	20,442	10,248	12,925
Spare parts and consumables	4,210	3,555	1,353	1,184
	46,783	**46,796**	**25,414**	**27,619**
Less: Allowance for diminution in value of inventories	(486)	(602)	(224)	(292)
	46,297	**46,194**	**25,190**	**27,327**

At 31 December 2002, the carrying amount of the Group's and the Company's inventories carried at net realisable value amounted to RMB 1,624 million (2001: RMB 1,924 million) and RMB 966 million (2001: RMB 1,120 million), respectively.

The cost of inventories recognised as an expense in the consolidated income statement amounted to RMB 258,594 million for the year ended 31 December 2002 (2001: RMB 249,700 million).

24 PREPAID EXPENSES AND OTHER CURRENT ASSETS

	The Group		The Company	
	2002 RMB millions	2001 RMB millions	**2002 RMB millions**	2001 RMB millions
Advances to third parties	3,500	6,618	1,868	5,328
Amounts due from Sinopec Group Company and fellow subsidiaries	11,714	9,421	10,085	7,400
Amounts due from subsidiaries	—	—	10,419	8,802
Other receivables	1,645	3,406	875	2,309
Purchase deposits	1,610	2,426	1,216	1,495
Prepayments in connection with construction work and equipment purchases	1,196	1,543	1,077	1,072
Prepaid value-added tax and customs duty	1,511	2,284	749	1,651
Amounts due from associates and jointly controlled entities	345	373	310	373
Prepaid rental	—	52	—	23
	21,521	**26,123**	**26,599**	**28,453**

25 DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and deferred tax liabilities are attributable to the items detailed in the table below:

The Group

	Assets		Liabilities		Net balance	
	2002 RMB millions	2001 RMB millions	**2002 RMB millions**	2001 RMB millions	**2002 RMB millions**	2001 RMB millions
Current						
Provisions, primarily for receivables and inventories	275	432	—	—	275	432
Non-current						
Property, plant and equipment	47	35	(627)	(788)	(580)	(753)
Accelerated depreciation	—	—	(2,958)	(2,185)	(2,958)	(2,185)
Tax value of losses carried forward, net of valuation allowance	30	173	—	—	30	173
Land use rights *(Note)*	364	—	—	—	364	—
Others	16	129	(14)	(8)	2	121
Deferred tax assets/(liabilities)	**732**	**769**	**(3,599)**	**(2,981)**	**(2,867)**	**(2,212)**

The Company

	Assets		Liabilities		Net balance	
	2002 RMB millions	2001 RMB millions	**2002 RMB millions**	2001 RMB millions	**2002 RMB millions**	2001 RMB millions
Current						
Provisions, primarily for receivables and inventories	57	281	—	—	57	281
Non-current						
Property, plant and equipment	36	3	(240)	(119)	(204)	(116)
Accelerated depreciation	—	—	(799)	(554)	(799)	(554)
Others	15	53	(3)	—	12	53
Deferred tax assets/(liabilities)	**108**	**337**	**(1,042)**	**(673)**	**(934)**	**(336)**

25 DEFERRED TAX ASSETS AND LIABILITIES *(Continued)*

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 realised 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 realisability of the deferred tax assets. The Group has reviewed its deferred tax assets at the balance sheet date. Based on this review, valuation allowances of RMB 164 million was provided for the year ended 31 December 2002 (2001: RMB 142 million) 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 utilised. 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 realised. No valuation allowance was established for the other deferred tax assets as management believes that the amount of these deferred tax assets at 31 December 2002 and 2001 is more likely than not to be realised.

Movements in the deferred tax assets and liabilities are as follows:

The Group

	Balance at 1 January 2002 RMB millions	Recognised in other reserves RMB millions	Recognised in income statement RMB millions	Balance at 31 December 2002 RMB millions
Current				
Provisions, primarily for receivables and inventories	432	—	(157)	275
Non-current				
Property, plant and equipment	(753)	—	173	(580)
Accelerated depreciation	(2,185)	—	(773)	(2,958)
Tax value of losses carried forward, net of valuation allowance	173	—	(143)	30
Land use rights *(Note)*	—	371	(7)	364
Others	121	—	(119)	2
Net deferred tax liabilities	**(2,212)**	**371**	**(1,026)**	**(2,867)**

The Company

	Balance at 1 January 2002 RMB millions	Recognised in income statement RMB millions	Balance at 31 December 2002 RMB millions
Current			
Provisions, primarily for receivables and inventories	281	(224)	57
Non-current			
Property, plant and equipment	(116)	(88)	(204)
Accelerated depreciation	(554)	(245)	(799)
Others	53	(41)	12
Net deferred tax liabilities	**(336)**	**(598)**	**(934)**

Note: As described in note (e) to the statements of changes in shareholders' funds, land use rights are carried at cost effective 1 January 2002. The effect of this change resulted in a decrease in the revaluation reserve and an increase in other reserves relating to the recognition of the deferred tax asset as at 1 January 2002.

26 SHORT-TERM AND LONG-TERM DEBTS AND LOANS FROM SINOPEC GROUP COMPANY AND FELLOW SUBSIDIARIES

Short-term debts represent:

	The Group		The Company	
	2002 RMB millions	2001 RMB millions	**2002 RMB millions**	2001 RMB millions
Third parties' debts				
Short-term bank loans	22,839	34,424	12,514	23,460
Short-term other loans	19	43	15	24
	22,858	**34,467**	**12,529**	**23,484**
Current portion of long-term bank loans	8,120	10,140	5,721	6,465
Current portion of long-term other loans	300	742	122	70
	8,420	**10,882**	**5,843**	**6,535**
	31,278	**45,349**	**18,372**	**30,019**
Loans from Sinopec Group Company and fellow subsidiaries				
Short-term loans	4,121	3,448	2,299	2,622
Current portion of long-term loans	153	414	153	414
	4,274	**3,862**	**2,452**	**3,036**
	35,552	**49,211**	**20,824**	**33,055**

The Group's and the Company's weighted average interest rate on short-term loans were 4.3% (2001: 5.1%) and 4.2% (2001: 5.1%) respectively.

26 SHORT-TERM AND LONG-TERM DEBTS AND LOANS FROM SINOPEC GROUP COMPANY AND FELLOW SUBSIDIARIES *(Continued)*

Long-term debts comprise:

	Interest rate and final maturity	The Group 2002 RMB millions	The Group 2001 RMB millions	The Company 2002 RMB millions	The Company 2001 RMB millions
Third parties' debts					
Long-term bank loans					
Renminbi denominated	Interest rates ranging from interest free to 11.2% per annum at 31 December 2002 with maturities through 2013	36,855	32,231	25,884	21,473
Japanese Yen denominated	Interest rates ranging from 0.2% to 7.3% per annum at 31 December 2002 with maturities through 2024	2,373	2,401	2,280	2,272
US Dollar denominated	Interest rates ranging from interest free to 7.9% per annum at 31 December 2002 with maturities through 2031	4,294	4,300	1,323	1,884
Deutsche Marks denominated	Fixed rates ranging from 6.6% to 6.8% per annum at 31 December 2001 which was converted to Euro denominated during the year ended 31 December 2002	—	151	—	144
Dutch Guilders denominated	Fixed rate at 7.9% per annum at 31 December 2001 which was converted to Euro denominated during the year ended 31 December 2002	—	28	—	28
Hong Kong Dollar denominated	Floating rate at Hong Kong Prime Rate per annum plus 0.25% with maturities through 2006	10	14	—	—
Euro denominated	Fixed rates ranging from 6.0% to 7.9% per annum at 31 December 2002 with maturities through 2006	162	—	155	—
		43,694	**39,125**	**29,642**	**25,801**
Long-term other loans					
Renminbi denominated	Interest rates ranging from interest free to 7.5% per annum at 31 December 2002 with maturities through 2015	277	596	61	123
US Dollar denominated	Interest rates ranging from interest free to 3.4% per annum at 31 December 2002 with maturities through 2015	438	522	398	34
French Francs denominated	Interest rates ranging from 1.8% to 8.1% per annum at 31 December 2001 which was converted to Euro denominated during the year ended 31 December 2002	—	15	—	15
Euro denominated	Interest rates ranging from 1.8% to 8.1% per annum at 31 December 2002 with maturities through 2025	16	—	16	—
		731	**1,133**	**475**	**172**
Convertible bonds	Fixed rate at 2.2% per annum at 31 December 2002 and redeemable in July 2004 (a)	1,500	1,500	—	—
Total third parties' long-term debts		**45,925**	**41,758**	**30,117**	**25,973**
Less: Current portion		(8,420)	(10,882)	(5,843)	(6,535)
		37,505	**30,876**	**24,274**	**19,438**
Long-term loans from Sinopec Group Company and fellow subsidiaries					
Renminbi denominated	Interest free with maturity in 2020	35,561	35,561	35,561	35,561
Renminbi denominated	Interest rates ranging from 5.0% to 6.0% per annum at 31 December 2002 with maturities through 2007	2,272	796	2,187	790
US Dollar denominated	Interest rates ranging from 2.4% to 2.8% per annum at 31 December 2002 with maturities through 2006	23	182	21	180
		37,856	**36,539**	**37,769**	**36,531**
Less: Current portion		(153)	(414)	(153)	(414)
		37,703	**36,125**	**37,616**	**36,117**
		75,208	**67,001**	**61,890**	**55,555**

26 SHORT-TERM AND LONG-TERM DEBTS AND LOANS FROM SINOPEC GROUP COMPANY AND FELLOW SUBSIDIARIES *(Continued)*

(a) Convertible bonds amounting to RMB 1,500 million were issued by a subsidiary on 28 July 1999. The bonds are convertible upon an initial public offering ("IPO") into ordinary shares of the subsidiary at the option of the holders during the period from 28 July 2000 to 27 July 2004.

Third parties' loans of RMB 85 million of the Group at 31 December 2002 (2001: RMB 171 million) 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 146 million at 31 December 2002 (2001: RMB 233 million).

Third parties' loans of RMB 23 million of the Company at 31 December 2002 (2001: RMB 76 million) were secured by certain of the Company's property, plant and equipment. The net book value of property, plant and equipment of the Company pledged as security amounted to RMB 20 million at 31 December 2002 (2001: RMB 104 million).

The aggregate maturities of long-term debts and loans from Sinopec Group Company and fellow subsidiaries are as follows:

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB millions	RMB millions	**RMB millions**	RMB millions
Within one year	8,573	11,296	5,996	6,949
Between one to two years	8,677	10,383	3,876	6,043
Between two to five years	25,564	14,608	17,458	7,931
After five years	40,967	42,010	40,556	41,581
	83,781	**78,297**	**67,886**	**62,504**

27 TRADE ACCOUNTS AND BILLS PAYABLES

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB millions	RMB millions	**RMB millions**	RMB millions
Third parties	17,109	13,556	6,457	5,513
Subsidiaries	—	—	11,120	5,856
Sinopec Group Company and fellow subsidiaries	2,103	3,233	733	1,354
Associates and jointly controlled entities	—	4	—	4
	19,212	**16,793**	**18,310**	**12,727**
Bills payable	30,139	26,022	23,055	19,291
	49,351	**42,815**	**41,365**	**32,018**

Amounts due to Sinopec Group Company and fellow subsidiaries are repayable in accordance with normal commercial terms.

The ageing analysis of trade accounts and bills payables is as follows:

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB millions	RMB millions	**RMB millions**	RMB millions
Due within 1 month or on demand	13,673	24,820	16,513	15,578
Due after 1 month but within 6 months	34,709	17,242	24,132	15,903
Due after 6 months	969	753	720	537
	49,351	**42,815**	**41,365**	**32,018**

28 ACCRUED EXPENSES AND OTHER PAYABLES

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB millions	RMB millions	**RMB millions**	RMB millions
Amounts due to Sinopec Group Company and fellow subsidiaries	9,967	10,220	5,542	6,757
Amounts due to subsidiaries	—	—	4,571	9,700
Accrued expenditure	9,066	8,477	4,374	4,331
Taxes other than income tax	2,115	3,062	537	1,659
Receipts in advance	3,427	2,884	1,867	1,596
Advances from third parties	1,223	2,005	1,203	1,442
Others	3,957	3,228	3,000	2,067
	29,755	**29,876**	**21,094**	**27,552**

29 SHARE CAPITAL

	The Group and the Company	
	2002	2001
	RMB millions	RMB millions
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	2,800
	86,702	**86,702**

The Company was established on 25 February 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 of the Predecessor Operations transferred to the Company (Note 1).

Pursuant to the resolutions passed at an Extraordinary General Meeting held on 25 July 2000 and approvals from relevant government authorities, the Company is authorised 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 authorised 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.

30 COMMITMENTS AND CONTINGENT LIABILITIES

Operating lease commitments

The Group and the Company leases service stations and other equipment through non-cancellable 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 31 December 2002 and 2001, the future minimum lease payments under operating leases are as follows:

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB millions	RMB millions	**RMB millions**	RMB millions
Within one year	2,726	2,844	2,629	2,590
Between one to two years	2,666	2,736	2,585	2,565
Between two to three years	2,647	2,563	2,568	2,494
Between three to four years	2,635	2,559	2,557	2,492
Between four to five years	2,609	2,550	2,531	2,484
Thereafter	83,718	85,368	82,231	84,250
	97,001	**98,620**	**95,101**	**96,875**

Capital commitments

At 31 December 2002 and 2001, the Group and the Company had capital commitments as follows:

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB millions	RMB millions	**RMB millions**	RMB millions
Authorised and contracted for	30,245	21,636	15,218	8,436
Authorised but not contracted for	41,015	18,204	27,115	12,437
	71,260	**39,840**	**42,333**	**20,873**

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.

30 COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

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 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 is required 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 65 million for the year ended 31 December 2002 (2001: RMB 29 million).

Estimated future annual payments are as follows:

	The Group		The Company	
	2002 RMB millions	2001 RMB millions	**2002 RMB millions**	2001 RMB millions
Within one year	55	43	37	28
Between one to two years	76	39	45	26
Between two to three years	66	51	35	26
Between three to four years	63	62	28	31
Between four to five years	43	56	12	24
Thereafter	263	284	109	114
Total payments	**566**	**535**	**266**	**249**

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 Reorganisation, 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 Reorganisation.

(b) At 31 December 2002 and 2001, guarantees given to banks in respect of banking facilities granted to the parties below were as follows:

	The Group		The Company	
	2002 RMB millions	2001 RMB millions	**2002 RMB millions**	2001 RMB millions
Associates and jointly controlled entities	7,492	546	7,017	—
Third parties	30	322	—	—
	7,522	**868**	**7,017**	**—**

The Company monitors the conditions that are subject to the guarantees to identify whether it is probable that a loss has occurred, and recognise any such losses under guarantees when those losses are estimable. At 31 December 2001 and 2002, it is not probable that the Company will be required to make payments under the guarantees. Thus no liability has been accrued for a loss related to the Company's obligation under the guarantees arrangement.

In March 2003, the Company made guarantees of RMB 4,680 million given to banks in respect of banking facilities granted to an associate.

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 287 million for the year ended 31 December 2002 (2001: RMB 221 million).

30 COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

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.

31 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 the Sinopec Group Company and fellow subsidiaries. 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 IFRS, state-owned enterprises, other than Sinopec Group Company and fellow subsidiaries, are not considered related parties. Related parties refer to enterprises over which Sinopec Group Company is able to exercise significant influence.

The Group conducts business 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 organisations. 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.

The principal related party transactions with Sinopec Group Company, which were carried out in the ordinary course of business, are as follows:

	Note	**2002 RMB millions**	2001 RMB millions
Sales of goods	(i)	36,343	37,261
Purchases	(ii)	26,225	19,264
Transportation and storage	(iii)	1,514	1,471
Exploration and development services	(iv)	10,310	10,250
Production related services	(v)	7,316	6,116
Ancillary and social services	(vi)	1,945	2,000
Operating lease charges	(vii)	2,716	2,489
Agency commission income	(viii)	37	7
Intellectual property licence fee paid	(ix)	10	10
Interest received	(x)	104	153
Interest paid	(xi)	636	534
Net deposits (withdrawn from)/placed with related parties	(xii)	(1,427)	528
Net loans obtained from/(repaid to) related parties	(xiii)	1,990	(5,034)

The amounts set out in the table above in respect of the years ended 31 December 2002 and 2001 represent the relevant costs to the Group as determined by the corresponding contracts with the related parties.

At 31 December 2002 and 2001, there were no guarantees given to banks by the Group in respect of banking facilities to Sinopec Group Company and fellow subsidiaries.

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 transactions, and this has been confirmed by the independent non-executive directors.

Notes:

(i) Sales of goods represent the sale of crude oil, intermediate petrochemical 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 storage facilities.

(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.

31 RELATED PARTY TRANSACTIONS *(Continued)*

(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 and service stations.

(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 balance of deposits at 31 December 2002 was RMB 5,702 million (2001: RMB 7,129 million).

(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 withdrawn from/placed with 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 Reorganisation, 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. The terms of these agreements are summarised 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 1 January 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 1 January 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 1 January 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 million and RMB 482 million, 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 1 January 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 1 January 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.

31 RELATED PARTY TRANSACTIONS *(Continued)*

(f) The Company has entered into a service stations franchise agreement with Sinopec Group Company effective from 1 January 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.

On 19 December 2002, the Company and Sinopec Group Company entered into an asset swap agreement whereby the Company transferred to Sinopec Group Company certain individual assets and liabilities, consisting principally of, water plants, inspection, maintenance, geology and geophysical assets and related liabilities. The carrying amount of the net assets transferred to Sinopec Group Company approximated the net appraised amount of RMB 1,021 million. In return, Sinopec Group Company transferred to the Company certain gas stations and oil depot assets. The carrying and appraised amounts of such assets transferred to the Company were RMB 462 million and RMB 1,040 million, respectively. The difference between the appraised amounts of the assets exchanged of RMB 19 million was paid in cash by the Company.

32 EMPLOYEE BENEFITS PLAN

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised 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 or her 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 year ended 31 December 2002 were RMB 1,549 million (2001: RMB 1,358 million).

33 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 petrochemical products, derivative petrochemical 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.

33 SEGMENTAL REPORTING *(Continued)*

Reportable information on the Group's business segments is as follows:

	2002 RMB millions	2001 RMB millions
Turnover		
Exploration and production		
External sales	10,920	11,095
Inter-segment sales	39,407	43,332
	50,327	**54,427**
Refining		
External sales	47,555	49,497
Inter-segment sales	161,340	156,782
	208,895	**206,279**
Marketing and distribution		
External sales	184,378	180,610
Inter-segment sales	2,329	2,460
	186,707	**183,070**
Chemicals		
External sales	58,401	48,945
Inter-segment sales	7,204	5,626
	65,605	**54,571**
Corporate and others		
External sales	22,930	14,200
Inter-segment sales	19,845	8,875
	42,775	**23,075**
Elimination of inter-segment sales	(230,125)	(217,075)
Turnover	**324,184**	**304,347**
Other operating revenues		
Exploration and production	7,305	6,168
Refining	3,060	2,761
Marketing and distribution	342	201
Chemicals	3,979	4,361
Corporate and others	1,172	633
Other operating revenues	**15,858**	**14,124**
Turnover and other operating revenues	**340,042**	**318,471**

	2002 RMB millions	2001 RMB millions
Result		
Operating profit		
By segment		
— Exploration and production	14,787	23,185
— Refining	5,922	2,106
— Marketing and distribution	8,401	2,443
— Chemicals	72	(758)
— Corporate and others	(905)	324
Total operating profit	**28,277**	**27,300**
Share of profits less losses from associates and jointly controlled entities		
— Exploration and production	152	258
— Refining	1	10
— Marketing and distribution	63	71
— Chemicals	15	(23)
— Corporate and others	79	4
Aggregate share of profits less losses from associates and jointly controlled entities	**310**	**320**
Finance costs		
Interest expense	(4,018)	(4,706)
Interest income	338	1,183
Foreign exchange losses	(312)	(222)
Foreign exchange gains	47	593
Net finance costs	**(3,945)**	**(3,152)**
Investment income	190	199
Profit from ordinary activities before taxation	**24,832**	**24,667**
Taxation	(7,635)	(8,029)
Profit from ordinary activities after taxation	**17,197**	**16,638**
Minority interests	(1,117)	(613)
Profit attributable to shareholders	**16,080**	**16,025**

33 SEGMENTAL REPORTING *(Continued)*

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 fellow subsidiaries, income tax payable, deferred tax liabilities and other liabilities.

Interests in and earnings from associates are included in the segments in which the associates operate. Information on associates is included in Note 21. Additions to long-lived assets by operating segment are included in Notes 17 and 18.

	2002 RMB millions	2001 RMB millions
Assets		
Segment assets		
— Exploration and production	90,983	80,063
— Refining	89,667	88,488
— Marketing and distribution	71,516	72,014
— Chemicals	78,246	78,277
— Corporate and others	15,356	13,506
Total segment assets	**345,768**	**332,348**
Interests in associates and jointly controlled entities		
— Exploration and production	1,583	1,032
— Refining	147	120
— Marketing and distribution	1,435	1,168
— Chemicals	3,505	1,691
— Corporate and others	1,247	1,161
Aggregate interests in associates and jointly controlled entities	**7,917**	**5,172**
Unallocated assets	22,196	29,189
Total assets	**375,881**	**366,709**
Liabilities		
Segment liabilities		
— Exploration and production	16,126	13,419
— Refining	22,331	23,985
— Marketing and distribution	19,472	18,700
— Chemicals	12,884	8,831
— Corporate and others	8,293	7,760
Total segment liabilities	**79,106**	**72,695**
Unallocated liabilities	118,370	122,804
Total liabilities	**197,476**	**195,499**

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.

	2002 RMB millions	2001 RMB millions
Capital expenditure		
Exploration and production	20,228	20,276
Refining	6,533	8,992
Marketing and distribution	6,982	17,256
Chemicals	7,324	11,947
Corporate and others	545	358
	41,612	**58,829**
Depreciation, depletion and amortisation		
Exploration and production	9,033	8,081
Refining	6,039	5,901
Marketing and distribution	1,968	1,661
Chemicals	7,113	6,686
Corporate and others	129	101
	24,282	**22,430**

34 PRINCIPAL SUBSIDIARIES

At 31 December 2002, the following list contains the particulars of subsidiaries which principally affected the results or assets of the Group.

Name of company	Particulars of issued capital and debt securities (millions)	Type of legal entity	Percentage of equity held by the Company %	Percentage of equity held by Subsidiary %	Principal activities
China Petrochemical International Company Limited	RMB1,400	Limited company	100.00	—	Trading of crude oil and petrochemical products
Sinopec Beijing Yanhua Petrochemical Company Limited	RMB 3,374	Limited company	70.01	—	Manufacturing of chemical products
Sinopec Sales Company Limited	RMB 1,700	Limited company	100.00	—	Marketing and distribution of refined petroleum products
Sinopec Shengli Oilfield Company Limited	RMB 30,028	Limited company	100.00	—	Exploration and production of crude oil and natural gas
Sinopec Fujian Petrochemical Company Limited (i)	RMB 2,253	Limited company	50.00	—	Manufacturing of plastics, intermediate petrochemical products and petroleum products
Sinopec Maoming Refining and Chemical Company Limited	RMB 1,064 and RMB 1,500 convertible bonds	Limited company	99.81	—	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
Sinopec Wuhan Petroleum Group Company Limited (i)	RMB 147	Limited company	46.25	—	Marketing and distribution of refined petroleum products
Sinopec Wuhan Phoenix Company Limited (i)	RMB 519	Limited company	40.72	—	Manufacturing of petrochemical products and petroleum products
Sinopec Yangzi Petrochemical Company Limited	RMB 2,330	Limited company	84.98	—	Manufacturing of intermediate 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 816	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.

35 FINANCIAL INSTRUMENTS

Financial assets of the Group include cash and cash equivalents, time deposits with financial institutions, investments, trade accounts receivable, bills receivable, amounts due from Sinopec Group Company and fellow subsidiaries, 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 fellow subsidiaries, trade accounts payable, bills payable, amounts due to Sinopec Group Company and fellow subsidiaries, receipts in advance, and advances from third parties. The Group has no derivative instruments that are designated and qualified as hedging instruments at 31 December 2002 and 2001.

Credit risk

The carrying amounts of cash and cash equivalents, time deposits with financial institutions, trade accounts and bills receivables, and other current assets, except for prepayments and deposits, 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.

No other financial assets carry a significant exposure to credit risk.

Currency risk

Substantially all of the revenue-generating operations of the Group are transacted in Renminbi, which is not fully convertible into foreign currencies. On 1 January 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.

Interest rate risk

The interest rates and terms of repayment of short-term and long-term debts of the Group are disclosed in Note 26.

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 32 and IAS 39. Fair value estimates, methods and assumptions, set forth below for the Group's financial instruments, are made to comply with the requirements of IAS 32 and IAS 39 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 realise 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 fellow subsidiaries 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 Reorganisation of the Group, its existing capital structure, and the terms of the borrowings.

The following table presents the carrying amount and fair value of the Group's long-term indebtedness other than loans from Sinopec Group Company and fellow subsidiaries at 31 December 2002 and 2001:

	2002 RMB millions	2001 RMB millions
Carrying amount	45,925	41,758
Fair value	46,370	41,996

The fair value of long-term indebtedness is estimated by discounting future cash flows thereon using current market interest rates offered to the Group for debts with substantially the same characteristics and maturities.

Investments in unlisted equity securities have no quoted market prices 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.

36 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company of the Group at 31 December 2002 to be Sinopec Group Company, a state-owned enterprise established in the PRC.

(C) DIFFERENCES BETWEEN FINANCIAL STATEMENTS PREPARED UNDER THE PRC ACCOUNTING RULES AND REGULATIONS AND IFRS

Other than the differences in the classifications of certain financial statements captions and the accounting for the items described below, there are no material differences between the Group's financial statements prepared under the PRC Accounting Rules and Regulations and IFRS. The major differences are:

(i) Depreciation of oil and gas properties
Under the PRC Accounting Rules and Regulations, oil and gas properties are depreciated on a straight-line basis. Under IFRS, oil and gas properties are depreciated on the unit of production method.

(ii) Capitalisation of general borrowing costs
Under the PRC Accounting Rules and Regulations, only borrowing costs on funds that are specifically borrowed for construction are eligible for capitalisation as fixed assets. Under IFRS, to the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the borrowing costs should be capitalised as part of the cost of that asset.

(iii) Acquisition of Sinopec National Star
Under the PRC Accounting Rules and Regulations, the acquisition of Sinopec National Star (the "Acquisition") is accounted for by the acquisition method. Under the acquisition method, the income of an acquiring enterprise includes the operations of the acquired enterprise subsequent to the acquisition. The difference between the cost of acquiring Sinopec National Star and the fair value of the net assets acquired is capitalised as an exploration and production right, which is amortised over 27 years.

Under IFRS, 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 Acquisition have been restated to include the financial statements and results of operations of Sinopec National Star on a combined basis. The consideration paid by the Group is treated as an equity transaction.

(iv) Revaluation of land use rights
Effective 1 January 2002, land use rights are carried at historical cost less amortisation under IFRS. Accordingly, the surplus on the revaluation of land use rights, credited to revaluation reserve previously, was eliminated during the year. Under the PRC Accounting Rules and Regulations, the land use rights are carried at revalued amount.

(v) Impairment losses of long-lived assets
Under the PRC Accounting Rules and Regulations and IFRS, impairment charges are recognised when the carrying value of long-lived assets exceeds the higher of their net selling price and the value in use which incorporates discounting the asset's estimated future cash flows. Due to the difference in the depreciation method of oil and gas properties discussed in (i) above, the provision for impairment losses and reversal of impairment loss under the PRC Accounting Rules and Regulations are different from the amounts recorded under IFRS.

(vi) Government grants
Under the PRC Accounting Rules and Regulations, government grants should be credited to capital reserve. Under IFRS, government grants relating to the purchase of equipment used for technology improvements are initially recorded as long term liabilities and are offset against the cost of assets to which the grants related when construction commences. Upon transfer to property, plant and equipment, the grants are recognised as income over the useful life of the property, plant and equipment by way of reduced depreciation charges.

(vii) Dividends
Under the PRC Accounting Rules and Regulations, dividends relating to an accounting period declared after the period end date are recognised as a liability in that accounting period. Under IFRS, dividends are recognised as a liability at the declaration date.

Effects of major differences between the PRC Accounting Rules and Regulations and IFRS on net profit are analysed as follows:

	Note	Year ended 31 December **2002** **RMB millions**	2001 RMB millions
Net profit under the PRC Accounting Rules and Regulations		14,121	14,018
Adjustments:			
Depreciation of oil and gas properties	(i)	2,311	2,429
Capitalisation of general borrowing costs	(ii)	338	398
Acquisition of Sinopec National Star	(iii)	117	117
Revaluation of land use rights	(iv)	18	—
Effects of the above adjustments on taxation		(825)	(937)
Net profit under IFRS*		**16,080**	**16,025**

Effects of major differences between the PRC Accounting Rules and Regulations and IFRS on shareholders' funds are analysed as follows:

	Note	At 31 December **2002** **RMB millions**	2001 RMB millions
Shareholders' fund under the PRC Accounting Rules and Regulations		146,515	139,039
Adjustments:			
Depreciation of oil and gas properties	(i)	9,112	6,801
Capitalisation of general borrowing costs	(ii)	736	398
Acquisition of Sinopec National Star	(iii)	(2,929)	(3,046)
Revaluation of land use rights	(iv)	(822)	—
Impairment losses on long-lived assets	(v)	(113)	(113)
Government grants	(vi)	(291)	—
Dividends	(vii)	5,202	6,936
Effects of the above adjustments on taxation		(2,925)	(2,346)
Shareholders' fund under IFRS*		**154,485**	**147,669**

* The above figure is extracted from the financial statements prepared in accordance with IFRS which have been audited by KPMG.

(D) SUPPLEMENTAL INFORMATION FOR NORTH AMERICAN SHAREHOLDERS

The Group's accounting policies conform with IFRS 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 profit attributable to shareholders and shareholders' funds are set out below.

(a) Foreign exchange gains and losses

In accordance with IFRS, foreign exchange differences on funds borrowed for construction are capitalised 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) Capitalisation of property, plant and equipment

In years prior to those presented herein, certain adjustments arose between IFRS and US GAAP with regard to the capitalisation of interest and pre-production results under IFRS, that were reversed and expensed under US GAAP. For the years presented herein, there were no adjustments related to the capitalisation of interest and pre-production results. Accordingly, the US GAAP adjustments represent the amortisation 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 Reorganisation, the property, plant and equipment of the Group were revalued at 30 September 1999. In addition, the property, plant and equipment of Sinopec National Star were revalued at 31 December 2000 in connection with the Acquisition. Under IFRS, such revaluations result in an increase in shareholders' funds 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, including land use rights, 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' funds.

Under IFRS, effective 1 January 2002, land use rights, which were previously carried at revalued amount, are carried at cost under IFRS. The effect of this change resulted in a decrease to revaluation reserve net of minority interests of RMB 840 million as of 1 January 2002. This revaluation reserve was previously included as part of the revaluation reserve of property, plant and equipment. This change under IFRS eliminated the US GAAP difference relating to the revaluation of land use rights. However, as a result of the tax deductibility of the revalued land use rights, the reversal of the revaluation reserve resulted in a deferred tax asset.

In addition, under IFRS, 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) Exchange of assets

As described in Note 31 to the financial statements prepared under IFRS, the Company and Sinopec Group Company entered into an asset swap transaction on 19 December 2002. Under IFRS, the cost of property, plant and equipment acquired in an exchange for a dissimilar item of property, plant and equipment is measured at fair value. Under US GAAP, as the exchange of assets was between entities under common control, the assets received from Sinopec Group Company are measured at historical cost. The difference between the historical cost of the net assets transferred and the net assets received is accounted for as an equity transaction.

(e) Impairment of long-lived assets

Under IFRS, impairment charges are recognised 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 recognised. Measurement of an impairment loss for a long-lived asset is based on the fair value of the asset.

In addition, under IFRS, a subsequent increase in the recoverable amount of an asset is reversed to the consolidated income statement to the extent that an impairment loss on the same asset was previously recognised 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 recognised 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.

The US GAAP adjustment represents the effect of reversing the recovery of previous impairment charges recorded under IFRS.

(f) Employee reduction expenses

As described in Note 7 to the financial statements prepared under IFRS, certain employees of the Group were transferred to Sinopec Group Company. During the year ended 31 December 2001, Sinopec Group Company paid RMB 2,885 million to employees that were transferred to Sinopec Group Company and were subsequently terminated. Under IFRS, 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' funds.

(g) Capitalised interest on investment in associates

Under IFRS, investment accounted for by the equity method is not considered a qualifying asset for which interest is capitalised. 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 capitalised.

(h) Goodwill amortisation

Under IFRS, goodwill and negative goodwill are amortised on a systematic basis over their useful lives.

Under US GAAP, with reference to Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"), goodwill is no longer amortised beginning 1 January 2002, the date that SFAS No. 142 was adopted. Instead, goodwill is reviewed for impairment upon adoption of SFAS No. 142 and annually thereafter. In connection with SFAS No. 142's transitional goodwill impairment evaluation, the Group determined that no goodwill impairment existed as of the date of adoption. In addition, under US GAAP, negative goodwill of RMB 11 million, net of minority interests, that existed at the date of adoption of SFAS No. 142 was written off as a cumulative effect of a change in accounting principle.

(i) Companies included in consolidation

Under IFRS, 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 Petroleum Group Company Limited, Sinopec Wuhan Phoenix Company Limited and Sinopec Yizheng Chemical Fibre Company Limited of which the Group owns 50%, 46.25%, 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 profit attributable to shareholders or shareholders' funds reconciliations between IFRS and US GAAP. Presented below is summarised financial information of Sinopec Fujian Petrochemical Company Limited, Sinopec Wuhan Petroleum Group Company Limited, Sinopec Wuhan Phoenix Company Limited and Sinopec Yizheng Chemical Fibre Company Limited.

	Year ended 31 December	
	2002	2001
	RMB millions	RMB millions
Revenues	16,719	15,809
Profit before taxation	666	531
Net profit	468	329

	At 31 December	
	2002	2001
	RMB millions	RMB millions
Current assets	5,169	4,556
Total assets	17,463	15,564
Current liabilities	4,612	3,267
Total liabilities	4,992	3,823
Total equity	12,471	11,741

(j) Related party transactions

Under IFRS, 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 31 in financial statements prepared under IFRS 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 31 to the financial statements prepared under IFRS.

(k) Recently issued accounting standards

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 is also required to record 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 1 January 2003. The Group does not expect the adoption of SFAS No.143 will have a material impact on its consolidated financial statements.

SFAS No. 145

In April 2002, the FASB issued SFAS No. 145, which rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt", and an amendment of that Statement, SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements". SFAS No. 145 also rescinds SFAS No. 44, "Accounting for Intangible Assets of Motor Carriers". SFAS No. 145 amends SFAS No. 13, "Accounting for Leases", to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. SFAS No. 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions.

The provisions of SFAS No. 145 related to the rescission of SFAS No. 4 shall be applied in fiscal years beginning after 15 May 2002. The provisions in paragraphs 8 and 9(c) of SFAS No. 145 related to Statement 13 shall be effective for transactions occurring after 15 May 2002. All other provisions of SFAS No. 145 shall be effective for financial statements issued on or after 15 May 2002. The Group does not expect the adoption of SFAS No. 145 will have a material impact on its consolidated financial statements.

SFAS No. 146

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" which applies to costs associated with an exit activity (including restructuring) or with a disposal of long-lived assets. SFAS No. 146 requires an entity to record a liability for cost associated with an exit or disposal activity when that liability is incurred and can be measured at fair value. Commitment to an exit plan or a plan of disposal expresses only management's intended future actions and does not meet the requirement for recognising a liability and the related expense. An entity is required to disclose information about its exit and disposal activities, the related costs, and changes in those costs in the notes to the interim and annual financial statements that include the period in which an exit or disposal activity is initiated and in any subsequent period until the activity is completed. The Group is required to adopt SFAS No. 146 on 1 January 2003. The provisions of SFAS No. 146 are required to be applied prospectively after the adoption date to newly exit or disposal activities. Therefore, management cannot determine the potential effect that adoption of SFAS No. 146 will have on the Group's consolidated financial statements.

FIN No. 45

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34". This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognise, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after 31 December 2002. The disclosure requirements are effective for financial statements of interim and annual periods ending after 31 December 2002. The Group does not expect the application of this Interpretation will have a material effect on its consolidated financial statements.

FIN No. 46

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51". This Interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. The Interpretation applies immediately to variable interests in variable interest entities created after 31 January 2003, and to variable interests in variable interest entities obtained after 31 January 2003. The Interpretation requires certain disclosures in financial statements issued after 31 January 2003 if it is reasonably possible that the Group will consolidate or disclose information about variable interest entities when the Interpretation becomes effective. The Group does not expect the application of this Interpretation will have a material impact on its consolidated financial statements.

The effect on profit attributable to shareholders of significant differences between IFRS and US GAAP is as follows:

	Reference in note above	Years ended 31 December 2002 US$ millions	2002 RMB millions	2001 RMB millions
Profit attributable to shareholders under IFRS		1,942	16,080	16,025
US GAAP adjustments:				
Foreign exchange gains and losses	(a)	9	76	76
Capitalisation of property, plant and equipment	(b)	1	12	12
Depreciation on revalued property, plant and equipment	(c)	498	4,126	4,196
Disposal of property, plant and equipment	(c)	66	544	232
Reversal of impairment of long-lived assets, net of depreciation effect	(e)	7	59	59
Employee reduction expenses	(f)	—	—	(2,885)
Capitalised interest on investments in associates	(g)	13	110	70
Goodwill amortisation for the year	(h)	1	6	—
Cumulative effect of adopting SFAS No. 142	(h)	1	11	—
Deferred tax effect of US GAAP adjustments		(182)	(1,509)	(470)
Profit attributable to shareholders under US GAAP		**2,356**	**19,515**	**17,315**
Basic and diluted earnings per share under US GAAP		**US$ 0.03**	**RMB 0.23**	**RMB 0.20**
Basic and diluted earnings per ADS under US GAAP*		**US$ 2.72**	**RMB 22.51**	**RMB 20.33**

In accordance with SFAS No. 142's disclosures requirements, a reconciliation of reported net income under US GAAP to adjusted net income under US GAAP is presented below:

	Years ended 31 December 2002 US$ millions	2002 RMB millions	2001 RMB millions
Net income under US GAAP	2,356	19,515	17,315
Add: Goodwill amortisation	—	—	8
Less: Amortisation of negative goodwill	—	—	(2)
Adjusted net income under US GAAP	**2,356**	**19,515**	**17,321**
Basic and diluted earnings per share under US GAAP	**US$ 0.03**	**RMB 0.23**	**RMB 0.20**
Basic and diluted earnings per ADS under US GAAP*	**US$ 2.72**	**RMB 22.51**	**RMB 20.33**
Adjusted income before cumulative effect of a change in accounting principle	**2,355**	**19,504**	**17,321**

* Basic and diluted earnings per ADS is calculated on the basis that one ADS is equivalent to 100 shares.

The effect on shareholders' funds of significant differences between IFRS and US GAAP is as follows:

	Reference in note above	At 31 December 2002 US$ millions	2002 RMB millions	2001 RMB millions
Shareholders' funds under IFRS		18,658	154,485	147,669
US GAAP adjustments:				
Foreign exchange gains and losses	(a)	(52)	(428)	(504)
Capitalisation of property, plant and equipment	(b)	(3)	(24)	(36)
Revaluation of property, plant and equipment	(c)	(2,213)	(18,327)	(23,837)
Deferred tax adjustments on revaluation	(c)	680	5,628	7,309
Exchange of assets	(d)	(70)	(578)	—
Reversal of impairment of long-lived assets	(e)	(73)	(608)	(667)
Capitalised interest on investments in associates	(g)	22	180	70
Goodwill	(h)	2	17	—
Deferred tax effect of US GAAP adjustments		58	484	367
Shareholders' funds under US GAAP		**17,009**	**140,829**	**130,371**

(E) SUPPLEMENTAL INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES (UNAUDITED)

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 at 31 December 2001 and 2002, 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 capitalised costs related to oil and gas producing activities; costs incurred in exploration and development; and results of operations related to oil and gas producing activities. Tables IV through VI present information on the Group's estimated net proved reserve quantities; standardised measure of discounted future net cash flows; and changes in the standardised measure of discounted future net cash flows.

Table I: Capitalised costs related to oil and gas producing activities

	2002 RMB millions	2001 RMB millions
Property cost	—	—
Wells and related equipment and facilities	125,790	109,977
Supporting equipment and facilities	10,809	11,047
Uncompleted wells, equipment and facilities	4,526	3,163
Total capitalised costs	**141,125**	**124,187**
Accumulated depreciation, depletion, amortisation and impairment allowances	(62,397)	(56,069)
Net capitalised costs	**78,728**	**68,118**

Table II: Cost incurred in exploration and development

	2002 RMB millions	2001 RMB millions
Exploration	5,798	5,666
Development	18,793	18,385
Total cost incurred	24,591	24,051

Table III: Results of operations for oil and gas producing activities

	2002 RMB millions	2001 RMB millions
Revenues		
Sales	8,687	8,780
Transfers	39,407	43,269
	48,094	**52,049**
Production costs excluding taxes	(15,174)	(15,084)
Exploration expenses	(4,363)	(3,775)
Depreciation, depletion, amortisation and impairment provisions	(8,133)	(7,126)
Taxes other than income tax	(860)	(875)
Income before income tax	**19,564**	**25,189**
Income tax expense	(6,456)	(8,312)
Results of operations from producing activities	**13,108**	**16,877**

The results of operations for producing activities for the years ended 31 December 2001 and 2002 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 31 December 2001 and 2002 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.

"Net" reserves exclude royalties and interests owned by others and reflect contractual arrangements in effect at the time of the estimate.

	2002	2001
Proved developed and undeveloped reserves (oil) (million barrels)		
Beginning of year	3,215	3,168
Revisions of previous estimates	119	(23)
Improved recovery	126	125
Extensions and discoveries	130	214
Production	(270)	(269)
End of year	**3,320**	**3,215**
Proved developed reserves		
Beginning of year	**2,444**	**2,490**
End of year	**2,732**	**2,444**
Proved developed and undeveloped reserves (gas) (billion cubic feet)		
Beginning of year	3,488	3,342
Revisions of previous estimates	(133)	(429)
Extensions and discoveries	153	738
Production	(179)	(163)
End of year	**3,329**	**3,488**
Proved developed reserves		
Beginning of year	**1,183**	**1,164**
End of year	**1,056**	**1,183**

Table V: Standardised measure of discounted future net cash flows

The standardised 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.

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 31 December 2001 and 2002 and should not be relied upon as an indication of the Group's future cash flows or value of its oil and gas reserves.

	2002 RMB millions	2001 RMB millions
Future cash flows	760,468	534,433
Future production costs	(287,887)	(224,487)
Future development costs	(26,852)	(25,221)
Future income tax expenses	(126,440)	(74,698)
Undiscounted future net cash flows	**319,289**	**210,027**
10% annual discount for estimated timing of cash flows	(142,450)	(91,274)
Standardised measure of discounted future net cash flows	**176,839**	**118,753**

Table VI: Changes in the standardised measure of discounted future net cash flows

	2002 RMB millions	2001 RMB millions
Sales and transfers of oil and gas produced, net of production costs	(26,740)	(52,294)
Net changes in prices and production costs	63,625	(162,554)
Net change due to extensions, discoveries and improved recoveries	23,319	22,859
Revisions of previous quantity estimates	8,253	(3,729)
Previously estimated development costs incurred during the year	6,935	7,349
Accretion of discount	10,323	19,259
Net change in income taxes	(27,793)	56,131
Others	164	2,535
Net change for the year	**58,086**	**(110,444)**

STATUTORY NAME
中国石油化工股份有限公司

ENGLISH NAME
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CHINESE ABBREVIATION
中国石化

ENGLISH ABBREVIATION
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PRINCIPAL BANKERS
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410 Fuchengmenwai Street
Xicheng District
Beijing, PRC

Industrial and Commercial Bank of China
55 Fuxingmennei Avenue
Xicheng District
Beijing, PRC

China Construction Bank
25 Finance Street
Xicheng District
Beijing, PRC

China Development Bank
29 Fuchengmenwai Street
Xicheng District
Beijing, PRC

REGISTRARS

H Shares:

Hong Kong Registrars Limited
Shops 1712 to 1716
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

A Shares:

China Securities Registration and Clearing Company Limited Shanghai Branch Company
72 Pu Jian Road
Pudong District
Shanghai, PRC

DEPOSITARY FOR ADR

Citibank, N.A.
111 Wall Street
New York NY 10005
United States of America

COPIES OF THIS ANNUAL REPORT ARE AVAILABLE AT:

The PRC

China Petroleum & Chemical Corporation
Board Secretariat
6A Huixindong Street
Chaoyang District
Beijing
PRC

The US

Citibank, N.A.
111 Wall Street
New York NY10005
United States of America

The UK

Citibank, N.A.
Cottons Centre
Hays Lane
London SE1 2QT, U.K.

PLACES OF LISTING OF SHARES, STOCK NAMES AND STOCK CODES

H Shares:	Hong Kong Stock Exchange Stock name: Sinopec Corp Stock code: 0386
ADSs:	New York Stock Exchange Stock name: SINOPEC CORP Stock code: SNP
	London Stock Exchange Stock name: SINOPEC CORP Stock code: SNP
A Shares:	Shanghai Stock Exchange Stock name: Sinopec Corp Stock code: 600028

FIRST REGISTRATION DATE OF INCORPORATION

25 February 2000

FIRST REGISTRATION PLACE OF INCORPORATION

6A Huixindong Street, Chaoyang District, Beijing, PRC

ENTERPRISE LEGAL BUSINESSES LICENSE REGISTRATION NO.

1000001003298 (10-10)

TAXATION REGISTRATION NO.

Jing Guo Shui Chao Zi 110105710926094

NAMES AND ADDRESSES OF AUDITORS OF SINOPEC CORP.

Domestic Auditors	:	KPMG Huazhen Certified Public Accountants
Address	:	Level 16, China World Tower 2 China World Trade Centre No. 1, Jian Guo Men Wai Avenue Beijing 100004, PRC
International Auditors	:	KPMG Certified Public Accountants
Address	:	8th Floor, Prince's Building Central, Hong Kong

DOCUMENTS FOR INSPECTION

The following documents will be available for inspection during normal business hours after 28 March 2003 (Friday) at the statutory address of Sinopec Corp. upon requests by the relevant regulatory authorities and shareholders in accordance with the Articles of Association of Sinopec Corp. and the Company Law of the PRC:

a) The original annual report signed by the Chairman of the Board of Directors and the President;

b) The original audited accounts and audited consolidated accounts of Sinopec Corp. prepared in accordance with IFRS and the PRC Accounting Rules and Regulations for the year ended 31 December 2002 signed by the Chairman of the Board of Directors, the President and the Chief Financial Officer;

c) The original auditors' report in respect of the above financial reports signed by the auditors;

d) The latest Articles of Association of Sinopec Corp. which were amended at the Annual General Meeting held on 5 June 2001; and

e) All the original copies of the documents and announcements which Sinopec Corp. published in the newspapers stipulated by the CSRC during the reporting period.

By Order of the Board
Li Yizhong
Chairman

Beijing, PRC, 28 March 2003

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