BUSINESS REVIEW

In the first half of 2002, the PRC economy has continued to maintain rapid growth, with a GDP growth rate of 7.8%. In turn, this led to a stable growth in domestic demand for refined oil and petrochemical products. According to the Company's statistics, the apparent consumption of refined oil products (including gasoline, diesel and kerosene) in China during the first half of this year increased by 2.72% and the apparent consumption of petrochemical products (in terms of ethylene) increased by 14.5% over the same period last year. The Company believes that this is highly conducive to creating a positive market for the Company's business development. However, influenced by the depressed global oil and petrochemical industries, the average prices of crude oil and refined oil products in the first half of 2002 decreased over the same period of last year, and the recovery of the prices of petrochemical products was slow. Moreover, being the first year of China's entry into the World Trade Organization ("WTO"), the implementation of reduction of tariffs and market accession has further affected the prices of refined oil products and petrochemical products in the PRC, which in turn directly affected the Company's profit margin.

Looking back over the first half of 2002, still affected by the adverse market conditions of the previous year, the Company faced serious challenging market conditions during the first quarter of this year. In January and February of this year, domestic prices of crude oil, refined oil products and petrochemical products slipped to a low point; refining margins decreased; prices for refined oil products, especially for wholesale, were far below target prices. All these factors led to a drastic slip in performance of the Company during January and February of 2002. There has been an obvious recovery of the prices of crude oil and refined oil products since March, coupled with a recuperative rebound in prices for petrochemical products, leading to improved market conditions and business operations of the Company. By seizing market opportunities and focusing on market trends, the Company had obtained fairly good operating results in the second quarter of this year having riden through the tough market conditions in the first quarter.

Based on IFRS, the turnover and other operating revenues of the Company for the first half of 2002 was RMB146.197 billion, representing a decrease of 11.8% over the same period last year; and profit attributable to shareholders was RMB5.433 billion (profit attributable to shareholders for the first and second quarter were RMB0.542 billion and RMB4.891 billion, respectively), representing a decrease of RMB4.542 billion over the same period last year. Based on the number of shares of the Company in issue at the end of the reporting period, earnings per share was RMB0.063.

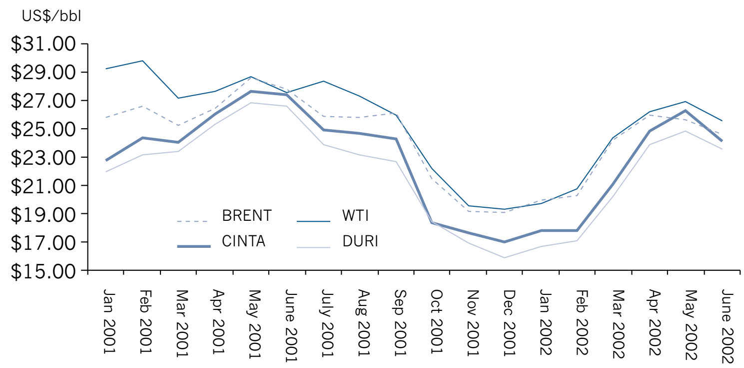
In the first half of 2002, based on the PRC Accounting Rules and Regulations, income from principal operations of the Company was RMB140,628 billion, representing a decrease of over 12.3% over the same period of last year. Net profit was RMB4.504 billion (net profit for the first and second quarter was RMB0.102 billion and RMB4.402 billion, respectively), representing a decrease of RMB4.007 billion over the same period of last year. Based on the number of shares in issue at the end of the reporting period, earnings per share was RMB0.052.

The Board of Directors has decided a distribution of an interim dividend for the first half of 2002 of RMB0.02 per share, which is equivalent to RMB2 per ADS.

1. Production & Operation

(1) Exploration and Production Segment

The international crude oil price in January and February of 2002 was relatively low, but it began to increase from March. However, the average crude oil price for the first half of 2002 was still much lower when compared to that in the same period last year. The Platt's Singapore average spot quote for Brent in the first half of the year was US$23.44 per barrel, representing a decrease of 12.4% over the same period last year. Domestic pricing for crude oil basically followed the price of crude oil in the international market. The average crude oil price realized by the Company during the first half of the year was US$19.96 per barrel, representing a decrease of 17.9% over the same period last year.



Trend of International Crude Price

Following a strategy of "expanding resources", and adhering to the unified principle of "reserves, production and profit", the Company attained good results in its exploration, development and production of crude oil and natural gas during the first half of 2002.

Exploration: Through its exploration activities, the Company has made significant oil and gas discoveries in the western regions of China: Junggar Basin, Tarim Basin and surrounding areas of Tahe oil field, north of the Ordos Basin and west of the Sichuan Basin. The new discoveries in these regions may become an important resource of oil and gas. Further, the Company made rapid progress in its exploration activities in the surrounding areas of Shengli oil field, Zhongyuan oil field and Henan oil field in eastern China. The Company actively pursued Sino-foreign co-operations for the exploration of oil and gas resources at the same time, and have entered into an agreement with Petrochina Company Limited ("Petrochina") in relation to the West-East Gas Pipeline Project. There is also progress to the Company's co-operation with CNOOC Limited and other foreign companies in the exploration for oil and gas in the East China Sea. In the first half of 2002, the Company's newly added probable oil reserves amounted to approximately 120 million tonnes and newly added probable gas reserves reached 35.6 billion cubic metres.

Development: Adhering to the principle of "giving priority to profitability, and prioritizing projects according to their feasibility", the Company selected technically feasible oil and gas reserves, optimised development plans and constructed facilities with high production capacity. In the first half of 2002, the newly added production capacity of oil and gas of the Company amounted to 3.05 million tonnes and 350 million cubic metres respectively.

Production: The Company actively improved the management of its existing oil fields. Relying on technological advancements, increasing the efficiency of production and maintaining a stable production at its existing oil fields, the Company was able to put the new reserves into production in a timely manner. In the first half of 2002, the Company produced 132.43 million barrels of crude oil, representing an increase of 0.53% over the same period last year; and produced 87.8 billion cubic feet of natural gas, representing an increase of 23.5% over the same period last year.

(2) Refining Segment

In the first half of 2002, affected by the international refined oil products market, the refining margins in China in January and February decreased to US$2.12 per barrel, in spite of the relative low price at the end of last year, and the decrease seriously affected the business results of the Company in the refining segment. The prices of refined oil products increased gradually during March, April and May while the prices of refined oil products in June remained at the same level as that in May. Although a remarkable increase was registered in crude oil prices during the same period, the refining margin was maintained at a fairly high level. The refining margin of the Company for the first half of 2002 was US$3.48 per barrel, representing a decrease of 4.9% over the same period last year.

Operating Summary of the Exploration and Production Segment

	First Half 2002 (including Sinopec National Star)	First Half 2001 (including Sinopec National Star)	First Half 2001 (excluding Sinopec National Star)	Change (%)
Crude oil production (mmbbls)	132.43	131.73	123.23	0.53
Natural gas production (bcf)	87.8	71.1	44.4	23.5
Newly added proven crude oil reserves (mmbbls)	178.5	167.9	142.6	6.3
Newly added proven natural gas reserves (bcf)	211.3	296	92	-28.6
Proven crude oil reserves at the end of the reporting period (mmbbls)	3,262	3,215	2,972	1.46
Proven natural gas reserves at the end of the reporting period (bcf)	3,683	3,773	1,047	-2.39

Note: The conversion rate of crude oil is 1 tonne = 7.1 barrels, and the conversion rate of natural gas is 1 cubic metre = 35.31 cubic feet

Based on the market conditions in the first half of 2002, the Company set the throughput of crude oil at an appropriate level, optimized on the allocation of crude oil resources, endeavored to reduce the costs for crude oil, and ensured that different types of crude oil are more adaptable to the varying processing characteristics of different refineries. In addition, the refining segment of the Company actively developed the markets for lubricants, LPG, petroleum coke and asphalt products. The Company promoted the business of processing externally sourced refining feedstock, increased the export of refined oil products and endeavoured to raise the utilization rate. Based on market conditions, the Company actively adjusted its product mix, and increased the production of petrochemical light oil, kerosene and diesel which were in shortage in the domestic market, while reducing the excess supply of gasoline in the domestic market. In the first half of 2002, the production volume of petrochemical light oil, kerosene and diesel increased by 14.41%, 2.65% and 1.18% respectively over the same period last year. While continuing to reduce production costs, the Company improved on all major technological and economic indicators in the refining segment. Light product yield reached 73.11%, representing an increase of 2.53 percentage points over the same period last year. Composite commercial yield reached 92.28%, representing an increase of 0.58 percentage points over the same period last year. The Company made significant progress in the reorganization of its lubricant oil business by establishing a Sinopec lubricant branch company which applied professional management. Relying on scientific and technological advancements and the improvement product quality, the new quality standards for diesel set by the State were met by the Company.

Operating Summary of Refining Segment

	First Half 2002	First Half 2001	Change (%)
Crude processing volume (mbbls/day)	2,070	2,109	-1.9
Of which: Sour crude processing volume (mbbls/day)	378.6	396.7	-4.56
Refinery utilization (%)	79.4	80.4	-1 percentage point
Gasoline, diesel and kerosene production (million tonnes)	30.34	30.53	-0.62
Of which: gasoline (million tonnes)	9.248	9.721	-4.87
diesel (million tonnes)	18.769	18.55	1.18
kerosene (million tonnes)	2.32	2.26	2.65
Petrochemical light oil (million tonnes)	7.62	6.66	14.41
Light product yield (%)	73.11	70.58	2.53 percentage points
Composite commercial yield (%)	92.28	91.70	0.58 percentage points

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

(3) Marketing and Distribution Segment

In the first half of 2002, the domestic demands for refined oil products continued to grow. However, there was an oversupply of refined oil products in the Company's principal market during the first half of 2002, subjecting the Company to fierce market competition. In particular, prices for refined oil products, especially for wholesale, were far below target prices during January and February. From the later half of February, the Company actively cooperated with the PRC government in its efforts in regulating the refined oil products market, and strengthened its co-ordination with other domestic suppliers of refined oil products in China. The Company controlled the throughput of refineries and the distribution of refined oil products in the market. In addition, the Company optimized on the deployment of refined oil products resources and actively developed markets, helping it to significantly improve its performance in the marketing and distribution Segment after March.

The Company focused on increasing its sales volume of refined oil products, especially in retail sales volume and direct distribution during the first half of 2002. This has led to the improvement in the product mix in sales volume. The retail sales volume and direct distribution volume taken as a percentage of the Company's total domestic sales volume of refined oil products has increased from 58.5% in the same period of last year to 67.6%. The Company's retail market share in the prinicipal market has increased from 63% for the first half of last year to 67% in the reporting period. During the first half of 2002, the Company has revamped 216 existing petrol stations and added 194 petrol stations. The Company also improved and developed its retail sales network, and terminated franchise contracts with certain petrol stations which failed to meet the requirements of the Company.

Operating Summary of the Marketing and Distribution Segment:

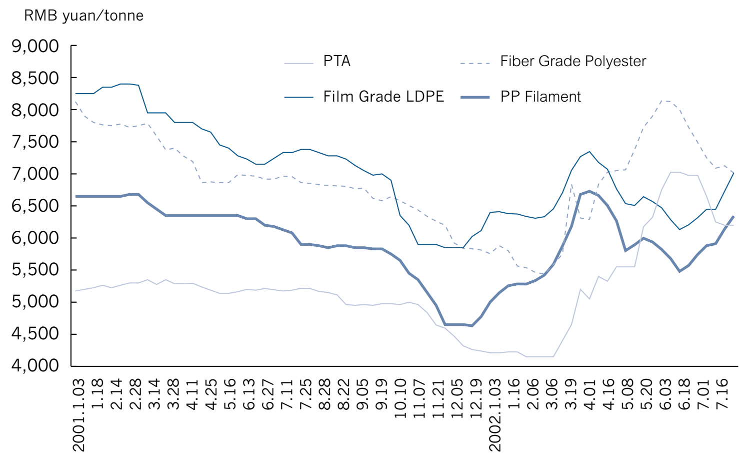
	First Half 2002	First Half 2001	Change (%)
Total domestic sales of refined oil products (thousand tonnes)	34,070	33,670	1.19
Of which: Retail sales of refined oil products (thousand tonnes)	16,860	14,230	18.48
Wholesale of refined oil products (thousand tonnes)	11,030	13,960	-20.99
Direct distribution volume of refined oil products (thousand tonnes)	6,180	5,480	12.77
Average annual throughput per petrol station (tonne/station)	1,506	1,394	8.03
Percentage of retail volume to total sales volume (%)	49.5	42.3	7.2 percentage points
Total number of petrol stations	27,489	27,749	-0.94
Of which: number of self-operated petrol stations	24,256	23,565	2.93
number of franchised petrol stations	3,233	4,184	-22.73

(4) Chemical Segment

Benefiting from the continued growth of the PRC economy, domestic consumption of chemical products has maintained strong growth in the first half of 2002. The apparent domestic consumption of synthetic resin, synthetic rubber, synthetic fiber and monomers/polymers for synthetic fiber was 12.1 million tonnes, 0.69 million tonnes, 4.99 million tonnes, and 9.26 million tonnes respectively, representing increases of 12.4%, 13.1%, 19.4% and 19.3% respectively compared with the first half of last year. The chemical market in China is a market with enormous potential growth. As the largest producer of chemical products in China, Sinopec Corp. is well placed for further market expansion.

Affected by the low prices of chemical products in the international market, domestic of chemical products remained relatively low in the first half of 2002. The international crude oil price started to increase at the end of February, leading to the increase of prices of ethylene, propylene and other major chemical products. At the same time, the downstream petrochemical processing industries entered into a busy season, leading to increasing demands, resulting in a marked increase of prices of petrochemical products in the PRC. The prices of petrochemical products continued to increase during March and April. However, the recovery of the prices of certain chemical prodducts slowed down and experienced downturn during May and June. The average prices of synthetic resin, synthetic rubber, synthetic fiber and monomers/polymers for synthetic fiber for the first half of 2002 decreased by 15.2%, 5.5%, 12.8% and 11.6% respectively against the same period of last year.

In the first half of 2002, the Company further optimized the allocation of resources and has lifted its self-sufficiency rate of petrochemical light oil and the yield of ethylene. The majority of the Company's chemical production facilities were running at full-load except for those at planned revamping. The production of all major chemical products have increased considerably. The production volumes for synthetic resin, synthetic fiber and synthetic rubber have increased by 9.55%, 15.23% and 7.92% respectively over the same period last year. There were new developments in the adjustment of product mix, with increase in sales in the proportion of high value added products. The Company's production of performance compound for synthetic resin for the first half of the year was 869.7 thousand tonnes, up 27.71% over the same period last year, 53.54% of which were attributable to performance compound resins. The Company's production of differential fiber was 191.2 thousand tonnes, up 17.73% over the same period last year, of which 33.65% was attributable to differential fiber. The Company actively promoted market expansion, increasing the sales to production ratio, enabling the sales to production ratio for the Company's key petrochemical products to reach 99.6%, and the direct sales ratio accounting for 58%. In addition, the Company continued to actively promote the e-commerce of its chemical products. The sales of chemicals through e-commerce reached RMB8.21 billion, representing an increase of 10.9% over the same period last year. The Company believes this will help to consolidate its market share and increase the percentage of its direct sales.



Trend of Prices of Petrochemical Products in China

Production of Major Chemicals:

	2002 First Half (thousand tonnes)	2001 First Half (thousand tonnes)	Change (%)
Ethylene	1,245	1,146	8.64
Synthetic resin	1,838	1,677.7	9.55
Of which: Performance compound resins	869.7	681	27.71
Synthetic fiber	568.2	493.1	15.23
Of which: differential fiber	191.2	162.4	17.73
Monomer and polymers for synthetic fiber	1,895.3	1,843.5	2.81
Synthetic rubber	216.6	200.7	7.92
Urea	1,551.1	1,176.4	31.85

2. **Cost-saving**

   In the first half of 2002, the Company has made serious efforts in carrying out its cost saving plan. On the basis of the reduction of major purchasing costs as of crude oil and others, attention was drawn to decreasing material consumption and energy consumption and optimizing allocation of resources and logistics. As such, the result in reducing costs was remarkable and the Company has effectively saved costs by RMB1.259 billion in the first half of 2002, accounting for 50.36% of the RMB2.5 billion cost saving target for the full year. Of which, RMB287 million was saved by the exploration and production segment, RMB399 million by the refining segment, RMB331 million by the marketing and distribution segment, and RMB242 million by the chemical segment.

3. **Capital expenditure**

   In accordance with the Company's investment policy of "controlling total volume, centralizing decision making process, adjusting structure, optimizing projects and increasing the return", actual capital expenditures of the Company during the first half of 2002 were RMB19.911 billion, accounting for 57.71% of the planned capital expenditure of RMB34.5 billion for the whole year. A number of major projects proceeded smoothly. From a divisional analysis of the investments, the exploration and production segment, the refining segment, the marketing and distribution segment and the chemical segment utilized 47.7%, 13.4%, 17.5% and 20.2% respectively of the total capital expenditures incurred in the first half of 2002.

   The planned capital expenditure for the exploration and production segment for the year 2002 is RMB16.475 billion, and the actual capital expenditures in this sector for the first half of 2002 were RMB9.502 billion, accounting for 57.68% of the planned total capital expenditure for the year. With the investment, the Company discovered probable oil reserves of approximately 120 million tonnes and probable gas reserves of approximately 35.6 billion cubic metres, and the newly added production capacity of oil and gas of the Company reached 3.05 million tonnes and 350 million cubic metres respectively.

   The planned capital expenditure for the refining segment for the year 2002 is RMB4.884 billion, and the actual capital expenditures in this sector for the first half of 2002 were RMB2.66 billion, utilizing 54.46% of the planned total capital expenditure for the year. Such capital expenditures were invested in the following projects: constructing facilities for processing sour crude in Zhenhai Refining & Chemical Corp. ("Zhenhai Refinery"), constructing facilities for processing sour crude oil for Shanghai Petrochemical Corp. ("Shanghai Petrochemical"), the revamping of the oil refining facilities of Shanghai Gaoqiao Company, and other projects in certain refineries for improving the quality of refined oil products. As a result of the above investments, the hydrogenation processing capacities for producing kerosene and diesel of the refining enterprises have increased, and the quality of gasoline satisfied the higher quality standards to be introduced by the State in 2003. In addition, the refineries were more flexible in their production, and more adaptable to changes of different types of crude oil, which will further enhance the competitiveness of the Company.

   The planned capital expenditure for the marketing and distribution segment for the year 2002 is RMB4.533 billion, and the actual capital expenditures in this sector for the first half of 2002 were RMB3.477 billion, accounting for 76.7% of the planned total capital expenditure for the year. The capital expenditure was for the renovation of 216 existing petrol stations and the newly added of 194 petrol stations.

   The planned capital expenditure for the chemical segment for the year 2002 is RMB8.272 billion, and the actual capital expenditures in this sector for the first half of 2002 were RMB4.016 billion, representing a 48.55% of the planned total capital expenditure for the year. Such capital expenditure was mainly invested in the following projects: the second round revamping of the ethylene facilities in Shanghai Petrochemical and in Yangzi Petrochemical Corp. (Yangzi Petrochemical), and a 450,000 tonnes PTA project based in Yizheng. 400,000 tonnes of PX project based in Zhenhai Refinery, of which the investment in the second round revamping of the ethylene facilities in Shanghai Petrochemical has been completed and put into production.

BUSINESS PROSPECTS

1. **Market Analysis**
In the first half of 2002, prices of crude oil, refined oil products and major chemical products in the global market all rose up to different extents. At present, the prices of crude oil and refined oil products remain high, while the chemical industry slowly rebounded from cyclical trough. Looking into the future, the Company believes that in the second half of 2002, the market conditions in China conditions and the general trend of the industry will feature the following:

- The global economy is still uncertain. However, China's economy will maintain a steady, fast and healthy growing momentum, which will create more demands for petrochemical products in China and a positive market environment for the operation of the Company;
- According to the analysis of the global demand-supply of crude oil, it is expected that the price of crude oil in the global market will remain at a relatively high level in the second half of 2002;
- It is estimated that the price of refined oil products in the global market will be moving in line with the price of crude oil. At present, the price of refined oil product in the global market fluctuates slightly, and the Company expects to maintain a relatively stable refining margin at the current level, which is expected to be kept relatively stable;
- The PRC government's great efforts in regulating the market order for refined oil products and the operation of petrol stations will achieve positive effects, and it is predicted that the market conditions for refined oil products will further improve;
- As the cycle for chemical products gradually rebounds, it is expected that the prices of chemical products will climb up gradually;
- After China's entry into the WTO, tariff reductions and market accession have speeded up the internationalisation globalisation of China's petrochemical industry. The Company believes that it will face more competitions from its international peers.

2. **Production and Business Operations**
Based on the market analysis, the Company plans to adopt the following operating strategies in the second half of this year.

(1) Exploration and Production Segment
The Company will focus on the exploration in Junggar basin, Tarim basin and other areas in western China with a view for substantial breakthrough. At the same time the Company will continue to explore for the concealed and faulted block oil reserves in eastern China through rolling exploration measures to ensure a replacement rate over 100%. The Company will also initiate the exploration in South China Marine Phase so as to lay a firm foundation for the substitution of resources. The Company will continue to strengthen the development of the national gas market, actively participate in the West-East Gas Pipeline Project and make progress on gas development projects in the gas field of East China sea and western Sichuan province.

The Company will seize favorable market opportunities to increase the yield of oil fields through advanced technology, remain the production in existing oil fields, strengthen the management of the natural gas production and business operations and increase the commercial yield of natural gas. The Company will also further improve its management and reduce production costs of oil and gas. It plans to produce 19.15 million tonnes of crude oil and 2.5 billion cubic metres of natural gas in the second half of this year, representing an increase of 1.59% and 0.57% over that of the first half of 2002 respectively.

(2) Refining Segment

The Company plans to closely monitor and analyze the changes of, and opportunities arising in, the international crude oil market, adopt flexible means to lower the purchasing costs for crude oil. The Company will continue to adjust its product mix, increase the production of chemical light oil products, meet the demand of the expansion capability of ethylene plants, and promote the sales of gasoline of higher grades, as well as increase production of those products with high added value. The Company will, on the basis of the market situation, process externally sourced refining feedstock and increase exports, with the aim to lift the utilization rate as high as possible. The Company will also carry out in-depth processing measures aiming at increasing light yield and composite commercial yield. The Company intends to start the construction of the Ningbo-Shanghai-Nanjing crude oil storage and transportation project. In addition, the Company will strive to promote the sales of lubricant, LPG, petroleum coke, asphalt and etc, so as to increase its market share. In the second half of 2002, the Company plans to process 53.10 million tonnes of crude oil, representing an increase of 4.24% over that of the first half of this year.

(3) Marketing Segment

The Company will continue to coordinate with the PRC government to regulate the refined oil product market, to reinforce our cooperation and relationship with other refined oil products suppliers in China, and make efforts to increase its market shares so as to achieve normal market order and stablize product prices. The Company plans to further improve sales mix, continuously increase the retail and direct distribution volume. With a view to develop and improve our retail sales networks, the Company will take the expansion of highway gas stations, water ways and rural marketing networks as major drivers of our sales growth, with constant efforts in optimization of the resources and management of existing gas stations in order to further promote the sales volume recorded by each single gas station. The Company will carry forward its cooperation with Shell, bp & Exxon Mobil in terms of retail sales business. For the second half of 2002, the Company plans to sell 35 million tonnes of refined oil products in China, including 17.5 million tonnes of retail and 6.6 million tonnes of direct distribution sales, representing an increase of 2.73%, 3.8% and 6.80% respectively over that of the first half of this year.

(4) Chemical Segment

While seizing market opportunities, the Company plans to continue to maintain the production of major chemical facilities at full utilization. The Company will effectively promote the second round revamping of the ethylene renovation project in Yangzi Petrochemical to place the project in operation as soon as possible. The Company will enhance the combination of production, science & technology and sales, make efforts to produce products which are popular in the market, increase the proportion of direct sales, and increase the Company's market share. The Company will take advantage of its easy access to the market, and try to obtain a sales to production ratio at 100%. The Company is to speed up the construction of a large ethylene project in Nanjing through cooperation with BASF Co., and another similar project in Shanghai through cooperation with bp. In the second half of 2002, the Company plans to produce 1.335 million tonnes of ethylene, representing an increase of 7.23% over that of the first half of 2002, and accordingly to increase the production of the three major synthetic materials.

In the second half of 2002, the Company will seize market opportunities, adhere to the corporate strategy of "expanding resources, expanding markets, cost-saving, and disciplined investments", so as to concentrate our strengths to increase the Company's market share, to improve efficiency and to maximize both corporate profits and investment returns to shareholders.