

MANAGEMENT'S DISCUSSION AND ANALYSIS

THE FOLLOWING DISCUSSION AND ANALYSIS SHOULD BE READ IN CONJUNCTION WITH THE COMPANY'S AUDITED ACCOUNTS AND THE ACCOMPANYING NOTES. THE FINANCIAL INFORMATION PRESENTED IN THIS SECTION IS DERIVED FROM THE COMPANY'S AUDITED ACCOUNTS THAT HAVE BEEN PREPARED IN ACCORDANCE WITH IFRS. THE RESULTS OF OPERATIONS AND FINANCIAL INFORMATION PRESENTED HEREUNDER INCLUDE THOSE OF SINOPEC NATIONAL STAR.

1. CONSOLIDATED RESULTS OF OPERATIONS

In the first half of 2002, the Company's turnover and other operating revenues, operating profit and profit attributable to shareholders were RMB146.2 billion, RMB10.7 billion and RMB5.4 billion, respectively, down by 11.8%, 35.2% and 46%, respectively, from those in the first half of 2001. The decline was primarily due to the negative influences from international crude oil markets. In January and February, prices of domestic crude oil, petroleum products and chemicals slipped to a low point, refining margins decreased, and the prices of

petroleum products and especially the wholesale were below target prices. Since March 2002, the market condition as well as the Company's operating profit have gradually improved. In the first quarter of 2002, the Company's operating profit was RMB1.6 billion, and in the second quarter of 2002, the Company's operating profit increased to RMB9.1 billion, accounting for 85% of the RMB10.7 billion operating profit for the first half of 2002.

1.1 Turnover and other operating revenues

In the first half of 2002, the Company's turnover and other

operating revenues were RMB146.2 billion, down by 11.8% from those in the first half of 2001. The Company's turnover and other operating revenues in the first quarter of 2002 were RMB66 billion, and those in the second quarter were RMB80.2 billion. In the first half of 2002, the Company's turnover was RMB140.6 billion, down by 12.3% from that in the first half of 2001. The decline was largely due to the lower prices of crude oil, petroleum products and chemicals in the first half of 2002 compared to those in the first half of 2001.

The table below shows the main items in the consolidated income statement for the indicated periods of the Company.

	Six-month periods ended		Percentage Change from 2001 to 2002 (%)
	2002 (RMB billions)	30 June 2001	
Turnover and other operating revenues	146.2	165.8	(11.8)
Turnover	140.6	160.3	(12.3)
Other operating revenues	5.6	5.5	1.8
Operating expenses	(135.5)	(149.3)	(9.2)
Purchased crude oil, products and operating supplies and expenses	(100.6)	(115.4)	(12.8)
Selling, general and administrative expenses	(9.8)	(8.3)	18.1
Depreciation, depletion and amortization	(11.3)	(10.4)	8.7
Exploration expenses (including dry holes)	(1.9)	(1.9)	0.0
Personnel expenses	(5.9)	(5.8)	1.7
Employee reduction expenses	0	(1.3)	(100.0)
Taxes other than income tax	(5.8)	(5.9)	(1.7)
Other operating expenses, net	(0.2)	(0.3)	(33.3)
Operating profit	10.7	16.5	(35.2)
Net finance costs	(2.3)	(2.1)	9.5
Investment income and share of profits less losses from associates and jointly controlled entities	0.1	0.3	(66.7)
Profit from ordinary activities before taxation	8.5	14.7	(42.2)
Taxation	(2.6)	(4.1)	(36.6)
Profit from ordinary activities after taxation	5.9	10.6	(44.3)
Minority interests	(0.5)	(0.6)	(16.7)
Profit attributable to shareholders	5.4	10.0	(46.0)

Sales of crude oil and natural gas

The Company produces crude oil principally to supply its refining and chemical operations. Natural gas and a relatively small portion of the Company's crude oil production are sold to the refineries owned by Sinopec Group Company and third party customers. In the first half of 2002, the Company's revenues from the external sales of crude oil and natural gas were RMB5.2 billion, accounting for approximately 3.6% of the Company's turnover and other operating revenues and down by 8.8% compared to the first half of 2001. The decline was largely due to the decrease in crude oil price and volume of crude oil sold externally, which was partially offset by the increased sales volume of natural gas. The realized crude oil price was RMB1,097.12 per tonne (approximately US\$18.66 per barrel) in the first half of 2002, down by 13.5% from that in the first half of 2001. The sales volume of crude oil in the first half of 2002 dropped by 6.4% from that in the first half of 2001 to 3,224 thousand tonnes. The sales volume of natural gas was up by 11.4% from that in the first half of 2001 to 1.563 billion cubic metres in the first half of 2002.

Sales of petroleum products

Both the refining and the marketing and distribution segments of the Company make external sales of petroleum products, which consist primarily of gasoline, diesel, kerosene and jet fuel and other refined products. In the first half of 2002, the revenues from sales of petroleum products by these two segments reached RMB103.1 billion, accounting for approximately 70.5% in the Company's turnover and other operating revenues and down by 14.5% from that in the first half of 2001.

In the first half of 2002, revenues from sales of gasoline and diesel were RMB75 billion, accounting for 72.7% of the Company's revenues from sales of refined petroleum products and down by 15.5% from that in the first half of 2001. Among which, the revenues from gasoline sales were RMB28.7 billion in the first half of 2002, down by 16.3% from that in the first half of 2001; the revenues from diesel sales were RMB46.3 billion in the first half of 2002, down by 15% from that in the first half of 2001. The Company's revenues from sales of other refined petroleum products (including kerosene, LPG, chemicals feedstock, and lubricating oils etc.) were RMB28.1 billion, accounting for 27.3% of the Company's total revenues from sales of refined petroleum products and down by 11.6% from that in the first half of 2001. The decline of revenues from sales of gasoline, diesel oil and other refined petroleum products was largely due to their lower realized prices in the first half of 2002.

Sales of chemical products

In the first half of 2002, the revenues from sales of chemical products were RMB24.8 billion, accounting for 17% in the Company's turnover and other operating revenues and down by 4.9% from that in the first half of 2001. The decline was primarily due to lower realized prices of the chemical products other than fertilizers. While some of our chemical facilities have been revamped resulting in increased production and the external sales volume of chemicals products increased by different extents, the realized prices of synthetic fiber monomers and polymers, synthetic resins, synthetic fiber and synthetic rubbers dropped by 11.6%, 15.2%, 12.8% and 5.5%, respectively, from those in the first half of 2001. Realized price of fertilizers was up by 13.6% from that in the first half of 2001.

1.2 Operating expenses

In the first half of 2002, the operating expenses of the Company were RMB135.5 billion, down by 9.2% from that in the first half of 2001. The changes of operating expenses were mainly lies in:

Purchased crude oil, products and operating supplies and expenses

In the first half of 2002, the purchased crude oil, products and operating supplies and expenses were RMB100.6 billion, accounting for 74.2% of the operating expenses and down by 12.8% from that in the first half of 2001. Among which, the purchased crude oil expense was RMB51.4 billion, down by 19.1% from that in the first half of 2001. The decline was largely due to: (1) the Company's throughout of crude oil purchased through outsourcing dropped to 36.11 million tonnes, down by 2.2% from that in the first half of 2001; (2) the lower crude oil prices in the international market brought down the average prices of crude oil purchased by the Company externally. Average price of crude oil purchased by the Company externally fell to RMB1,424.73 per tonne (approximately US\$23.57 per barrel) in the first half of 2002, down by 17.2% from that in the first half of 2001.

In the first half of 2002, the Company's purchasing expense of other raw materials and operating supplies and expenses were RMB49.2 billion, down by 5% from that in the first half of 2001. The decline was largely due to the decrease of the Company's purchasing expenses of gasoline, diesel and chemical feedstock as well as ancillary materials.

Selling, general and administrative expenses

The Company's selling, general and administrative expenses were RMB9.8 billion, up by 18.1% from that in the first half of 2001. Such an increase was largely due to: (1) compared to the first half of 2002, the Company in the first half of 2001 had more reversal of allowance for doubtful accounts as a result of certain collections of debt in arrears and more reversal of provision for diminution in value of inventories; and (2) in the first half of 2002, the Company increased the sales volume of refined products and market shares, and the proportion of its retail sales of refined products compared to that in the first half of 2001 which in turn led to an increase of the relevant operating expenses accordingly.

Depreciation, depletion and amortization

The depreciation, depletion and amortization expenses of the Company were RMB11.3 billion, up by 8.7% from that in the first half of 2001. The increase was largely due to the increased property, plants, equipment and other petroleum and natural gas assets formed as a result of capital expenditure made by the Company.

Personnel expenses

In the first half of 2002, the personnel expenses of the Company were RMB5.9 billion, up by 1.7% from that in the first half of 2001. The Company's cost saving achieved by reduction of 68,000 employees in 2001 was offset by the following factors: (1) the Company changed its performance bonus review method from its former "year-end overall

review" to a new "regular reviews plus year-end review". As a result, in the first half of 2002, the Company's reserves for year-end payment for wages accounted for a lower proportion of the total amount of wages in 2002 compared to that in the first half of 2001, which is accompanied by an increase of personnel expenses by RMB550 million in the first half of 2002; and (2) certain branches and subsidiaries of the Company have accrued employee bonuses in the amount of approximately RMB250 million.

1.3 Operating profit

In the first half of 2002, the operating profit of the Company was RMB10.7 billion, down by 35.2% from that in the first half of 2001.

1.4 Net finance costs

In the first half of 2002, the Company's net finance costs were RMB2.3 billion, up by 9.5% from that in the first half of 2001. Among others, reduction of loan amounts and lower interests led to a decrease in interest expense of RMB700 million; reduction in the time deposits led to a decrease of interest income of RMB600 million; and as a result of Japanese Yen's appreciation, the net foreign exchange loss increased by approximately RMB400 million.

1.5 Profit attributable to shareholders

In the first half of 2002, the profit attributable to shareholders were RMB5.4 billion, down by 46% from that in the first half of 2001.

2. DISCUSSION OF SEGMENT OPERATIONS

The Company divides its operations into four business segments, namely, exploration and production segment, refining segment, marketing and distribution segment and chemicals segment, and corporate and others. 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.

	Six-month periods ended 30 June		As a percentage of the consolidated operating revenues before elimination of inter-segment sales		As a percentage of the consolidated operating revenues after elimination of inter-segment sales	
	2002 (RMB billions)	2001	2002 (%)	2001	2002 (%)	2001
Exploration and Production						
External sales ⁽¹⁾	7.6	8.2	3.2	2.9	5.2	4.9
Inter-segment sales	17.2	21.7	7.1	7.8		
Operating revenues	24.8	29.9	10.3	10.7		
Refining						
External sales ⁽¹⁾	23.0	27.7	9.6	10.0	15.7	16.7
Inter-segment sales	69.5	81.6	28.9	29.3		
Operating revenues	92.5	109.3	38.5	39.3		
Marketing and Distribution						
External sales ⁽¹⁾	81.1	93.9	33.7	33.7	55.5	56.6
Inter-segment sales	1.3	1.4	0.6	0.5		
Operating revenues	82.4	95.3	34.3	34.2		
Chemicals						
External sales ⁽¹⁾	26.7	27.7	11.1	10.0	18.3	16.7
Inter-segment sales	2.8	2.9	1.2	1.0		
Operating revenues	29.5	30.6	12.3	11.0		
Corporate and others						
External sales ⁽¹⁾	7.8	8.3	3.2	3.0	5.3	5.0
Inter-segment sales	3.5	4.9	1.5	1.7		
Operating revenues	11.3	13.2	4.7	4.7		
Operating revenues before elimination of inter-segment sales	240.5	278.3	100.0	100.0		
Elimination of inter-segment sales	94.3	112.5				
Consolidated operating revenues	146.2	165.8			100.0	100.0

Note: (1) inclusive of 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.

	Six-month periods ended 30 June		Percentage change from 1st half of 2001 to 1st half of 2002 (%)
	2002 (RMB billions)	2001	
Exploration and Production			
Operating revenues	24.8	29.9	(17.1)
Operating expenses	18.2	17.7	2.8
Operating profit	6.6	12.2	(45.9)
Refining			
Operating revenues	92.5	109.3	(15.4)
Operating expenses	90.9	106.5	(14.6)
Operating profit	1.6	2.8	(42.9)
Marketing and Distribution			
Operating revenues	82.4	95.3	(13.5)
Operating expenses	79.1	94.3	(16.1)
Operating profit	3.3	1.0	230.0
Chemicals			
Operating revenues	29.5	30.6	(3.6)
Operating expenses	30.0	30.4	(1.3)
Operating profit	(0.5)	0.2	(350.0)
Corporate and others			
Operating revenues	11.3	13.2	(14.4)
Operating expenses	11.6	12.8	(9.4)
Operating profit	(0.3)	0.4	(175.0)

2.1 Exploration and Production Segment

(1) *Operating revenues:* The exploration and productions segment produces crude oil principally to supply the Company's refining and chemical operations. Natural gas and a relatively small portion of the Company's crude oil production are sold to the refineries owned by Sinopec Group Company and third party customers. In the first half of 2002, the operating revenues of the exploration and production segment were RMB24.8 billion, down by 17.1% compared to that in the first half of 2001. Among which, this segment's operating revenues in the first quarter of 2002 were RMB11 billion, and that in the second quarter of 2002 were RMB13.8 billion. This is mainly due to the depressed crude oil price in the international market in the first half of 2002 (especially

in January and February 2002), which caused the realized sales price of crude oil by this segment, to decline accordingly.

(2) *Sales of crude oil and natural gas:* In the first half of 2002, this segment sold 17.79 million tonnes of crude oil, down by 2.1% from that in the first half of 2001. In the first half of 2002, this segment sold 1.622 billion cubic metres of natural gas, up by 7.8% from that in the first half of 2001. The increase of sales volume of natural gas was mainly a result of the increased the natural gas production.

In the first half of 2002, the average realized price of crude oil of the Company was RMB1,173.52 per tonne (approximately US\$19.96 per barrel), down by 17.9% from that in the first half of 2001. In the first half of 2002, the

average realized price of natural gas of the Company was RMB584 per thousand cubic metres, up by 3.4% from that in the first half of 2001.

- (3) *Operating expenses:* In the first half of 2002, the operating expenses of the exploration and production segment were RMB18.2 billion, up by 2.8% from that in the first half of 2001. This increase was principally due to an increase of crude oil and natural gas assets formed as a result of capital expenditure, which resulted in a corresponding increase of depletion. In the first half of 2002, the depreciation, depletion and amortization expenses were RMB4.1 billion, up by 19.2% from that in the first half of 2001.

Compared to the first half of 2001, the first half of 2002 witnessed this segment continually adopted such measures as enhancement of water-injection efficiency to further cut-down operating costs, which brought down the cash operating cost in the production of crude oil and natural gas by 3.1%, from US\$6.19 per barrel in the first half of 2001 to US\$6.0 per barrel in the first half of 2002.

In the first half of 2002, the operating profit of the exploration and production segment was RMB6.6 billion, down by 45.9% from that in the first half of 2001. Of which, the operating profit in the first quarter of 2002 was RMB2 billion, and that in the second quarter was RMB4.6 billion.

2.2 Refining Segment

- (1) *Operating revenues:* The activities of the refining segment include purchasing crude oil from the exploration and production segment and from third parties, processing of crude oil into refined petroleum products, sale of such products to marketing and distribution segment and to domestic and overseas customers. In the first half of 2002, this segment's operating revenues were RMB92.5 billion, down by 15.4% from that in the first half of 2001. This decline was mainly due to lower realized prices of refined petroleum products.

- (2) *Sales of petroleum products:* In the first half of 2002, the refining segment sold 9.07 million tonnes of gasoline (down by 5.9% from that in the first half of 2001) at an average realized price of RMB2,068.42 per tonne (down by 19.4% from that in the first half of 2001), and realized a sales revenues of RMB18.8 billion from sales of gasoline (down by 23.9% from that in the first half of 2001), accounting for approximately 20.3% in the total operating revenues of the refining segment.

In the first half of 2002, the refining segment sold 18.61 million tonnes of diesel (down by 1% from that in the first half of 2001), at an average realized price of RMB1,939.18 per tonne (down by 14.2% from that in the first half of 2001), and realized a sales revenue of RMB36.1 billion (down by 15.1%, from that in the first half of 2001), accounting for approximately 39% in the total operating revenues of the refining segment.

In the first half of 2002, the refining segment sold 11.36 million tonnes of chemical feedstock (up by 5.4% from that in the first half of 2001) at an average realized price of RMB1,788.89 per tonne (down by 12.2% from that in the first half of 2001), and realized a sales revenue of RMB20.3 billion (down by 7.7% from that in the first half of 2001), accounting for approximately 21.9% in the total operating revenues of the segment. The proportion of inter-segment supply of chemical feedstock increased in the first half of 2002.

- (3) *Operating expenses:* In the first half of 2002, the operating expenses of the refining segment were RMB90.9 billion, down by 14.6% from that in the first half of 2001. This was primarily due to the lower crude oil price in the international market. In the first half of 2002, the refining segment processed approximately 50.86 million tonnes of crude oil at an average purchase price of RMB1,382.33 per tonne, and the total purchase expense of crude oil amounted to RMB70.3 billion, accounting for 77.3% of the total operating expenses of the refining segment; whereas in the first half of 2001, the refining segment processed approximately 51.76 million tonnes of crude oil at an average purchase price of RMB1,688.02 per tonne, and the total purchase expense of crude oil amounted to RMB87.4 billion, accounting for 82.1% of the total operating expenses of the refining segment.

In the first half of 2002, the unit cash operating cost of this segment (the operating expenses less purchase expense of crude oil and refining feedstock, depreciation and amortization, taxes other than income tax and other operating expenses, and divided by the volume of crude oil and refining feedstocks

processed) was US\$2.02 per barrel, down by 2.4% from that at US\$2.07 per barrel in the first half of 2001. Such a decrease was largely due to the implementation of cost-cutting measures by the refining segment.

In the first half of 2002, the refining margin (the sales revenues less the purchasing costs of crude oil and refining feedstock as well as the taxes other than income tax and divided by the volume of crude oil and refining feedstocks processed) was approximately US\$3.48 per barrel, decreased by 5.2% from that of US\$3.67 per barrel in the first half of 2001. Such a decline was largely due to the negative influences by the market conditions of the international petroleum and petrochemical industries, which caused the segment's operating revenues to drop significantly from that in the first half of 2001. In particular, the refining margin of the Company operations was even more affected in January and February of 2002 by the adverse market conditions.

In the first half of 2002, the operating profit of the refining segment of the Company was RMB1.6 billion, down by 42.9% from that in the first half of 2001. Of which, the operating loss in the first quarter of 2002 was RMB400 million, and the operating profit in the second quarter was RMB2 billion.

2.3 Marketing and Distribution Segment

- (1) *Operating revenues*: The activities of the marketing and distribution segment include purchase of refined petroleum products from the refining segment and third parties, wholesale of such petroleum products to large customers (including military, railway and other special customers), retail sale of such products through the Company's retail distribution network, and provision of related services. In the first half of 2002, the operating revenues of this segment amounted to RMB82.4 billion, down by 13.5% from that in the first half of 2001. Such a decline was mainly due to lower wholesale and retail prices of gasoline and diesel.
- (2) *Sales of refined products*: The proportions taken up by the retail sales revenue of gasoline and diesel in the segment's operating revenues were further enhanced in the first half of 2002, while the proportion of wholesale sales revenue of gasoline and diesel further decreased. In the first half of 2002, the retail sales revenues of gasoline and diesel accounted for approximately 44.3% of the operating revenues of this segment, up from 37.8% in the first half of 2001. In the first half of 2002, the wholesale revenues of gasoline and diesel accounted for 44.8% of the operating revenues of this segment, down from 51% in the first half of 2001.

In the first half of 2001, the retail volume of gasoline and diesel accounted for 45.1% of the total sales volume of gasoline and diesel, up from 39.4% in the first half of 2001, while the wholesale volume of gasoline and diesel accounted for 54.9% in the total sales volume of gasoline and diesel, down from 60.6% in the first half of 2001. The increase of proportion of retail volume in the total sales volume of gasoline and diesel, and the increase of proportion of retail sales revenues in the total sales revenues of gasoline and diesel are primarily due to the addition of an increasing number of retail outlets by the Company, further optimization of the deployment of existing gas stations, and further improvement of service quality, which led to an increase in the average throughput at each gas station.

In the first half of 2002, the sales revenue of gasoline was RMB26.6 billion, down by 13.1% from that in the first half of 2001, of which:

- The average realized retail price was RMB2,811.83 per tonne, down by 12.5% from that in the first half of 2001; the retail volume was 5.9 million tonnes, up by 16.5% from that in the first half of 2001.

- The average realized wholesale price was RMB2,282.89 per tonne, down by 18.6% from that in the first half of 2001; the wholesale volume (including those distributed and directly sold to special customers) in the first half of 2002 was approximately 4.39 million tonnes, down by 14.3% from that in the first half of 2001.

In the first half of 2002, the sales revenue of diesel was RMB46.8 billion, down by 13.3% from that in the first half of 2001, of which:

- The average realized retail price was RMB2,346.03 per tonne, down by 11.8% from that in the first half of 2001; the retail volume was 8.47 million tonnes, up by 14.3% from that in the first half of 2001.
- The average realized wholesale price was RMB2,055.09 per tonne, down by 15.5% from that in the first half of 2001; the wholesale volume (including those distributed and directly sold to special customers) in the first half of 2002 was about 13.11 million tonnes, down by 7% from that in the first half of 2001.

- (3) *Operating expenses:* In the first half of 2002, the operating expenses of the marketing and distribution segment were RMB79.1 billion,

down by 16.1% from that in the first half of 2001. This was largely due to: in the first half of 2002, the purchase expenses of gasoline and diesel were RMB64.4 billion (down by 16.9% from that in the first half of 2001), accounting for approximately 81.3% in the operating expenses of the marketing and distribution segment. In the first half of 2002, the realized purchase prices of gasoline and diesel dropped by 21.3% and 15.5%, respectively, from those in the first half of 2001, to RMB2,119.69 per tonne and RMB1,971.53 per tonne respectively. The volumes of purchased gasoline and diesel were up by 1.1% and 0.4% in the first half of 2002 from those in the first half of 2001 to 10.29 million tonnes and 21.58 million tonnes, respectively.

In the first half of 2002, the cash operating cost of the marketing and distribution segment (the operating expenses less purchase costs of goods, taxes other than income tax, depreciation, depletion and amortization and divided by the sales volume) was RMB161 per tonne, down by approximately 3% from RMB166 per tonne in the first half of 2001.

In the first half of 2002, the operating profit of the marketing and distribution segment was RMB3.3 billion, up by 230% from

that in the first half of 2001. This increase was largely due to: (1) the purchase costs of gasoline and diesel decreased in the extent greater than the decrease of the sales revenues of gasoline and diesel; (2) the proportion of retail sales of gasoline and diesel in this segment's operating revenues was further increased; (3) the decrease in the segment's cash operating cost.

This segment faced fierce competition in the market in the first half of 2002, and recorded a low operating profit in January and February of 2002 due to the market condition of more supply than demand. In the first quarter of 2002, this segment's operating profit was RMB800 million. However, since the late February, the Company has played an active role in coordinating with the Chinese government in regulating and promoting an orderly market of refined products, controlling its processing volume of crude oil and the volume of refined products it provides for the market, optimizing the deployment of resources, increasing the retail sales proportion, and improving its product mix for better sales results. In the meantime, the Company further improved and developed its retail network, and managed to sell in accordance with the retail guidance prices. As a result of such efforts, the retail sales performance after March was enhanced, and the Company's operating profit in the second quarter of 2002 increased to RMB2.5 billion.

2.4 Chemicals Segment

(1) *Operating revenues:* The business activities of the chemicals segment include purchase of petroleum products from the refining segment and third parties as feedstock, production, distribution and selling of petrochemical and inorganic chemical products. The operating revenues of the chemicals segment in the first half of 2002 were RMB29.5 billion, down by 3.6% from that in the first half of 2001. Such a decline was largely due to lower prices of chemical products, which were partially offset by the increased sales volumes of certain chemical products.

(2) *Sales of chemical products:* In the first half of 2002, the sales revenues of the six major chemical product categories of this segment (intermediate petrochemicals, synthetic resins, synthetic rubbers, synthetic fiber, synthetic fiber monomers and polymers, fertilizers) amounted to RMB25.3 billion, accounting for 85.8% of the operating revenues of the segment and down by 4.5% from that in the first half of 2001.

The following table shows the sales volumes, average realized prices and percentage changes of various categories of chemical products of the chemicals segment in the first half of 2001 and the first half of 2002.

	Sales volume (10,000 tonnes) First Half of Year			2002	Average realized prices First Half of Year (RMB per tonne)	
	2002	2001	Rate of change (%)		2001	Rate of change (%)
Intermediate petrochemicals	272.7	258.4	5.5	2,248.35	2,800.05	(19.7)
Synthetic resins	146.3	133.0	10.0	5,006.37	5,902.85	(15.2)
Synthetic rubbers	21.2	21.8	(2.8)	5,863.28	6,202.31	(5.5)
Synthetic fiber	56.6	45.6	24.1	8,023.26	9,204.21	(12.8)
Synthetic fiber monomers and polymers	81.2	74.8	8.6	5,361.17	6,065.78	(11.6)
Fertilizers	159.9	141.5	13.0	1,086.87	955.87	13.7
Total	737.9	675.1	9.3	3,433.09	3,928.62	(12.6)

(3) *Operating expenses:* In the first half of 2002, this segment's operating expenses amounted to RMB30 billion, down by 1.3% from that in the first half of 2001. Such a decline was largely due to the lower prices of chemical feedstock, which was partially offset by the increased volume of chemical feedstock and ancillary materials as a result of increased production.

In the first half of 2002, the operating loss of the chemicals segment was approximately RMB500 million, down by about RMB700 million from the operating profit in the first half of 2001. Such a decline was mainly due to the fact that prices of chemical products in January and February plunged to a new low level, which caused the segment's operating revenues in the first half of 2002 dropped significantly compared to those in the first half of 2001. In particular, the operating loss in the first quarter of 2002 was RMB700 million; and the operating profit in the second quarter as a result of better market conditions was RMB200 million.

2.5 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 the first half of 2002, the operating revenues of corporate and others were RMB11.3 billion, down by 14.4% from that in the first half of 2001. The operating revenues comprised mainly consolidated operating revenues of Sinopec (HK), Sinopec (Singapore) and Unipec as well as other subsidiaries.

The subsidiaries included in this segment had operating expenses of RMB11.2 billion in the first half of 2002, down by 12.5% from those in the first half of 2001. The operating profits of these subsidiaries were RMB100 million, down by 83.3% from those in the first half of 2001. The sharp decline in operating profits was primarily due to the lower prices of petroleum products in the international market.

In the first half of 2002, the Company's corporate headquarters had operating expenses of RMB400 million, up by RMB100 million from that in the first half of 2001. This increase was mainly due to the increased spending by the headquarters in research and development works.

After offsetting the operating profits of the subsidiaries included in the segment by the headquarters expenses, the corporate and others segment had an operating loss of RMB300 million, down by RMB700 million from the operating profit in the first half of 2001.

3. ASSETS, LIABILITIES, SHAREHOLDERS' FUNDS AND WORKING CAPITAL

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

3.1 Assets, liabilities and shareholders' funds

As at 30 June 2002, the Company's total assets were RMB378 billion, total liabilities were RMB208.8 billion, minority interests was RMB23.7 billion, and shareholders' funds were RMB145.6 billion. Compared to those figures in the balance sheet as at 31 December 2001 (hereinafter referred to as "compared to that at year-beginning"), changes in and the main causes for such changes were as follows:

- Total assets were RMB378 billion, up by RMB11.3 billion compared to that at year-beginning. Of which, current assets were RMB113 billion, up by

about RMB3.2 billion compared to that at year-beginning. Such increases were largely due to upturn of prices compared to that at the beginning of the year, leading to increment of inventory levels of crude oil and oil products, as well as the increase of accounts receivables.

Non-current assets were RMB265.1 billion, up by approximately RMB8.2 billion compared to that at year-beginning. This was largely due to the increase in property, plant and equipment formed and construction in progress as a result of capital expenditure and investing activities.

- Total liabilities were RMB208.8 billion, up by approximately RMB13.3 billion compared to that at year-beginning. Of which, current liabilities were RMB134.2 billion, up by approximately RMB9.5 billion compared to that at year-beginning. Such an increase was largely due to dividend payable for 2001 at an amount of RMB6.9 billion. The bills payable and accounts payables of the Company were up by RMB6.9 billion and 900 million, respectively, as a result of the Company increasing the usage of commercial credit facilities. The short-term liabilities were down by RMB7.4 billion as the Company further reinforced its centralized cash management.

Unit: RMB millions

	As at 30 June 2002	As at 31 December 2001	Changes
Total assets	378,049	366,709	11,340
Current assets	112,979	109,795	3,184
Non-current assets	265,070	256,914	8,156
Total liabilities	208,772	195,499	13,273
Current liabilities	134,172	124,711	9,461
Non-current liabilities	74,600	70,788	3,812
Minority interests	23,705	23,541	164
Net assets	145,572	147,669	(2,097)
Shareholders' funds	145,572	147,669	(2,097)
Share capital	86,702	86,702	0
Reserves	58,870	60,967	(2,097)

Non-current liabilities were RMB74.6 billion, up by RMB3.8 billion compared to that at year-beginning; such an increase was largely due to an increase of RMB3.5 billion in terms of the long-term liabilities.

- Shareholders' funds were RMB145.6 billion, down by approximately RMB2.1 billion compared to that at year-beginning. Of which, the net profit increased by RMB5.4 billion, the dividend payable reduced the shareholders' funds by RMB6.9 billion, and the reversal of revaluation reserve in land use rights further reduced the shareholders' funds by RMB600 million.

3.2 Cash flow in the first half of 2002

In the first half of 2002, the net decrease in cash and cash equivalents was RMB1.889 billion, down by RMB11.32 billion from the net increase in cash and cash equivalents at RMB9.431 billion in the first half of 2001. After taking into account of the RMB14 million attributable to the change in exchange rate from the first half of 2002 to that of 2001, the net difference was RMB11.306 billion. The following table sets forth the major items in the consolidated cash flow statement in the first half of 2002 and in the first half of 2001.

Major items in cash flow statement

Unit: RMB100 million

	Six-month period ended 30 June 2002	Six-month period ended 30 June 2001	Increase/ decrease	Changes (%)
Net cash flows from operating activities	184.96	65.76	119.20	181.3
Net cash used in investing activities	(163.09)	(124.56)	(38.53)	30.9
Net cash (used in)/generated from financing activities	(40.76)	153.11	(193.87)	(126.6)
Net increase/(decrease) of cash and cash equivalents	(18.89)	94.31	(113.20)	(120.0)
Cash and cash equivalents at end of period	191.38	290.42	(99.04)	(34.1)

3.2.1 Net cash flows from operating activities

In the first half of 2002, the Company's net cash flows from operating activities was RMB18.496 billion, up by 11.92 billion over that in the first half of 2001.

Main incremental factors:

- (1) Accounts payables as at 30 June 2002 rose by RMB900 million compared to those at year 2002 beginning. Accounts payables as at 30 June 2001 decreased by RMB6 billion compared to those at the beginning of the year 2001, resulting in a total increase of RMB6.9 billion.
- (2) The inventory as at 30 June 2002 rose by RMB1.5 billion compared to that at the beginning of the year 2002. The inventory as at 30 June 2002 rose by RMB4.5 billion than that at the beginning of the year 2001, resulting in a total increase of RMB3 billion.
- (3) In the first half of 2002, the Company paid income tax of RMB1.8 billion, up by RMB2.8 billion from that in the first half of 2001.

- (4) Accounts receivables as at 30 June 2002 rose by RMB2.2 billion compared to those at the beginning of the year 2002. Accounts receivables as at 30 June of 2001 rose by RMB4.1 billion compared to those at the beginning of the year 2001, resulting in a total increase of RMB1.9 billion.
- (5) Prepaid expenses and other current assets relating to operating activities as at 30 June 2002 decreased by RMB100 million compared to those at the beginning of the year 2002. Those as at 30 June 2001 rose by RMB5.6 billion compared to those at the beginning of the year 2001, resulting in a total increase of RMB5.7 billion. Among others, the main reasons for the increase of RMB5.6 billion between those as at 30 June 2001 and those at the beginning of the year 2001 include: an increase of RMB2.8 billion in terms of the accounts receivables from Sinopec Group Company, an increase of RMB1.6 billion in terms of prepaid construction expenses, and an increase of RMB1.4 billion in terms of advance payments.

Main decremental factors:

- (1) Cash flow decreased by RMB6.2 billion in the first half of 2002 as a result of the lower before-tax profits than that in the same period of last year.
- (2) Accrued expenses and other accounts payables relating to operating activities as at 30 June 2002 decreased by RMB2.4 billion compared to those at the beginning of the year 2002. Those as at 30 June of 2001 decreased by RMB300 million compared to those at the beginning of the year 2001, resulting in a total increase of RMB2.1 billion.

3.2.2 Net cash used in investing activities

In the first half of 2002, the net cash used in investing activities was RMB16.309 billion, up by RMB3.853 billion in terms of cash outflow than that in the first half of 2001, which is largely due to:

- (1) Maturity of time deposits as at 30 June 2002 increased the cash flow by RMB900 million, while maturity of time deposits as at 30 June 2001 increased the cash flow for the first half of 2001 by RMB12 billion, resulting in a total decrease of RMB11.1 billion.
- (2) In the first half of 2002, capital expenditure, investments and investments in the associates and jointly controlled entities amounted to RMB16.4 billion, resulting in decrease of RMB6.9 billion in cash outflow compared to the first half of 2001.
- (3) Time deposits as at 30 June 2002 increased by RMB1.1 billion from those at the beginning of the year 2002; those as at 30 June 2001 increased by RMB1.6 billion from those at the beginning of the year 2001, resulting in a total decrease of RMB500 million in cash outflow.

3.2.3 Net cash (used in)/generated from financing activities

In the first half of 2002, the net cash used in financing activities was RMB4.076 billion, down by RMB19.387 billion from that in the first half of 2001. This is largely because the amount of bank loans as at 30 June 2002 decreased from that at the beginning of the year 2002, causing a decrease by RMB4.1 billion in terms of cash inflow. Whereas the amount of bank loans as at 30 June 2001 increased from that at year 2001 beginning, causing an increase by 15.5 billion in terms of cash inflow.

3.3 Contingent liabilities

As at 30 June 2002, the Company provided guarantees of approximately RMB7.487 billion in respect of banking facilities granted by banks to associates, jointly controlled entities and third parties. The major guarantees given by the Company are as follows:

1. Guarantee of RMB65 million for third parties.
2. Guarantee of RMB7.422 billion for associates and jointly controlled entities.

As at 30 June 2002, pursuant to the relevant agreements with Sinopec Group Company, the Company leased land, building and gas stations and other equipment from Sinopec Group Company, the longest term under these leases is 50 years. Rental obligations under these leases after 2002 were approximately RMB97.7 billion.

As at 30 June 2002, the capital commitments of the Company were RMB39.3 billion, which related to petroleum and natural gas exploration and production, expansion of refining and petrochemical facilities and construction of oil depots and gas stations.

4. CAPITAL EXPENDITURE

In the first half of 2002, the actual capital expenditure of the Company was RMB19.911 billion, accounting for 57.7% of the total planned capital expenditure of RMB34.5 billion for the full year 2002. See details in the section headed "Capital Expenditure" under "Business Review and Perspectives" of this report.

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

5.1 Other than the differences in the classification of certain items in the financial statements and the accounting treatment methods as described on page 92 of the Company's audited accounts in this report, there are no material differences between the Company's financial statements prepared under the PRC Accounting Rules and Regulations and IFRS.

5.2 The table below sets forth the Company's and each of its segments' incomes from principal operations, the Company's costs of principal operations, taxes and surcharges as well as profits from principal operations for the periods indicated.

Profit from principal operations: In the first half of 2002, the Company's profit from principal operations was RMB25.5 billion, down by 15.3% from that in the first half of 2001. This was largely due to sharp decline of crude oil prices on the international market in January and February of 2002, lower prices of refined products, and

the fact that prices of chemical products were periodically at low levels.

Net profit: In the first half of 2002, the Company's net profit was 4.5 billion, down by 47.1% from that in the first half of 2001. This was mainly due to lower profit margins from principal operations. Of which, the net profit in the first quarter of 2002 was RMB100 million, while that in the second quarter of 2002 was RMB4.4 billion.

	Six-month period ended 30 June 2002 (RMB millions)	Six-month period ended 30 June 2001 (RMB millions)
Income from principal operations, net		
Exploration & production segment	22,437	27,377
Refining segment	91,491	108,362
Marketing and distribution segment	82,362	95,216
Chemicals segment	27,560	29,015
Corporate and others segment	11,089	12,793
Elimination of inter-segment sales	(94,311)	(112,449)
Net consolidated income from principal operations	140,628	160,314
Costs of principal operations, taxes and surcharges		
Exploration and production segment	13,570	14,275
Refining segment	87,522	103,469
Marketing and distribution segment	72,349	87,837
Chemicals segment	25,283	26,233
Corporate and others segment	11,004	12,277
Elimination of inter-segment cost of sales	(94,580)	(113,917)
Consolidated costs of principal operations	115,148	130,174
Profit from principal operations		
Exploration and production segment	9,216	14,046
Refining segment	3,889	5,417
Marketing and distribution segment	10,013	7,379
Chemicals segment	2,277	2,782
Corporate and others segment	85	516
Consolidated profit from principal operations	25,480	30,140
Consolidated net profit	4,504	8,511

5.3 Financial Data Prepared under the PRC Accounting Rules and Regulations:

	At 30 June 2002 (RMB millions)	At 31 December 2001 (RMB millions)
Total assets	371,665	360,294
Current liabilities	134,081	129,361
Long-term liabilities	71,169	67,807
Shareholders' funds	141,809	139,039

Analysis of changes:

Total assets: As at 30 June 2002, the Company's total assets were RMB371.7 billion, including RMB110.4 billion in current assets, RMB10.1 billion in long-term equity investment, fixed assets were RMB246.7 billion, intangible assets were RMB3.9 billion and deferred assets were RMB600 million.

Current liabilities: As at 30 June 2002, the Company's current liabilities amounted to RMB134.1 billion, an increase by an amount of RMB4.7 billion from beginning of the year, or an increase 3.6%. The main reasons were: the increase of the dividend payable relating to the period ended

on 30 June 2002 by RMB1.7 billion; an increase to the usage of commercial credit facilities thereby resulting to an increase of balance in bills payable, accounts payables and other payables by RMB9.6 billion against the balance as of the beginning of the year. However, short term loans and current portions of long term loans have decreased by RMB7.4 billion against the beginning of the year as a result of the Company further reinforcing its centralized cash management.

Accrued expenses varied over 30%. The balance as of 30 June 2002 in accrued expenses was RMB1.6 billion, which was an increase by RMB0.7

billion against the balance in the beginning of the year. The main reason was certain repairs and maintenance and other operating expenses incurred during a period are settled at the year end.

Long-term liabilities: As at 30 June 2002, the Company's long-term liabilities were RMB71.2 billion, up by 5% (or RMB3.4 billion) from that as at 30 June 2001. Such an increase was largely because the Company's long-term loans as at 30 June 2002 were RMB69 billion, up by 5.3% (or RMB3.5 billion) from that as at 30 June 2001.

Shareholders' funds: As at 30 June 2002, the Company's shareholders' funds were RMB141.8 billion, up by 2% (or RMB2.8 billion) from that at the beginning of the year 2002. This was mainly because of the net profit of RMB4.5 billion realized by the Company during the six-month period ended 30 June 2002.

5.4 Various Provisions under the PRC Accounting Rules and Regulations

As at 30 June 2002, the Company made provisions for eight asset items, amounted to RMB5.35 billion, up by RMB146 million compared to that at the beginning of the year 2002.

6. SIGNIFICANT DIFFERENCES BETWEEN IFRS AND US GAAP

Significant differences between IFRS and US GAAP that affect the Company's accounting policies are set out in the audited accounts on pages 93 to 94 of this report.

Unit: RMB100 millions

	As at 30 June 2002	As at 31 December 2001	Changes
Allowance for doubtful accounts	42.51	40.30	2.21
Of which: Allowance for doubtful accounts for accounts receivables	26.37	24.80	1.57
Allowance for doubtful accounts for other receivables	16.14	15.50	0.64
Provision for impairment losses in short-term investment			
Provision for diminution in value of inventories	5.24	6.02	(0.78)
Provision for impairment losses in long-term equity investments	1.84	1.81	0.03
Provision for impairment losses in construction in progress			
Provision for impairment losses on fixed assets	3.91	3.91	0.00
Provisions for impairment losses in intangible assets			
Provisions for shareholders' entrusted loans			
Total	53.5	52.04	1.46