

(3) The market for chemical products

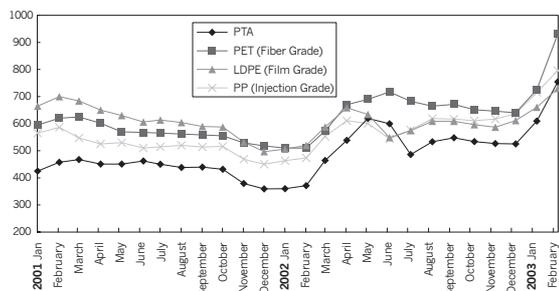
Benefited from the continuous and rapid economic growth of China, China's domestic demand for chemical products maintained a fast growing trend in 2002. Annual apparent consumptions of synthetic resins, synthetic fibers, monomers and polymers for synthetic fibers and synthetic rubbers reached 26.09 million 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 4,345km² 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 throughput 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 percentage point
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.

