



中国石油化工股份有限公司

CHINA PETROLEUM & CHEMICAL CORPORATION

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

Announcement of Interim Results
(For the period ended 30 June 2003)

1. Important Notice

1.1 The Board of Directors 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 announcement.

This announcement is a summary of the interim report. The entire report is also contained in the website of the Shanghai Stock Exchange (www.sse.com.cn) and Sinopec Corp. (www.sinopec.com). The investors should read the interim report for more details.

1.2 No Director has any doubt as to, or the inability to warrant, the truthfulness, accuracy and completeness of the interim report.

1.3 Messrs. Liu Kegou, Fan Yifei, Ho Tsu Kwok Charles and Cao Yaofeng, Directors of Sinopec Corp., could not attend the meeting of the Board. Messrs. Liu Kegou and Fan Yifei appointed and authorised Mr. Wang Jiming, Vice Chairman, and Messrs. Ho Tsu Kwok Charles and Cao Yaofeng, Directors, appointed and authorised Messrs. Chen Qingtai and Mou Shuling, Directors, respectively, as their respective attorneys and to vote on their behalf in respect of the resolutions put forward in the meeting of the Board.

1.4 The financial statements for the six-month period ended 30 June 2003 of Sinopec Corp. and its subsidiaries ("the Company") prepared in accordance with the PRC Accounting Rules and Regulations and the International Financial Reporting Standards ("IFRS") have been audited by KPMG Huazhen and KPMG, respectively, and both firms have issued unqualified opinions on such financial statements.

1.5 Mr. Chen Tonghai (Chairman of the Board), Mr. Wang Jiming (Vice Chairman and President), Mr. Zhang Jiaren (Director, Senior Vice President and Chief Financial Officer) and Mr. Liu Yun (Head of the Accounting Department) warrant the authenticity and completeness of the financial statements contained in the interim report for the period ended 30 June 2003.

2. Basic Information of Sinopec Corp.

2.1 Basic information of Sinopec Corp.

Stock name	SINOPEC CORP	SINOPEC CORP	SINOPEC CORP	中國石化
Stock code	0386	SNP	SNP	600028
Place of listing	Hong Kong Stock Exchange	New York Stock Exchange	London Stock Exchange	Shanghai Stock Exchange
Authorized Representatives	Secretary to the Board of Directors Representative on Securities Matters			
Name	Mr. Wang Jiming	Mr. Chen Ge	Mr. Chen Ge	Mr. Huang Wensheng
Address	6A Huixindong Street, Chaoyang District, Beijing, PRC			
Tel	64990060	64990060	64990060	64990060
Fax	64990022	64990022	64990022	64990022
E-mail	ir@sinopec.com.cn; media@sinopec.com.cn			

2.2 Principal accounting data and principal indicators

2.2.1 Principal accounting data and financial indicators for the first half of 2003 prepared in accordance with the PRC Accounting Rules and Regulations

2.2.1.1 Principal accounting data and financial indicators

Item	At 31 December 2002			Changes at the end of this reporting period (after adjustment) compared with data at the end of the preceding reporting period (%)
	At 30 June 2003	After adjustment*	Before adjustment	
Current assets (RMB millions)	104,685	99,008	99,008	5.73
Current liabilities (RMB millions)	117,291	115,923	121,125	1.18
Total assets (RMB millions)	380,114	368,375	368,375	3.19
Shareholders' funds (excluding minority interests) (RMB millions)	156,280	151,717	146,515	3.01
Net assets per share (RMB/share) (Fully diluted)	1.802	1.750	1.690	2.97
Adjusted net assets per share (RMB/share)	1.781	1.736	1.676	2.59
Item	Six-month period ended 30 June 2003			Changes in this reporting period compared to the same period of the preceding year (%)
	After adjustment*	Before adjustment	Same period of the preceding year (%)	
Net profit (RMB millions)	9,765	4,504	4,504	116.81
Net profit before non-operating profits/losses (RMB millions)	10,221	4,639	4,639	120.33
Earnings per share (RMB/share) (Fully diluted)	0.113	0.052	0.052	117.31
Return on net assets (%) (Fully diluted)	6.25	3.14	3.18	3.11 percentage point
Net cash flow from operating activities (RMB millions)	29,982	21,659	21,659	38.43

* The Company adopted the revised "Accounting Regulations for Business Enterprises-Post Balance Sheet Events" that resulted in a change in accounting policy which has been applied retrospectively. (Please refer to section 7.3.1 of this announcement.)

2.2.1.2 Non-operating profits/losses

✓ applicable □ inapplicable

Item	Six-month period ended 30 June 2003	
	RMB millions	RMB millions
Non-operating income	88	(768)
Non-operating expenses	224	(456)
Tax effect		
Total		

2.2.2 Principal accounting data and financial indicators for the first half of 2003 prepared in accordance with IFRS

Item	Six-month period ended 30 June 2003		Changes in this reporting period compared to the same period of the preceding year (%)
	2003	2002	
Operating profit (RMB millions)	18,436	10,707	72.19
Net profit (RMB millions)	10,701	5,433	96.96
Return on capital employed (%)*	4.61	2.85	1.76 percentage point
Earnings per share (RMB/share)	0.123	0.063	95.24
Net cash flow from operating activities (RMB millions)	27,855	18,496	50.60

* Return on capital employed = operating profit x (1 - income tax rate)/capital employed

Item	At 30 June 2003		Changes at the end of this reporting period compared with data at the end of the preceding reporting period (%)
	2003	2002	
Current assets (RMB millions)	107,640	101,884	5.65
Current liabilities (RMB millions)	118,933	117,434	1.28
Total assets (RMB millions)	389,211	375,881	3.55
Shareholders' funds (excluding minority interests) (RMB millions)	159,984	154,485	3.56
Net assets per share (RMB/share)	1.845	1.782	3.54
Adjusted net assets per share (RMB/share)	1.825	1.768	3.22

2.2.3 Major differences between the PRC Accounting Rules and Regulations, IFRS and US GAAP on net profit of the Company for the first half of 2003

✓ applicable □ inapplicable

2.2.3.1 Analysis of the effects of major differences between the PRC Accounting Rules and Regulations and IFRS on net profit

	Six-month periods ended 30 June	
	2003 RMB millions	2002 RMB millions
Net profit under the PRC Accounting Rules and Regulations	9,765	4,504
Adjustments:		
Depreciation of oil and gas properties	1,270	1,210
Capitalisation of general borrowing costs	203	72
Acquisition of Sinopec National Star	58	58
Revaluation of land use rights	9	9
Pre-operating expenditures	(100)	—
Impairment losses on long-lived assets	(5)	—
Effects of the above adjustments on taxation	(499)	(420)
Net profit under IFRS	10,701	5,433

2.2.3.2 Analysis of the effects of major differences between IFRS and US GAAP on profit attributable to shareholders

	Six-month periods ended 30 June	
	2003 RMB millions	2002 RMB millions
Profit attributable to shareholders under IFRS	10,701	5,433
US GAAP adjustments:		
Foreign exchange gains and losses	38	38
Capitalisation of property, plant and equipment	6	6
Depreciation on revalued property, plant and equipment	2,007	2,085
Disposal of property, plant and equipment	250	166
Exchange of assets	12	—
Reversal of impairment of long-lived assets, net of depreciation effect	28	30
Capitalised interest on investments in associates	129	63
Goodwill amortisation for the period	(3)	3
Cumulative effect of adopting SFAS No. 142	—	11
Deferred tax effect of US GAAP adjustments	(756)	(730)
Profit attributable to shareholders under US GAAP	12,412	7,105
Basic and diluted earnings per share under US GAAP (RMB/share)	0.14	0.08
Basic and diluted earnings per ADS under US GAAP (RMB/share)*	14.32	8.19

* Basic and diluted earnings per ADS is calculated on the basis that one ADS is equivalent to 100 shares of H Shares.

3. Changes in share capital and shareholdings of the principal shareholders

3.1 Statement of changes in share capital

□ applicable ✓ inapplicable

3.2 Top ten shareholders

Total number of shareholders at 30 June 2003 455,532 (of which: domestic 437,214, overseas 18,318)

Top ten shareholders at 30 June 2003

Shareholder	Number of shares held	Percentage of total shares held	Nature of shares held	Pledges over or lock-ups of the shares	Type of shares held	Increase/decrease during the reporting period	
						10,000 shares	10,000 shares
China Petrochemical Corporation	0	4,774,256.1	55.06 non-tradable	no	State-owned Shares		
HKSCC (Nominees) Limited	37,344.5	932,159.0	10.75 tradable	unknown	H Shares		
China Development Bank	0	877,557.0	10.12 non-tradable	no	State-owned Shares		
China Cinda Asset Management Corp.	0	872,065.0	10.06 non-tradable	no	State-owned Shares		
ExxonMobil Far East Holdings Ltd.	0	316,852.9	3.65 tradable	unknown	H Shares		
Shell Eastern (PTE) Ltd.	0	196,642.2	2.27 tradable	unknown	H Shares		
bp Oil Espana S.A.	0	182,922.9	2.11 tradable	unknown	H Shares		
China Orient Asset Management Corp.	0	129,641.0	1.50 non-tradable	no	State-owned Shares		
Guo Tai Jun An Corp.	0	58,676.0	0.68 non-tradable	no	State-owned Shares		
TOPGOAL Company	(13,000.0)	20,906.5	0.24 tradable	unknown	H Shares		

Note on the relationship between the top ten shareholders: Holders of the non-tradable shares have no connections and are not parties acting in concert. Sinopec Corp. is not aware of any connection or activities in concert between such holders of non-tradable shares and holders of tradable shares or amongst holders of tradable shares. Apart from as stated above, as at 30 June 2003, Sinopec Corp. is not aware of any interests disclosable pursuant to section 324 of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong.

3.3 Changes of the controlling shareholders and the actual controllers in the reporting period

Lock-up periods on strategic investors or legal person subscribers of placement of new shares — —

4. Information about the directors, supervisors and senior management

4.1 Information about the terms of office of the directors, supervisors and senior management

On 22 April 2003, Sinopec Corp. held its first extraordinary general meeting for the year 2003, and elected members of the Second Session of the Board of Directors and supervisors on behalf of shareholders for the Second Session of the Supervisory Committee of Sinopec Corp. The Board of Directors consists of Mr. Chen Tonghai, Mr. Wang Jiming, Mr. Mou Shuling, Mr. Zhang Jiaren, Mr. Cao Xianghong, Mr. Fan Yifei, Mr. Chen Qingtai, Mr. Ho Tsu Kwok Charles, Mr. Shi Wanpeng, Mr. Zhang Youcai, and Mr. Cao Yaofeng. Supervisors on behalf of shareholders include: Mr. Wang Zuoran, Mr. Zhang Chongqing, Mr. Wang Peijun, Mr. Wang Xianwen, Mr. Zhang Baojian, Mr. Kang Xianzhang, Mr. Cui Jianmin, and Mr. Li Yonggui. Supervisors on behalf of employees include: Mr. Su Wensheng, Mr. Cui Guoqi, Mr. Zhang Xianglin and Mr. Zhang Haichao.

On the same day, the first meeting of the Second Session of the Board of Directors of Sinopec Corp. was held, at which Mr. Chen Tonghai was elected Chairman of the Board, Mr. Wang Jiming was elected Vice Chairman of the Board; Mr. Wang Jiming was appointed as President; Mr. Mou Shuling, Mr. Zhang Jiaren, Mr. Cao Xianghong, and Mr. Wang Tianpu were appointed as Senior Vice Presidents; Mr. Wang Zhiqiang, Mr. Zhang Jianhua, Mr. Cai Xiyou, and Mr. Li Chunguang were appointed as Vice Presidents; Mr. Zhang Jiaren (who holds a concurrent post as Senior Vice President) was appointed as Chief Financial Officer; Mr. Chen Ge was appointed as Secretary to the Board of Directors. At the first meeting of the Second Session of the Supervisory Committee of Sinopec Corp. held on the same date, Mr. Wang Zuoran was elected as Chairman of the Second Session of the Supervisory Committee of Sinopec Corp.

At the Annual General Meeting for the year 2002 held on 10 June 2003, Mr. Liu Genyuan and Mr. Liu Kegou were elected as directors for the Second Session of the Board of Directors of Sinopec Corp.

4.2 Information about the changes in the shares held by the directors, supervisors and senior management

✓ applicable □ inapplicable

During the period between 1 January 2003 and 31 March 2003, none of the directors, supervisors or other members of the senior management or any of their spouses or children under age of 18 had any interests in any shares or debentures of Sinopec Corp. (within the meaning of the Securities (Disclosure of Interests) Ordinance of Hong Kong (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. 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 (supervisors have made similar disclosure, if any, as if they were directors).

During the period between 1 April 2003 and 30 June 2003, none of the directors, supervisors, chief executives, other members of the senior management and their respective associates had any interests and short positions in the shares, debentures or underlying shares of Sinopec Corp. (within the meaning of Part XV of the Securities and Futures Ordinance of Hong Kong (the "SFO")) which will have to be notified to Sinopec Corp. and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have taken under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to Sinopec Corp. and the Hong Kong Stock Exchange.

5. Business Review and Prospects and Management's Discussion and Analysis

5.1 Business review and prospects

In the first half of 2003, in spite of the influences exerted by the war in Iraq and the sudden outbreak of SARS in China, China's economy still sustained a relatively rapid growth, with a GDP growth rate of 8.2%, and the domestic demand for petroleum and petrochemical products also increased accordingly. According to the Company's research, the apparent domestic consumption of refined oil products (inclusive of gasoline, diesel oil and kerosene) in the first half of this year increased by 3.2% over the same period last year whilst the apparent consumption of petrochemical products (in terms of ethylene) increased by 10.5%. All these created a favorable external environment for the sustainable business expansion of the Company.

Facing the outbreak of the war in Iraq and SARS which brought about drastic market fluctuations, the Company paid close heed to the latest development of economic conditions in the domestic and international arenas and made correct judgment on the domestic and overseas price trends of crude oil and petrochemical products, formulated and put into force a series of effective countermeasures in time. As a result, not only have we caught the prime opportunity of high prices of crude oil, we have also averted the risks of declining oil prices. Besides, we exerted strict control over the processing volume, adjusted the inventory level and expanded export volumes at the right time. In particular, after the occurrence of SARS, the Company adjusted its marketing strategy, further rescheduled the checking and maintenance plans on some refining and petrochemicals facilities and reinforced internal management, thus gaining an active position in its production and operation activities.

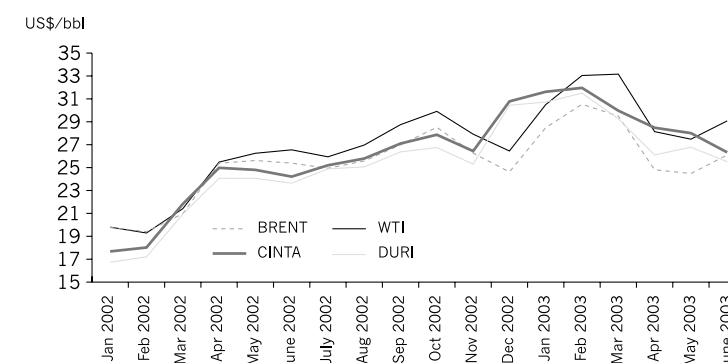
Thanks to the concerted efforts of our staff, the Company's profits in the first half of 2003 posted a record high. According to the PRC Accounting Rules and Regulations, the Company's income from principal operations was RMB194.84 billion, representing a 38.6% increase over the first half of 2002. The Company's net profit was RMB9.765 billion, representing an increase of RMB5.26 billion over the first half of 2002. Based on the number of shares outstanding at the end of the reporting period, earnings per share were RMB0.113. According to the International Financial Reporting Standards ("IFRS"), turnover and other operating revenues amounted to RMB202.47 billion, up by 38.5% over the first half of 2002. Profit attributable to shareholders was RMB10.70 billion, representing an increase of RMB5.27 billion over the first half of 2002. Based on the number of shares outstanding at the end of the reporting period, earnings per share were RMB0.123.

The Board of Directors has decided to distribute an interim dividend of RMB0.03 per share for the first half of 2003, which is equivalent to RMB3 per ADS.

5.1.1 Production and Operation

(1) Exploration and Production Segment

In the first quarter of 2003, due to influences of the war in Iraq and the relatively low level of US crude and distillates inventory, international crude oil price surged up to a record high for recent years. In the second quarter, with the quick ending of the war, crude oil price began to fall but remained at a relatively high level. The average crude oil price for the first half of 2003 was up significantly compared with that in the same period last year. The Platt's Singapore spot price for Brent averaged US\$ 28.78 per barrel, representing an increase of 25% over the first half of 2002. Domestic price trend of crude oil generally followed that of the international market. However, due to the one-month time lag of domestic price behind the international price and the notable increase in the price of CINTA, which was used as a reference, the average crude price realized by the Company during the first half of 2003 was US\$ 28.90 per barrel, representing an increase of 44.8% over the first half of 2002.



Price Trend of International Crude Oil

In the first half of 2003, the Company followed the principle of taking into account of the reserves, production volume and profitability as a whole and has attained remarkable results in the exploration, development and production of crude oil and natural gas.

In exploration, the Company made breakthroughs in three oilfields at Taha oilfield in Tarim Basin, and new blocks in Shengli Oilfield in Eastern China, and had significant discoveries in natural gas prospect areas in Ordos Basin, Sichuan Basin, and marine phase sedimentary areas in Southern China, etc. A number of major exploration wells in the western frontiers demonstrated good indications of oil and gas reserves and presented preliminarily a bright prospect for strategic replacement of resources. With regard to the mature fields in the East, the Company continued to achieve sound results in its extended exploration in surrounding areas. In the first half of 2003, the newly added geological reserves of crude oil amounted to approximately 100 million tonnes, whilst the newly added geological reserves of natural gas was approximately 51.7 billion cubic meters.

In development, adhering to the principle of "giving priority to profitability, and prioritizing projects according to their economic viability", the Company prioritised easy-to-develop oil and gas reserves for development, optimized development plans and improved the quality of capacity construction. In the first half of 2003, the newly built production capacity of crude oil and natural gas reached approximately 2.596 million tonnes per year and 346 million cubic meters per year, respectively.

In production, the Company actively seized the opportunity when the overall oil price stayed at a relatively high level, conducted comprehensive management over its existing oilfields, and resorted to science and technology advancements to enhance its recovery rate. In addition to maintaining a stable output in its existing oilfields, the Company also ensured that the newly added production capacity was put into production in time. In the first half of 2003, the Company produced 133.72 million barrels of crude oil and 90.7 billion cubic feet of natural gas, representing an increase of 0.97% and 3.3% respectively over the first half of 2002.

Operating Summary of Exploration and Production

	First Half 2003		Change %
	2003	2002	
Crude oil production (million barrels)	133.72	132.43	0.97
Natural gas production (billion cubic feet)	90.7	87.8	3.30
Newly added proved oil reserves (million barrels)	115.8	178.5	(35.13)
Newly added proved gas reserves (billion cubic feet)	276.8	211.3	31.0
Proved oil reserves at the end of the reporting period (million barrels)	3,302	3,262	1.23
Proved gas reserves at the end of the reporting period (billion cubic feet)	3,515	3,683	(4.56)

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

(2) Refining Segment

In the first half of 2003, the Company responded proactively to market changes and arranged the processing volume of crude oil in a rational way. In the first quarter, we seized the opportunities of robust demand and increased crude oil processing volume. In the second quarter, in response to the adverse impact of SARS on the market demand, the Company reduced processing volume in a timely manner, thus laid a solid foundation for the market stability. Meanwhile, the Company adjusted the product mix, increased the production of chemical feedstock and products with high added value and boosted the sales volume of refined products other than gasoline, diesel and kerosene. On top of it, we further optimized the allocation of crude oil resources, and with priority, arranged crude processing volume for integrated refining and petrochemical enterprises and those with optimal profits. The Company continued to reduce the production costs, and the processing volume of sour crude increased by 14.1% compared with that of the same period last year. As a result of these efforts, major economic and technical indicators have all improved. For instance, the light product yield reached 73.97%, 0.86 percentage point higher than the same period last year and the refining yield amounted to 93.07%, representing a 0.79 percentage point rise over the same period last year. Besides, the Company relied on scientific and technological advancements and launched all-around production program of high octane number gasoline. The quality of our gasoline for vehicles has generally met the new regulated specification to satisfy market needs.

P.2

Operating Summary of Refining

	First Half of 2003	First Half of 2002	Change (%)
Crude processing volume (1,000 barrels/day)	2,213	2,070	6.91
Of which: Sour crude processing volume (1,000 barrels/day)	432.0	378.6	14.10
Refinery utilization (%)	83.0	79.4	3.6
			percentage points
Gasoline, diesel oil and kerosene production (million tonnes)	32.46	30.34	6.99
Of which: gasoline (million tonnes)	10.220	9.248	10.51
diesel oil (million tonnes)	19.790	18.769	5.44
kerosene (million tonnes)	2.45	2.32	5.60
Chemical feedstock (million tonnes)	8.19	7.62	7.48
Light product yield (%)	73.97	73.11	0.86
			percentage point
Refining yield (%)	93.07	92.28	0.79
			percentage point

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

(3) Marketing and Distribution Segment

In the first half of 2003, in spite of influences exerted by the war in Iraq and SARS, domestic demand for refined oil products still experienced continued growth. The first quarter saw strong demand whilst the second quarter witnessed a slowed-down growth in demand.

In the first half of 2003, the Company made intensified efforts in market analysis and projections, reinforced its control and allocation of resources, further improved its marketing structure, and expanded its retail and direct distribution activities. The Company continued to optimize its retail network of refined oil products, closed down petrol stations with low efficiency and pushed up the fueling throughput per petrol station. In addition, the Company actively tapped the rural and marine markets and continuously increased its aggregate sales volume. In the first half of 2003, the Company's total domestic sales volume of refined oil products amounted to 35.24 million tonnes, up by 3.4% over the first half of 2002, of which 17.83 million tonnes of retail and 6.92 million tonnes of direct distribution, up by 5.8% and 12.0%, respectively, over the same period last year. Retail and direct distribution volume of refined oil products increased to 70.2% of the total domestic sales volume from 67.6% in the same period last year. The Company seized the opportunities arising from the global market and made efforts in expanding the export volume of refined oil products, which laid a foundation for the stabilization of the domestic market and improvement of the refinery utilization rate. During this period, the accumulated export volume of refined oil products amounted to 3.27 million tonnes, representing an increase of 62.9% over the first half of 2002.

Summary of the Marketing and Distribution Segment

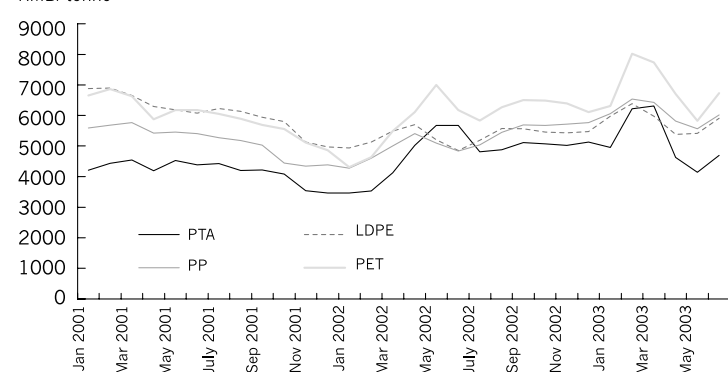
	First Half of 2003	First Half of 2002	Change %
Total domestic sales of refined oil products (million tonnes)	35.24	34.07	3.4
Of which: Retail volume (million tonnes)	17.83	16.86	5.8
Direct distribution volume (million tonnes)	6.92	6.18	12.0
Wholesale volume (million tonnes)	10.49	11.03	(4.9)
Average annual throughput per petrol station (tonne/station)	1,612	1,506	7.0
Retail volume/total sales volume (%)	50.6	49.5	1.1
			percentage points
Total number of petrol stations	29,425	27,489	7.0
Of which: Number of self-operated petrol stations	24,128	24,256	(0.5)
Number of franchised petrol stations	5,297	3,233	63.8

(4) Chemicals Segment

In the first half of 2003, domestic demand for chemical products still experienced a continued growth, but at a slowed speed owing to the impact of SARS. The apparent consumption of synthetic resin, synthetic fiber, monomers and polymers for synthetic fiber, and synthetic rubber reached 13.66 million tonnes, 5.47 million tonnes, 8.84 million tonnes and 1.03 million tonnes, respectively, all experienced various levels of growth.

In the first half of 2003, the cycle of chemicals sector recovered slowly. In the first quarter, international prices of petrochemical products rebounded swiftly as a result of increase in crude oil price, but dropped moderately in the second quarter. Due to the negative impact of SARS, the demand for petrochemical products by pertinent industries dropped, which led to a reduction in domestic prices in the second quarter. However, the overall domestic prices of petrochemical products in the first half of 2003 were still higher than those in the same period last year. During this period, the Company's average realized price of synthetic resin, synthetic rubber, synthetic fiber, and monomers and polymers for synthetic fiber increased by 14.67%, 37.82%, 15.06% and 4.16%, respectively over the first half of 2002.

RMB/tonne



Price trend of petrochemical products of the Company

In the first half of 2003, the Company optimized the allocation of resources, which led to an increase in self-sufficiency rate of chemical feedstock and ethylene yield. The Company's major petrochemical facilities ran smoothly and the production of principal petrochemical products have surged up by leaps. Amongst the above, the production of synthetic resin, synthetic fiber and synthetic rubber were up by 23.3%, 5.2% and 10.2%, respectively, over the first half of 2002. The portion of high value-added products further increased, with performance compound accounted for 55.43% of synthetic resin and differential fiber accounted for 40.26% of synthetic fiber. The Company actively promoted market expansion and increased the sales to production ratio. The sales to production ratio for the Company's key petrochemical products reached 99.8% and direct sales ratio accounted for 66.6%.

Production of Major Petrochemical Products

	First Half of 2003	First Half of 2002	Change %
Ethylene (Thousand tonnes)	1,533	1,245	23.1
Synthetic resin (Thousand tonnes)	2,266	1,838	23.3
Of which: Performance compound resins (Thousand tonnes)	1,114.1	869.7	28.1
Synthetic fiber (Thousand tonnes)	597.6	568.2	5.2
Of which: Differential fiber (Thousand tonnes)	240.6	191.2	25.8
Synthetic fiber monomers and polymers (Thousand tonnes)	2,083.2	1,895.3	9.9
Synthetic rubber (Thousand tonnes)	238.8	216.6	10.2
Urea (Thousand tonnes)	1,153.8	1,551.1	(25.6)

5.1.2 Cost-saving

In the first half of 2003, the Company carefully implemented its costs-cutting plan, endeavored to reduce purchasing costs of major raw materials such as crude oil, further focused on concrete measures to cut down material and energy consumption, optimized the allocation of resources and logistics, etc. As a result, the Company attained encouraging achievement in reducing costs and improving efficiency. In the first half of 2003, the Company has reduced costs by RMB1.28 billion in total. The breakdown is as follows: RMB359 million in the Exploration and Production Segment, RMB370 million in the Refining Segment, RMB323 million in the Marketing and Distribution Segment and RMB228 million in the Chemicals Segment.

5.1.3 Capital Expenditure

In the first half of 2003, the Company's accumulated capital expenditure reached RMB18.498 billion. The capital expenditure in the Exploration and Production Segment totaled RMB8.645 billion. A batch of major exploration projects proceeded smoothly. The newly added geological reserves of crude oil amounted to approximately 100 million tonnes and the newly added geological reserves of natural gas amounted to 51.7 billion cubic meters. The newly added production capacity of crude oil was 2.59 million tonnes per year, whilst the newly added production capacity of natural gas reached 346 million cubic meters per year. The capital expenditure in the Refining Segment was RMB4.649 billion. The construction of Ningbo-Shanghai-Nanjing crude oil pipeline progressed smoothly and the entire pipeline is expected to commence operation by the end of this year. The technological revamping over the refining facilities for the production of unleaded gasoline was completed and products were put on the market by the planned time. The capital expenditure in the Chemicals Segment was RMB2.351 billion. The Guangzhou Ethylene Renovation project was fully completed and put into production. The paraxylene production facilities in Zhenhai were built and put into production. The second round of ethylene facility revamping in Qilu proceeded without a hitch. Some chemical fertilizer production facilities are also under renovation. The capital expenditure in the Marketing and Distribution Segment was RMB2.732 billion. The construction of petrol stations along expressways, vital communication lines and in key urban areas has been reinforced. The optimized adjustment of depots for refined oil products and other storage and transportation facilities also sped up. The capital expenditure of the headquarters and other subsidiaries of the Company amounted to RMB121 million, which was mainly used in the construction of the Company's ERP system.

Additionally, the joint venture of world-scale ethylene project with bp is in the peak of construction. In the first half of 2003, the Company has according to its equity ratio in the joint venture invested RMB2.058 billion in the Shanghai SECCO project.

5.2 Table showing the principal operations categorized by business segments and the status of the connected transactions

The data of income from principal operations and cost of principal operations, sales taxes and surcharges of each segment in the following table are extracted from the Company's financial statements prepared under the PRC Accounting Rules and Regulations

Categorized by business segments	Cost of principal operations, sales taxes and surcharges		Gross profit margin ratio %	Increase/decrease of income from principal operations compared to the same period of preceding year		Increase/decrease of cost of principal operations, sales taxes and surcharges compared to the same period of preceding year		Increase/decrease of gross profit margin ratio (percentage point)
	RMB millions	RMB millions		%	%	%	%	
Exploration and production	32,063	16,345	46.11	42.90	20.45	5.03		
Refining	127,599	123,141	3.43	39.47	40.69	(0.82)		
Chemicals	39,144	35,713	8.77	42.03	41.25	0.51		
Marketing and distribution	111,861	98,271	12.15	35.82	35.83	(0.01)		
Others	28,465	28,249	0.76	156.70	156.72	(0.01)		
Elimination of inter-segment sales	(144,290)	(143,275)	—	—	—	—		
Total	194,842	158,444	18.68	38.55	37.60	0.56		
Of which: connected transactions	15,667	13,814	11.83	41.12	34.40	4.42		

Connected transactions During the reporting period, the amount of connected transactions entered into between the Company and Sinopec Group Company and its subsidiaries amounted to an aggregate amount of RMB49.633 billion, of which incoming trade amounted to RMB29.716 billion, and outgoing trade amounted to RMB19.917 billion (inclusive of outgoing products and services amounted to RMB19.861 billion). Details of the connected transactions entered into during the reporting period are set out in the notes to the financial statements contained in the interim report.

On 20 January 2003, Sinopec Corp. issued an announcement with regard to the leasing of petrol stations by a number of branches of Sinopec Corp. from a number of subsidiaries of Sinopec Group Company. In the year of 2003, Sinopec Corp. has leased approximately 983 petrol stations from, and has entered into approximately 983 new lease agreements with, subsidiaries of Sinopec Group Company. Each of these lease agreements is effective for one year, and expires on 31 December 2003. The amount of annual rental under these new lease agreements in the year 2003 is estimated to amount to about RMB120 million. The Board of Directors of Sinopec Corp. (inclusive of independent directors) believes that with the implementation of those new lease agreements, the Company will minimize its competition against the subsidiaries of Sinopec Group Company, expand and give prominence to the retail operations of refined oil products of the Company, and reinforce its manoeuvrability in the market. For further details, please refer to the relevant announcements of Sinopec Corp. published in the domestic newspapers including China Securities News, Shanghai Securities News, and Securities Times, and the newspapers in Hong Kong including South China Morning Post, and Hong Kong Economic Times on 20 January 2003.

New lease of land use rights from Sinopec Group Company. At the third meeting of the Second Session of the Board of Directors of Sinopec Corp., the Board of Directors has examined and approved the "Proposal on Lease of Additional Land Use Rights from Sinopec Group Company", and approved Sinopec Corp. to lease in the land use rights of an area of 51.71 million square meters from Sinopec Group Company at an annual rental of RMB273.4717 million; at the meeting, Mr. Wang Jiming was authorized to sign the Agreement on Lease of Land Use Rights. For further details, please refer to the announcements of Sinopec Corp. published in the domestic newspapers including China Securities News, Shanghai Securities News, and Securities Times, and the newspapers in Hong Kong including South China Morning Post and Hong Kong Economic Times on 25 August 2003.

All connected transactions incurred during the reporting period have been performed in compliance with its respective agreements as published in the relevant announcements.

Principle of pricing for connected transactions (1) Government-prescribed prices and government-guidance prices are adopted for products or projects if such prices are available; (2) where there is neither a government-prescribed price nor a government-guidance price, the market price (inclusive of auction price) will apply; (3) where none of the above is applicable, the agreed price will be based on the reasonable cost incurred plus sales tax and reasonable profit.

5.3	Principal operations in different regions	<input type="checkbox"/> applicable <input checked="" type="checkbox"/> inapplicable
5.4	Other operating activities with major influences on net profit	<input type="checkbox"/> applicable <input checked="" type="checkbox"/> inapplicable
5.5	Operations of equity subsidiaries (applicable to circumstances when the return on investment is more than 10% of the listed company's net profit)	<input type="checkbox"/> applicable <input checked="" type="checkbox"/> inapplicable
5.6	Reasons of material changes in the principal operations and their structure	<input type="checkbox"/> applicable <input checked="" type="checkbox"/> inapplicable
5.7	Reasons of material changes in the principal operations' earning power (gross profit ratio) as compared to the preceding year	<input checked="" type="checkbox"/> applicable <input type="checkbox"/> inapplicable
5.8	Reasons of changes in profit composition as compared to that in the preceding year	<input checked="" type="checkbox"/> applicable <input type="checkbox"/> inapplicable

The financial information presented in this section is extracted from the Company's audited financial statements that have been prepared in accordance with IFRS.

In the first half of 2003, the Company achieved good results of operations. Turnover and other operating revenues were RMB202.5 billion, representing an increase of 38.51% over the first half of 2002. The operating profit was RMB18.5 billion, up by 72.9% compared with that in the first half of 2002. The profit attributable to shareholders was RMB10.7 billion, representing an increase of 98.15% over that in the first half of 2002.

5.8.1 Turnover and other operating revenues

In the first half of 2003, the Company's turnover and other operating revenues were RMB202.5 billion, up by 38.51% over the first half of 2002, of which the Company's turnover was RMB194.9 billion, up by 38.62% over the first half of 2002, principally due to:

- 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 small portion of the Company's crude oil are sold to the refineries owned by Sinopec Group Company and third party customers. In the first half of 2003, the Company's external sales of crude oil and natural gas were RMB7.1 billion, accounted for 3.51% of the Company's turnover and other operating revenues, representing an increase of 36.54% over the first half of 2002. This was principally due to an increase of realized price and volume of crude oil sold externally compared with that of the first half of 2002. In the first half of 2003, realized price of externally sold crude oil was RMB1,559.46 per tonne (approximately US\$ 26.53/barrel), up by 42.14% over the first half of 2002; and the external sales volume of crude oil was 3,303.9 thousand tonnes, up by 2.48% over the first half of 2002. The external sales volume of natural gas was 1.617 billion cubic meters, up by 3.45% over the first half of 2002.
- Sales of petroleum products The Company's external sales of petroleum products primarily consist of refined oil products and other refined products. In the first half of 2003, the external sales of such petroleum products reached RMB143.3 billion, constituting 70.77% of the Company's turnover and operating revenues, up by 38.99% over the first half of 2002. In the first half of 2003, the sales of gasoline and diesel were RMB102.8 billion, accounted for 71.74% of the Company's sales of petroleum products, up by 37.07% over the first half of 2002. Of which, sales of gasoline was RMB39.2 billion, up by 36.59% over the first half of 2002; the sales of diesel was RMB63.6 billion, up by 37.37% over the first half of 2002. The revenues from other petroleum products (including kerosene, LPG, chemicals feedstock and lubricating oil, etc.) was RMB40.5 billion, accounted for 28.26% of the Company's total revenues from sales of petroleum products, and up by 44.13% over the first half of 2002. The increase of the revenues from sales of gasoline and diesel and other petroleum products was largely because the Company has seized the favorable opportunity when the market prices were increasing and increased its sales volume. Meanwhile, the Company continued to adjust its product mix and marketing profile, which led to increase in sales volume of high octane number gasoline and increase in proportion of gasoline and diesel retail volume among the total sales.

(3) Sales of chemical products In the first half of 2003, the Company's external sales of chemical products were RMB35.6 billion, accounted for 17.58% of the turnover and other operating revenues of the Company, and up by 43.55% over the first half of 2002. This was mainly because of the significant increase in the sales volume of major chemical products along with the accomplishment of the Company's expansion of ethylene capacities in Shanghai and Yangzi and increase in prices of chemical products by various amounts.

5.8.2 Operating expenses

In the first half of 2003, operating expenses of the Company were RMB184 billion, up by 35.79% over the first half of 2002. Variations of operating expenses mainly lies in the following:

- Purchased crude oil, products and operating supplies and expenses In the first half of 2003, the purchased crude oil, products and operating supplies and expenses of the Company were RMB142.7 billion, up by 41.85% over the first half of 2002, and accounted for 77.55% of the operating expenses. Among others, the purchasing costs of crude oil were RMB75.8 billion, up by 47.47% over the first half of 2002. This was mainly because the Company has outsourced 40.04 million tonnes of crude oil, up by 3.93 million tonnes, or 10.88% over the same period last year; and the average purchasing cost of crude oil climbed to RMB1,894.21 per tonne (approximately US\$ 31.13/barrel), up by RMB469.48 per tonne over the first half of 2002, representing an increase of 32.95%. The purchasing costs of other raw material products, operating supplies and expenses were RMB66.9 billion, up by 35.98% over the first half of 2002, mainly because of increased quantities of outsourced gasoline, kerosene, diesel, fuel oil and increased volume of raw materials other than crude oil.
- Selling, general and administrative expenses In the first half of 2003, the selling, general and administrative expenses of the Company were RMB11.3 billion, up by 15.31% over the first half of 2002. This was largely due to 1) the sales volumes of refined oil products and key chemical products increased significantly over those in the first half of 2002, leading to an increase in the selling expenses accordingly; 2) research and development expenses increased by RMB330 million over the first half of 2002.

(3) Depreciation, depletion and amortization In the first half of 2003, the depreciation, depletion and amortization of the Company were RMB12.4 billion, up by 9.73% over the first half of 2002. The increase was largely due to an increase in properties, plants, equipment and oil & gas properties as a result of capital expenditure.

(4) Exploration expenses In the first half of 2003, the exploration expenses were RMB2.8 billion, up by 47.37% over the first half of 2002, mainly because the Company seized the opportunity of high oil price in the past two years and increased investments in upstream exploration activities and endeavored to expand upstream resources.

(5) Personnel expenses In the first half of 2003, the personnel expenses of the Company were RMB8 billion, up by 35.59% over the first half of 2002, mainly because the Company has realized fairly good results in the first half of 2003, and thus increased the amount of performance-related wages.

(6) Other operating expenses, net In the first half of 2003, other operating expenses (net) totaled RMB0.7 billion, representing an increase of 250.00% over the first half of 2002. This was due to the impairment loss on oil and gas properties and net loss on disposal of property, plant and equipment.

5.8.3 Operating profit

In the first half of 2003, the Company's operating profit was RMB18.5 billion, up by 72.90% over the first half of 2002.

5.8.4 Net finance costs

In the first half of 2003, net finance costs of the Company was RMB2 billion, down by 13.04% compared to the first half of 2002. Among others, reduction of short-term loan led to a decrease in interest expenses of RMB144 million; and the net foreign exchange losses decreased by RMB204 million.

5.8.5 Profit attributable to shareholders

In the first half of 2003, the profit attributable to shareholders was RMB10.7 billion, up by 98.15% over the first half of 2002.

5.9 The cash flow, source of finance and capital structure in this reporting period have experienced no significant change compared with previous financial year.

5.10 Use of the proceeds from share issue

5.10.1 Use of the proceeds from share issue

applicable inapplicable

5.10.1.1 Use of the proceeds from the issue of H share

	Proposed investment in this reporting period	Actual investment in this reporting period	Whether the planned progress and expected return are satisfied
Total amount of proceeds used in this reporting period	16.59	16.59	Yes
Total amount of proceeds already used	227.12	227.12	Yes
Total proceeds from share issue	243.26	243.26	Yes

Projects under commitment	Proposed investment in this reporting period	Any change	Actual investment in this reporting period	Whether the planned progress and expected return are satisfied
Oil and natural gas exploration and production	12.00	No	12.00	Yes
Yangzi BASF integration project	2.60	No	2.60	Yes
Shanghai Secco Project	1.99	No	1.99	Yes
Total	16.59	—	16.59	—

5.10.1.2 Use of the proceeds from the issue of A share

	Proposed investment in this reporting period	Actual investment in this reporting period	Whether the planned progress and expected return are satisfied
Total amount of proceeds used in this reporting period	10.14	10.14	Yes
Total amount of proceeds already used	94.76	94.76	Yes
Total proceeds from share issue	116.48	116.48	Yes

Unit: RMB100 million

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