

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

1 CONSOLIDATED RESULTS OF OPERATIONS

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

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

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

(1) Turnover and other operating revenues

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

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

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

Sales of crude oil and natural gas

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

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

Sales of petroleum products

Both the refining and the marketing and distribution segments make external sales of refined petroleum products (which consist primarily of gasoline, diesel, kerosene and jet fuel and other refined products). External sales revenues of petroleum products from the two segments in 2002 were RMB 231.9 billion,

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

Sales of chemicals

The external sales revenues of chemical products were RMB 58.4 billion in 2002, up by RMB 9.5 billion, or 19.4%, compared with RMB 48.9 billion in 2001. This increase was primarily due to the significant increase of output and sales volume of the chemical products as the Company completed revamping of a number of chemicals production facilities to expand capacity, and the gradual recovery of chemical products prices in 2002. The external sales volume of synthetic resin, synthetic rubber, synthetic fiber and monomers and polymers for

synthetic fiber were 3.3 million tonnes, 0.46 million tonnes, 1.18 million tonnes and 1.7 million tonnes, respectively, in 2002, representing an increase of 23.6%, 11%, 8.5% and 0.3%, respectively, from those in 2001. The average realized prices of these products were RMB 5,238.22 per tonne, RMB 6,450.13 per tonne, RMB 8,435.24 per tonne and RMB 5,454.12 per tonne, respectively. Compared with 2001, the average realized prices of synthetic rubber and monomers and polymers for synthetic fiber went up by 4.5% respectively and those of synthetic resin and synthetic fiber declined by 5.6% and 0.9%, respectively. As the prices of various chemical products went up and others went down in 2002, the average realized external sales prices of all chemical products in 2002 were at a similar level to those in 2001.

(2) Operating expenses

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

Purchased crude oil, products and operating supplies and expenses

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

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

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

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

Selling, general and administrative expenses

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

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

Depreciation, depletion and amortization

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

Exploration expenses

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

Personnel expenses

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

Employee reduction expenses

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

Taxes other than income tax

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

Other operating expenses

The net amount of the Company's other operating expenses were RMB 1.1 billion in 2002, up by RMB 0.9 billion compared to RMB 0.2 billion in 2001. The increase was primarily attributable to the increased

expenses incurred for the disposal of certain obsolete and retired equipments after various facilities' upgrade.

(3) Operating profit

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

(4) Net finance cost

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

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

(5) Profit from ordinary activities before taxation

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

(6) Income tax

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

(7) Profit attributable to shareholders

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

2 DISCUSSION OF SEGMENT OPERATION

The Company divides its operations into four principal business segments, namely, exploration and production segment, refining segment, marketing and distribution segment and chemicals segment, and a corporate and others segment. Unless otherwise indicated, the financial data

discussed in this section do not eliminate the inter-segment transactions and the operating revenue data of each segment include other operating revenues of each segment.

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

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

Note: (1) include other operating revenues.

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

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

(1) Exploration and Production Segment

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

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

In 2002, the segment's average realized price of crude oil was RMB 1,317.82 per

tonne, down by 4% compared with RMB 1,373.06 per tonne in 2001. Average realized price of natural gas was RMB 571.69 per thousand cubic meter in 2002, up by 1.9% compared with RMB 561.08 per thousand cubic meter in 2001.

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

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

- The depreciation, depletion and amortization increased by RMB 0.9 billion from RMB 8.1 billion in 2001 to RMB 9 billion in 2002 as more fixed assets commenced operation as a result of the Company's various capital expenditure programmes;
- The Company continued to implement its strategy of expanding resources in 2002, and increased its exploration expenditure in certain important areas in western China and southern China's marine bed formation areas so as to lay a firm foundation for the potential future increase of crude oil reserve and production. Exploration expenses (including dry holes expenses) were up by RMB 0.6 billion from RMB 3.8 billion in 2001 to RMB 4.4 billion in 2002;
- In 2001, the Company collected approximately RMB 0.2 billion long outstanding debts, while in 2002, allowance for doubtful accounts of approximately RMB 0.4 billion was provided for. The related expenses in 2002 thus increased by approximately RMB 0.6 billion compared with 2001.
- As a result of the segment's reinforcement of its performance based incentive schemes as well as the implementation of new incentive schemes in certain subsidiaries such as special salaries for special positions, expenses related to salaries, welfare and social security increased approximately by RMB 0.3 billion in 2002 compared with 2001;
- The segment disposed certain obsolete and retired equipment after various facilities' upgrade, which resulted in an increase of the related expenses by approximately RMB 0.3 billion; and
- Other operating expenses of the segment including supplies of raw materials in 2002 were increased by RMB 0.9 billion compared with 2001.

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

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

(2) Refining Segment

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

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

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

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

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

In 2002, the refining segment sold 37.39 million tonnes of diesel at an average realized price of RMB 2,126.55 per tonne, and realized sales revenues of RMB 79.5 billion, accounting for 37.5% of the total operating revenues of the refining segment. In 2001, the refining segment sold 38.08 million tonnes of diesel at an average realized price of RMB 2,199.94 per tonne, and realized sales revenues of RMB 83.8 billion, accounting for 40.1% of the total operating revenues of the refining segment in 2001.

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

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

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

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

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

In 2002, the operating expenses of the refining segment were RMB 206 billion, down by RMB 1 billion, or 0.5%, from RMB 207 billion in 2001. The decrease was primarily due to the reduction of average cost of crude oil. In 2002, average cost of crude oil was RMB 1,532.48 per tonne,

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

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

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

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

increased production of refined products with higher added value.

(3) Marketing and Distribution Segment

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

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

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

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

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

- In 2002, the retail sales volume of gasoline increased to 12.34 million tonnes, up by 1.5 million tonnes, or 13.9%, from 10.84 million tonnes in 2001; and the average realized retail sales price of gasoline was RMB 3,061.82 per tonne, up by 4.3% compared with RMB 2,934.55 per tonne in 2001;
- In 2002, the wholesale sales volume of gasoline (excluding direct distribution sales volume and those directly sold to special customers) was 7.25 million tonnes, down by 0.69 million tonnes, or 8.7%, from 7.94 million tonnes in 2001; and the average realized wholesale sales price of gasoline was RMB 2,585.31 per tonne, up by 1.9% compared with RMB 2,536.2 per tonne in 2001;
- In 2002, the direct distribution sales volume of gasoline was 1.04 million tonnes, up by 0.41 million tonnes, or 64.5%, from 0.63 million tonnes in 2001; and the average realized price for the direct distribution sales of gasoline was RMB 2,693.28 per tonne, up by 1.9% compared with RMB 2,642.34 per tonne in 2001; and

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

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

- In 2002, the retail sales volume of diesel increased to 17.16 million tonnes, up by 1.34 million tonnes, or 8.5%, from 15.82 million tonnes in 2001; and the average realized retail sales price of diesel was RMB 2,562.49 per tonne, down by 1.1% compared with RMB 2,590.59 per tonne in 2001;
- In 2002, the wholesale sales volume of diesel (excluding the direct distribution sales volume and those directly sold to special customers) was 17.85 million tonnes, down by 1.12 million tonnes, or 5.9%, from 18.97 million tonnes in 2001; and the average realized wholesale sales price of diesel was RMB 2,297.06 per tonne, down by 2.6% compared with RMB 2,357.51 per tonne in 2001;
- In 2002, the direct distribution sales volume of diesel was 5.48 million tonnes, up by 2.38 million tonnes, or 76.8%, from 3.1 million tonnes in 2001; and the average realized price for the direct distribution sales of diesel was RMB 2,397.89 per tonne, down by 1.7% compared with RMB 2,438.83 per tonne in 2001;

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

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

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

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

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

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

(4) Chemicals Segment

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

The operating revenues of the chemicals segment in 2002 were RMB 69.6 billion, up by RMB 10.7 billion, or 18.2%, from RMB

58.9 billion in 2001. The increase was largely due to a significant increase of sales volume of various chemical products as their production capacities increased after the relevant facilities completed their revamp in 2002. The sales revenues of the segment's six major chemical product categories (namely, intermediate petrochemicals, synthetic resins, synthetic rubbers, synthetic fiber, synthetic fiber monomers and polymers and fertilizers)

were approximately RMB 57.3 billion, accounting for 82.3% of the operating revenues of the segment, and increased by RMB 7.6 billion, or 15.2%, from RMB 49.7 billion in 2001. The following table shows the sales volume, average realized prices and percentage changes of each major product category of the chemical segment in 2001 and 2002.

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

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

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

- the depreciation and amortization amounted to RMB 7.1 billion in 2002, up by approximately RMB 0.4 billion, or 6%, from 2001.

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

(5) Corporate and Others

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

In 2002, the operating revenues of corporate and others were approximately RMB 43.9 billion, up by RMB 20.2 billion, or 85.2%, from RMB 23.7 billion in 2001. The operating revenues comprised mainly consolidated operating revenues of Sinopec (Hong Kong) Company Limited, Sinopec (Singapore) Company Limited and Unipeck Limited as well as other subsidiaries. The increase was primarily because certain of

these subsidiaries significantly expanded their independent trading operations of crude oil and refined products on the international market.

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

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

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

3 LIQUIDITY AND CAPITAL RESOURCES

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

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

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

- Total assets were RMB 375.9 billion, representing an increase of RMB 9.2 billion compared with RMB 366.7 billion as at 31 December 2001. Current assets were RMB 101.9 billion as at 31 December 2002, representing a decrease of RMB 7.9 billion from 31 December 2001. This decrease was primarily due to the Company's enhanced fund management to shorten the fund turnover cycle, resulting in a decrease in cash and cash equivalents and time deposits by RMB 4.1 billion, collection of account receivables of RMB 1.8 billion, reduction of pre-payments by RMB 0.8 billion as well as reduction of prepaid taxes by RMB 0.7 billion. Non-current assets were RMB 274 billion as at 31 December 2002, representing an increase of RMB 17.1 billion from 31 December 2001, which increase was primarily due to the addition of equipment, plant and property.
- Total liabilities amounted to RMB 197.5 billion as at 31 December 2002, representing an increase of RMB 2 billion from RMB 195.5 billion as at 31 December 2001. Current liabilities were RMB 117.4 billion as at 31 December 2002, representing a decrease of RMB 7.3 billion from 31 December 2001. This decrease was primarily due to the Company's enhanced fund management to reduce the amount of idle funds and the level of short-term debts, and as a result, the Company repaid to the banks and other financial institutions approximately RMB 11.6 billion in short-term loans and RMB 2.5 billion of the current portions of long-term loans. In addition, a change of liabilities' structure resulted in an increase in bills payable by RMB 4.1 billion and accounts payable by RMB 2.4 billion, which increase partially offsets the decrease of other liabilities. Non-current liabilities were RMB 80 billion as at 31 December 2002, representing an increase of RMB 9.3 billion from 31 December 2001. The increase was primarily due to the increase of long-term borrowings by RMB 8.2 billion as a result of the Company's capital expenditure programmes.
- The shareholders' funds were RMB 154.5 billion as at 31 December 2002, representing an increase of RMB 6.8 billion from RMB 147.7 billion as at 31 December 2001. This increase was mainly due to the net profit for the year ended 31 December 2002, reduced by the final dividend for 2001 and the interim dividend for 2002.

(2) Cash flow in 2002

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

Unit: RMB100 million

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

i Net cash generated from operating activities

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

The cash inflow from operating activities primarily consists of:

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

Cash outflow from operating activities primarily consists of:

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

ii Cash flow from investment activities

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

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

iii Cash flow from financing activities

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

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

(3) Contingent liabilities

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

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

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

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

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

4 Capital Expenditure

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

5 Research and Development and Environmental Expenses

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

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

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

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

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

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

Financial Data Prepared under the PRC Accounting Rules and Regulations:

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

Analysis of changes:

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

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

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

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

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

7 SIGNIFICANT DIFFERENCES BETWEEN IFRS AND US GAAP

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