

REVIEW OF OPERATIONS FOR THE FIRST HALF OF 2001

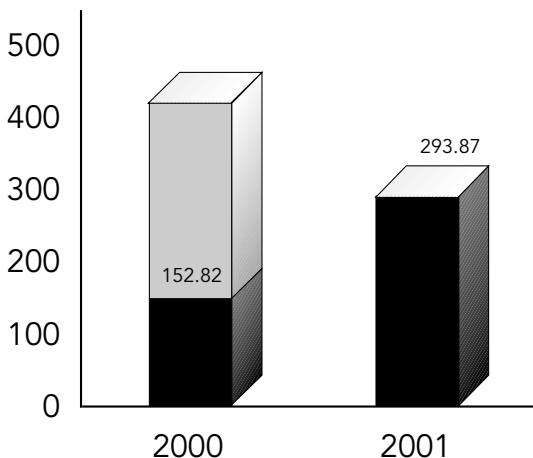
In the first half of 2001, the PRC economy continued to maintain steady growth despite the unfavourable conditions brought forth by the slowdown of the global economy. The PRC gross domestic product ("GDP") increased by 7.9 per cent as compared with that of the same period last year, and such increase boosted the rise in domestic demand for petroleum products in the PRC.

In the first half of 2001, the prices of petroleum oil in the international market continued to fluctuate at high price levels. The average prices of BRENT crude oil, gasoline and diesel in the Singapore market were basically at the same level of those of the same period last year. As the prices of domestic petroleum products have been adjusted in accordance with the price movement of the international market since June 2000, the average prices of domestic products were considerably higher than that of the same period last year. The Company's refining margin in the first half of this year was US\$4.34 per barrel ("\$/b"), 94.62 per cent higher than that of the same period of 2000, but was slightly lower than the average level of that of the second half of 2000.

In the first half of 2001, the profit after taxation of the Company was RMB294 million, 92.3 per cent more than that of the same period of 2000. The growth rate of profit after taxation was higher than those of the throughput of feedstock oil and turnover, making the Company remain in the forefront of the domestic refining industry.

Net Profit

RMB million



During the first half of 2001, despite the planned overhaul of the refining plant that affected the effective processing time, the Company fully capitalized on its advantage of operation scale and technology level to process 5.23 million tonnes of feedstock oil, just 0.95 per cent lower than that of the same period of 2000. Of the throughput volume, there was 3.02 million tonnes low-priced sour and heavy feedstock oil, which was 19.16 per cent more than that of the same period of the previous year and accounted for 57.86 per cent of the total throughput volume. The Company's average processing price of feedstock oil was RMB1,639 per tonne, or 26.44 \$/b in the first half of 2001 and basically in line with the average FOB price of 26.56 \$/b for Brent crude oil in the Singapore market during the same period.

Owing to the increase in the average prices of petroleum products and the output of such high-value-added products as LPG, propylene and aromatics, the Company's turnover increased by RMB432 million, 4.55 per cent higher year over year under the situation that the product sales volume decreased by 252,900 tonnes to 4.63 million tonnes. The growth rate of the Company's turnover was higher than that of the Company's feedstock oil processing throughput.

Following the completion of the capacity expansion and upgrading of the cocker unit during the planned overhaul in April 2001, the Company's comprehensive processing capacity has been raised to 14 million tonnes per annum ("tpa"), which also marked the formal inauguration of the next 5-year refining capacity expansion project ("RCEP") of the Company. In addition, the newly built Berth No.6 and Berth No.7 of the jetty owned by the Company were commissioned in April and July 2001 respectively, enhancing the handling capacity of the jetty to exceed 25 million tpa.

In order to increase our competitiveness, the Company's workforce will be reduced by 20 per cent on the basis of the number of staff at the end of 2000 over the next five years. The Company's workforce had been reduced by 357 employees in the first half of 2001.