Review of Operations for the First Half of 2003

During the first half of 2003, the Group encountered the challenge brought by the war between the US and Iraq and the sudden outbreak of Severe Acute Respiratory Syndrome ("SARS") in the PRC. The Group faced the difficulties and rose to the occasion with satisfactory results for the period. The throughput of feedstock reached 6,233,200 tonnes (including 428,000 tonnes of crude oil for third-party processing), representing an increase of 5.48 per cent from that of the same period last year. Profit attributable to shareholders increased by 15.91 per cent when compared with that of the same period last year to RMB524 million, while the Group's total earnings continued to rank the highest among domestic refining companies. The Group's performance fully reflected its ability to react to a difficult and changing market environment and its strong earning power.

The US' war with Iraq had led to fluctuations in the prices of international crude oil and petroleum products in the first half of the year, and had thus increased the risk in operation. On the one hand, the Company had closely monitored the international market changes and stepped up efforts in tracking and analyzing market trend, to achieve swift response and decision making in accordance with the prevailing situation. With respect to crude oil, the Company purchased crude oil at appropriate timing and maintained a reasonable inventory level of crude oil. Meanwhile, the Company achieved a higher production to sales ratio and intensified its marketing efforts and increased output to achieve higher sales when the prices of petroleum products and self-distributed products hovered at high levels. All these efforts were made to mitigate the impact of the war. On the other hand, the Company seized the market opportunities by taking advantage of its scale of operations, and through participation in third-party processing business and increasing export volume to increase its total processing volume. The throughput of crude oil for third-party processing business was 428,000 tonnes in the first half of the year, which represented a 283.10 per cent increase over that of the same period last year, while the facility capacity utilisation rate rose by 5.40 percentage points. Despite increased external uncertainties, the Company's refining margin increased by US$0.80 per barrel ("$/bbl") to 4.95 $/bbl when compared with that of same period last year.

Since April, the Company had been committed to taking precautionary measures against the SARS epidemic, while maintaining efficient production and operation. First, the Company took effective measures to ensure stability in its workforce, production and operation. Second, the Company strove to adjust the facility capacity utilisation rate and to fine-tune the operational process, in order to enhance processing intensity. The Company had also adjusted and optimised its product mix, by increasing the production of high value-added products such as liquefied petroleum gas ("LPG"), solvent oil and propylene and reducing the output of jet fuel in phases. By cooperating with local petroleum product distributors, the Company actively explored the market for jet fuel substitutes to alleviate the selling pressure on jet fuel. Third, the Company captured the opportunities to export its products, through which the Company was able to maintain its initiative in production and operation. All these measures had contributed to the Company's satisfactory results amid the SARS epidemic.

During the first half of the year, the Company also finished the planned overhauls of two batches of facilities, resulting in further improvement in the equipment technical level, operation reliability and degree of control via the Distributed Control System (DCS). The improvements had laid the groundwork for arranging facility overhaul once every three years in the future. Despite a shorter effective production period owing to the overhauls, the total throughput of feedstock was still higher than that of the same period last year, with further improvement in various technical and economic indicators. The refining composite commercial yield for the interim period was 93.93 per cent, representing a 0.13 percentage point increase from that of the same period last year. Light oil yield rose by 0.32 percentage point to 73.17 per cent when compared with that of the same period last year, while the added value of the products increased further.

Construction of the 1 million tonnes per annum ("tpa") Continuous Catalytic Reforming (CCR) and 450,000 tpa Paraxylene ("PX") units were completed during the first half of the year. The refining comprehensive processing capacity of the Company reached 16 million tpa, which further enhanced the Company's competitive edge and signifies a major step in the integration of its refining and chemical operations, while striving to strengthen and further expand its core business in refining.