

Review of Operations for the First Half of 2005¹

During the first half of 2005, the crude oil prices in the international market drastically rose by over 40% from those of the same period in the previous year. However, domestic petroleum products prices increased by merely approximately 21% when compared with those of the same period last year as a result of stringent control. In the face of this severe challenge, the Company calmly responded by going all-out to reduce costs and enhance efficiency in order to increase internal competitiveness. As a result, the Company realised net sales of RMB24,993 million, representing approximately 35% increase from that of the same period of the previous year; profit for the period amounted to RMB1,261 million, which was basically the same when compared with that of the same period last year. On the whole, the Company maintained a sustainable and stable profitability.

In the first half of the year, the Company increased its throughput further by taking full advantage of its large-scale production capacity as a whole, and the newly established facilities. Feedstock throughput during the first half of the year reached 8,468,200 tonnes (including third-party processing business), representing a 4.42% increase from that of the same period last year. Meanwhile, the Company fully leveraged the discrepancy in the prices of low and high sulphur crude oil and those of light and heavy crude oil to raise the proportion of purchased sour crude oil, acid crude oil and heavy crude oil, and to strengthen crude oil inventory management, with the aim of lowering the costs of crude oil. During the first half of the year, the amount of sour crude oil the Company processed was 6,413,600 tonnes and accounted for 77% of the total crude oil processing volume, which represented an increase of 16 percentage points from that of the same period last year. The processing cost of feedstock was RMB2,750.26 per tonne (about US\$45.50 per barrel, "\$/bbl"), which was lower than the average dated price of Brent crude oil during the same period by more than \$4/bbl.

During the first half of the year, the Company, with a market-orientation, intensified adjustment to its product mix and increased the output of high value-added products with robust market demand. Net sales, when compared with that of the same period last year, realised a growth rate of 34.51%, which was higher than the growth rate of 21.22% in the average prices of gasoline, kerosene and diesel. First, the Company, since the ex-factory prices of its naphtha reached international market levels in January, adjusted production techniques and raised naphtha output. During the first half of the year, the Company produced 394,400 tonnes of commodity naphtha, representing a 20.10% increase from that of the same period last year. Second, the Company produced more high value-added products including LPG, propylene and PP. During the first half of the year, the Company produced 466,200 tonnes of LPG and 102,700 tonnes of PP, representing increases of 11.72% and 55.01% respectively from those of the same period last year. Third, the Company increased the output of aromatic products (including PX) to 393,900 tonnes during the first half of the year by 22.56% when compared with that of the same period last year.

¹ The exchange rate between US dollars and RMB for the period under review was 8.28.

Review of Operations for the First Half of 2005

Since 1 July, all gasoline and diesel for vehicle use in the PRC have to attain the Euro II emission standard. Since April, the Company has produced gasoline and diesel meeting Euro II standard. Meanwhile, the Company raised the output proportion of high-octane gasoline. The output of high-standard clean gasoline with above 93 octane amounted to 1,090,800 tonnes and accounted for 74.96% of the total gasoline output, which represented an increase of 2.82 percentage points from that of the same period last year. Output of 98 octane high-standard clean gasoline and car-use diesel meeting Euro II emission standard amounted to 5,003 tonnes and 483,900 tonnes, representing increases of 2.54 times and 2.56 times respectively from those of the same period of the last year. During the period under review, the Company also produced, for the first time, Beijing standard — B gasoline, which meets Euro III standard, and launched it in the Beijing market. In the first half of the year, the Company's three staple products, namely gasoline, kerosene and diesel, ranked first in the PRC in terms of output.

The efficient use of new facilities and new technical upgrade projects in the first half of the year played an important role in strengthening the Company's sustainable profitability. After the construction of the 1 million tpa delayed coking unit completed in April, the Company's comprehensive processing capacity reached 18.5 million tpa and the deep processing capacity of heavy oil was further enhanced. Meanwhile, the Company, through technical upgrade, raised the quality of gasoline and diesel from meeting Euro I standard to Euro II emission standard with relatively small investments and improved the production capacity of premium petroleum products. The technical upgrade projects, including the light hydrocarbon recovery unit and non-aromatics hydrofining unit, commenced operation in April and June respectively, enhancing naphtha production capacity. The 450,000 tpa benzene extraction unit, which commenced operation in June, operated at full capacity, augmenting the production capacity of high value-added BTX (benzene, toluene, xylene and PX) products.

In the first half of the year, the Company also implemented over 200 cost-efficiency enhancement projects through four rounds of activities, to further optimise the operation of the overall production facilities and supplementary systems, and results of such efforts had been reflected. During the first half of the year, the Company's composite commercial yield reached 93.95%, which increased by 0.39 percentage points; light oil yield stood at 75.42%, rising by 0.40 percentage points, while various technical and economic indicators and unit complete expense continued to remain at relatively satisfactory levels.