



REVIEW OF OPERATING PERFORMANCE

In 2002, China's economy maintained a sustainable, rapid and healthy development and the growth rate of gross domestic product (GDP) was 8%. In such a favorable environment, China's domestic demand for petroleum and petrochemical products grew steadily, thereby creating a good market environment for the growth of the Company's businesses. According to the statistics of the relevant government departments, in 2002, the apparent domestic consumption of refined oil products (including gasoline, diesel and kerosene) was 120.44 million tonnes, increased by 5.1% over the preceding year; and the apparent consumption of petrochemical products (in terms of ethylene) was 13.73 million tonnes, increased by 11.1% over the preceding year.

1 Review of Market Environment

In 2002, the Company overcame the difficulties of low prices of crude oil, refined oil products and chemical products in the international market on the Company's production and operation in the early months of the year and successfully faced the challenges presented by tariff reduction, a more opened domestic market and fiercer competition in the first year after China's accession to the WTO.

(1) The market for crude oil

Affected by various factors, the international crude oil prices had dropped to a trough in the first quarter of 2002, then showed a rising trend with fluctuation and finally peaked in December. The Platt's Singapore annual average spot price of crude oil was US\$ 24.96 per barrel, which was basically similar to the price of US\$ 24.89 per barrel in 2001. Domestic crude oil prices were basically consistent with the trend of the international prices. However, due to a one month time lag of domestic pricing behind international pricing and the reasons such as



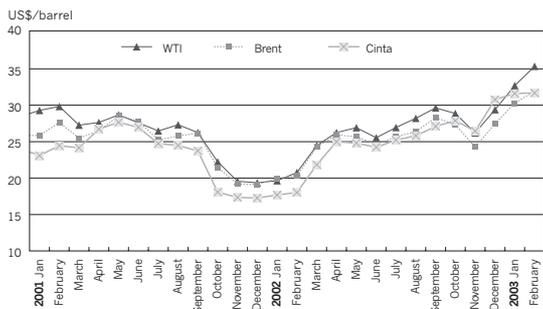
Mr Wang Jiming, Director and President

the cancellation of tariff on crude oil, the realized annual average price of the Company's self-produced crude oil was US\$ 22.42 per barrel in 2002, representing a decrease of 4.02% over the previous year.

(2) The market for refined oil products

In 2002, affected by the fluctuation in the prices of refined oil products in the international market, domestic prices of refined oil products fell to a trough in January and February and gradually recovered throughout the rest of the year. In accordance with the domestic refined oil products pricing mechanism, the PRC government raised domestic prices of refined oil products in March, April, May and October. With the international

refining margin rose gradually, the Company's refining margin has also been increased gradually. Meanwhile, the PRC government further disciplined the refined oil products market order by closing down the domestic refineries and petrol stations that failed to meet the government standards and requirements, thereby greatly improved the efficiency of the domestic refined oil products market.



EXPLORATION AND PRODUCTION

EXPANDING RESOURCES IS THE COMPANY'S PRIMARY STRATEGY. IN 2002, THE COMPANY'S PRODUCTION OF CRUDE OIL AND NATURAL GAS AMOUNTED TO 299.6 MMBOE. THE COMPANY IS THE SECOND LARGEST CRUDE OIL PRODUCER IN CHINA WITH PROVED RESERVES OF 3,875 MMBOE.

