Production of Major Chemicals (1,000 t.)

	2000	1999	Change, %
Ethylene	2,170	2,050	5.85
Synthetic resin	3,183	2,847	11.80
Incl: Performance compounds resins	1,280	870	47.13
Synthetic rubber	317	316	0.30
Monomers and polymers for synthetic fiber	3,794.5	3,440	10.31
Synthetic fiber	1,067.5	970	10.05
Incl: Differential fiber	283.4	194	46.08
Urea	2,922.5	4,440	– 34.18

Research & Development

Major R&D achievements in 2000 include the following:

- Exploration & Production: applied enhanced oil recovery technologies in oilfields with high water content, developed technologies for subtle reservoirs, and developed engineering technologies for shallow-water areas.
- Refining: developed GOR series catalysts and LAP co-catalyst that reduce the olefin content in FCC gasoline for the production of cleaner burning fuels; developed technology to maximize diesel yield for FCC units.
- Chemicals: developed 100,000 tpa ethylene cracking furnace; developed and applied new generation catalysts for polyethylene, polypropylene, acrylonitrile, and ethyloxide production, which reduced production cost and capital expenditure.
- Information technology: completed and operated the marketing management network, the financial management network, and the two e-commerce platforms for material procurement and the sales of petrochemicals.

Safety and Environment

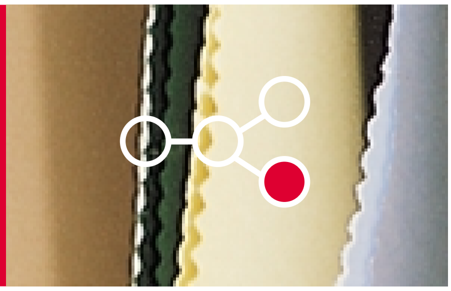
The Company sets up an HSE management system, promotes cleaner production, and takes great care of the health of its employees, and diligently performs its social responsibilities.

- Safety: The Company started in 2000 to set up the HSE management system by carrying out experiments in selected enterprises and devised plans to extend the system in the entire Company in 2001; The Company also set up a safety monitoring system with IT technology and a standardised safety and environment performance evaluation system to improve the overall level of safety management.
- Environmental protection: The Company implemented cleaner production in the entire Company, decreased total contaminants discharged (equivalent to COD) by 3.1% compared to 1999, and started supplying new standard cleaner burning gasoline to Beijing, Shanghai and Guangzhou since 1 July 2000.

  In 2000, the Company was qualified as the first large industrial enterprise in China to meet the national emission standards.

PETROCHEMICALS

THE COMPANY PRODUCES AND SELLS MORE PETROCHEMICAL PRODUCTS THAN ANY OTHER PRODUCERS IN CHINA. OUR RANGE OF PRODUCTS INCLUDES INTERMEDIATE PETROCHEMICALS, SYNTHETIC RESINS,MONOMERS AND POLYMERS FOR SYNTHETIC FIBER, SYNTHETIC FIBER, SYNTHETIC RUBBER AND CHEMICAL FERTILISERS.



China Petroleum & Chemical Corporation

II. BUSINESS PROSPECTS

1. Market Prospects

The Company expects to encounter a macro-economic environment with the following marketing conditions:

- **Steady growth of the PRC economy is likely to keep the domestic demand for refined and petrochemical products relatively strong.**
  It is expected that in 2001 the PRC economy will continue to grow at a GDP growth rate of 7%. Taking into considenation the likely technologies advancement, lower energy consumption, and a consumption elasticity of 0.65 for refined products, it is estimated that in 2001 China's consumption of refined products is likely to grow at a rate of approximately 4.5%, and the consumption of major petrochemicals, represented by ethylene, is likely to grow at a rate of 7%, both providing an opportunity for the Company's sustained growth.

- **International oil prices are expected to continue fluctuating at a relatively high level.**
  As the latest information from OPEC indicates, the international oil price is expected to continue to fluctuate between US$ 22/bbl. and US$ 28/bbl.

- **Regulatory environment will be further improved.**
  The PRC government is working on measures in preparation for China's WTO entry with specific policies including the expansion of exports and foreign cooperation, effective utilisation of foreign capital, and greater efforts in customs control and curbing smuggling. The State Economic and Trade Commission has made it clear that in 2001 the suspension of gasoline and diesel imports will continue, and the import of fuel oil will be further standardised. The regulatory environment is expected to further improve the market order to endow fair competition. The Company expects that it would be able to benefit from such a favorable regulatory environment and achieve better financial results.

2. Operation Prospects

In light of the opportunities and challenges presented in 2001, the Company will focus its operations on the following aspects.

- Stabilise oil and gas production: The Company will reinforce exploration in new acreages for The Company will reserve replacement, and improve the recovery rate of producing fields to stabilize production. In 2001, the Company plans to produce as much as 261 million BOE of crude oil and natural gas.

- Optimise resources allocation: The Company gives preference to low-cost, advanced, bigger size refineries in crude allocation; optimise the crude transport process to reduce transport cost; sharply increase the volume of imported sour crude to reduce crude cost; and, further optimise the feedstock of chemical plants, and by further increasing the percentage of naphtha, eventually shift to lighter and better quality ethylene feeds.

- Stabilise overall operation and adjust product mix: The Company intends to: continue to optimise the crude supply chain, production processes and exploration acreages; achieve overall balance between total refinery throughput and crude resources, import and export, and sales and inventory; properly arrange the refinery throughput for sour crude, improve the quality of refined oil products, and increase the production of cleaner burning fuels and high-grade road asphalt; ensure full-load and long-cycle operations of ethylene, synthetic resin, synthetic fiber and synthetic rubber plants, and increase the percentage of performance compound resins and differential fibers to replace imports. In 2001, the Company plans to process 110.21 million tonnes (daily production of 2.2 million barrels) of crude oil and produce 2.2 million tonnes of ethylene.

- Consolidate and expand market: The Company intends to: continue to "control wholesale and expand retail", reform the marketing system, and reinforce management; acquire and build 4,000 new petrol stations as planned, and further improve the refined products marketing information system; build the brand image and expand markets. In 2001, the Company plans to sell 72.3 million tonnes of gasoline and diesel, and increase the percentage of retail to total sales volume to 51%.

- Reduce costs: Apart from reducing purchase cost of bulk materials such as crude oil, the Company will focus on specific cost reduction measures, such as lowering material and energy consumptions, improving plant utilization rate and cutting selling, general and administrative costs. Overall the Company expects to reduce costs as much as RMB 2.19 billion in 2001, calling for cost-saving of RMB 450 million in exploration and production segment, RMB 640 million in refining segment, RMB 490 million in chemicals segment, and RMB 610 million in marketing and distribution segment.

3. Capital Expenditures

In accordance with the principle of maximising its return on investment, the Company currently plans to spend RMB 40.76 billion for capital expenditures in 2001.

- RMB 12.5 billion for exploration and production, mainly to be used in matured reserves in the east part of China and in new acreages for discoveries to replace reserves.

- RMB 6.8 billion to increase the sour crude processing capacities along the coastal area to reduce costs.

- RMB 10.6 billion to acquire more service stations and storage facilities to further expand the refined oil product market.

- RMB 10.5 billion for revamping and expansion of a few major ethylene plants to increase the production of petrochemicals, especially high-value added products.

- RMB 360 million for the ERP system and the construction and upgrading of other systems.

  In addition, the Company plans to make an A share offering in 2001 to fund the acquisition of Sinopec National Star and the investment in the "Ningbo-Shanghai-Nanjing Crude Oil Import Pipeline" project and "Maoming-Guizhou-Kunming Product Oil Pipeline" project.

In 2001, the Company will continue its efforts to deepen internal reform, and vigorously promote business restructuring, slimed-down organisational structure and specialized management. The Company will set up a cost control mechanism, standardize investment behaviors, reinforce budget and cash flow controls, and try to achieve a sustained growth in operation and business results throughout the year.