

PROSPECTS FOR THE SECOND HALF OF 2001

The second half of 2001 will be a period of both opportunities and challenges for the Company. On the one hand, the PRC economy is expected to maintain development. It is expected that there will be a steady growth in domestic demand for petroleum products. On the other hand, the Company will face rigorous challenges brought along by the significant deficiency between the prices of feedstock oil and petroleum products since the last ten-day period of May 2001. The Company plans to ease the pressure and boost its business through the following measures:

1. to fine-tune the operating structure of facilities to ensure safety, steadiness and long operational period in production. The Company plans to process 5.98 million tonnes of feedstock oil in the second half of 2001, 14.3 per cent higher than that in the first half of 2001. Throughput volume of the Company for the full year is expected to be 11.2 million tonnes, 4.3 per cent higher than that in 2000, in light of the market changes. Besides, the Company will plan the production schedule of its urea plant with a market-oriented approach and according to the principle of cost-effectiveness.
2. to continue to optimize utilization of resource and lower purchase cost of crude oil. It is estimated that the proportion of processed sour feedstock oil will reach 60 per cent of total processing volume. The Company will adjust its product mix by producing more diesel to increase the diesel to gasoline ratio in accordance with the demand of the domestic market. The Company will also increase the output of high-value-added products such as LPG, aromatics, propylene and solvent oil to improve the refining margin and to enhance profitability.
3. to optimize the sales structure. While ensuring the sale of such staple products as gasoline, diesel and jet fuel, the Company will also strengthen market development and its sales and marketing effort for products sold through the Company's own distribution channels.
4. to control the unit complete expenses and the unit refining cash operating cost, and endeavor to lower the operating, the administration and the financial expenses.
5. to continue to strive for restructuring of the management and operating flow. The Company is prepared to implement the Enterprise Resource Plan ("EPR").