

Prospects for the Second Half of 2003

In the second half of 2003, China's economy will continue to experience a steady, fast and healthy growth. The GDP growth rate of China for the entire year is expected to reach a relatively high level of 7 per cent. In addition, the rapid growth in China's automobile consumption will drive further demand for petroleum products. With effect from 1 July 2003, China has adopted more stringent environmental standards for gasoline for automobile and implemented measures that support "price for quality", which is expected to facilitate the Company's profit growth. It is expected that the refining margin will remain at a relatively healthy level in the second half of 2003. Although the commissioning of the new facilities will increase part of the costs and expenses, on the whole, the Company is confident in maintaining continued and steady profitability for the full year.

In the second half of 2003, the Company will seize the favourable opportunity of rising demand for domestic petroleum products by taking advantage of its scale of operations and technology, in order to optimise the composition of feedstock and business structure. The Company also strives to raise the utilisation rate to increase the total sales volume. For the second half of the year, the Company plans to process 6,700,000 tonnes of crude oil (including 400,000 tonnes of crude oil for third-party processing) and strives to achieve the target throughput of crude oil of 13 million tonnes for the full year.

The Company will focus on fine-tuning the new production process formulated after the commissioning of the new facilities such as the PX and CCR units, and will strive to maintain efficient production, lower cost and increase output, in order to create new profit centres. Through efficient operating of the circulating fluidized-bed ("CFB") boiler, the Company will integrate its refining and chemical operations further. The Company will fully utilise its facilities, which have been upgraded after the overhauls, to increase the throughput of sour crude oil and heavy crude oil, to enhance the yield of high value-added products and to improve the various technical and economic indicators. The Company will also take advantage of its existing production facilities for high-grade clean gasoline to increase the output of high-grade clean gasoline. The Company will maintain its unit refining cash operating cost and unit complete expense at an advanced level in the domestic industry by continuing to take advantage of its approach in low-cost fuel oil processing and by capitalising on advanced technology to further reduce cost and increase profit.

The Company will pay close attention to changes in market demand, and adjust its marketing strategies and positioning accordingly. While ensuring the ex-factory staple products such as gasoline, diesel, kerosene are sold in accordance with the sales plan, the Company will intensify its efforts in selling self-distributed products and capture the opportunities to sell its major self-distributed products at higher prices, in order to improve self-distributed products' profit contribution to the Company. In accordance with the PX products and the progress of the polypropylene ("PP") project, operation of which is scheduled to commence early next year, the Company will make an early move in conducting market research and exploring the market for chemical raw materials.

The Company will develop an information-based supporting system for decision-making based on its streamlined management and the one-path implementation of its Enterprise Resource Planning (ERP) programme commenced during the first half of the year. In order to further fine-tune its operating structure, as well as to enhance its management quality and efficiency, the Company will actively push forward with the reforms regarding diversion, and will make formal announcement of the Health, Safety and Environment (HSE) management system, which will incorporate the ISO quality system in its operation.

The Company will focus on the construction of new projects, ensuring that the second CFB boiler of the chemical fertiliser fuel conversion project "replacing oil by coal as a source of energy" will be completed during the year and striving to complete the construction of a PP unit during the year, and to commence the operation of the PP unit early next year. And according to the changes in market demand, the Company will resume the construction of the disproportionation of aromatics sector for the production of PX, striving to expand its PX production capacity to 650,000 tpa (550,000 tpa of PX and 100,000 tpa of orthoxylene) in 2004. The Directors believe the implementation of the aforesaid projects will establish a solid foundation for the Company's development in the coming years.