

Chairman's Statement



Sun Weijun
Chairman

*I am pleased to report
the audited annual results
of the Company and its
subsidiaries (the "Group")
for the year ended 31 December 2003,
and I would like to extend
my heartfelt thanks to
all the shareholders
for their support to the Company.*

REVIEW OF 2003

The Company enjoyed a harvest year in 2003, after experiencing drastic market changes and overcoming unexpected challenges. It was also a year in which the Company experienced a substantial increase in its market capitalisation. The Company was named as one of the most competitive H-share companies by a domestic authoritative organisation. Net sales for the whole year amounted to RMB27,909 million, representing a 29.84% increase from that of the same period last year. Profit attributable to shareholders increased by 11.79% from that of the same period last year to a record high of RMB1,088 million. At the same time, the Company has timely constructed and put in four new facilities, which increased the Group's comprehensive processing capacity to 16 million tpa and provided a solid foundation for the Group to further diversify into downstream refining and chemical industry.

The Board of Directors recommended a final dividend of RMB0.09 per share for the year ended 31 December 2003. Together with an interim dividend of RMB0.05 per share, the total dividends for the year will amount to RMB0.14 per share, which represent an increase of 16.67% year on year.

In 2003, we strove to enhance the total throughput of feedstock by seizing on market opportunities and organising production in a flexible manner. The throughput of feedstock for the full year reached 13,631,000 tonnes (including third-party processing business), which represented an increase of 14.10% when compared with that of the previous year and continued to be the highest in the domestic industry. In light of the adverse impact of the US-Iraqi war and the outbreak of Severe Acute Respiratory Syndrome ("SARS") in the first half of 2003, the Company had actively adjusted its production plan and product mix to maintain reasonable production and sales volume. The Company had also increased the export volume of certain products, thus maintaining a relatively high utilisation rate of its refining facilities despite overhauls of the facilities in three lots. In the second half of the year, in the face of the unexpected strong demand in the domestic petroleum product market, the Company took full advantage of its enhanced processing capacity and constantly increased its throughput on a monthly basis. The total throughput of feedstock in the second half of the year amounted to 7,397,800 tonnes, representing an increase of 1,164,600 tonnes when compared with that of the first half of the year. The Company's highest monthly utilisation rate was

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95%. Meanwhile, the Company continued to develop its third-party processing business. For the year 2003, third-party crude oil processing volume increased by 122.26% from the previous year to 854,600 tonnes, which helped to lower unit cost and enhance operation efficiency.

The Group closely followed the market development in 2003, and swiftly responded with a product mix that better satisfied market demand. Total output of the Company's products for the year amounted to 12,761,700 tonnes, representing an increase of 12.69% year on year. Output of gasoline and diesel each ranked the highest, while the output of kerosene ranked third in China. Meanwhile, products were constantly upgraded. Output of high-standard clean gasoline (93# or up) amounted to 1,335,800 tonnes, which was 25.65% higher than that of the previous year. Output of high value-added products, including LPG, BTX (benzene, toluene and xylene), propylene, solvent oil, etc. increased by 17.05% to 1,310,400 tonnes when compared with that of the previous year. During the year under review, the Company produced 542,600 tonnes of high quality paving asphalt, which represented an increase of 1.54 times from that of the previous year. The Company won the bid, among tenders from a group of world-renown brandnames, to be the sole supplier of asphalt for the construction of Shanghai Formula One (F1) racing circuit. The Company's winning of the contract indicated that the quality of its asphalt has reached international first-class standards.



Capital expenditure of the Company for the year 2003 reached a historical high of RMB2,569 million. The Company had basically ensured its processing capacity and throughput were in line with market demand, which resulted in a positive investment-output cycle. In mid 2003, the Company achieved a 16 million tpa comprehensive processing capacity, creating room for feedstock throughput expansion at a time when China experienced an overdemand of petroleum products. The newly-completed circulating fluidized-bed ("CFB") boiler began to operate when China underwent a tight supply of electricity, thus not only providing sufficient electricity supply for internal use, but also to external customers. The commission of the CFB boiler therefore creates strong economic benefits and social benefits for the Company. With the petrochemical industry entering an upward cycle, the PX and PP units came into operation, which provided a solid foundation for the Company to enhance its overall profitability and competitiveness.

In 2003, the Company not only expanded the scale of its core refining operation, but also strove to augment the quality of its operation management. After its formal launch, the Enterprise Resource Planning system had been operating steadily and independently, and in July had been tested and approved by specialists. The Health, Safety and Environment ("HSE") management system was formally promulgated, and was integrated into the quality management system. At the same time, the internal work allocation system reform had been making progress as a

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result of the Company's active implementation. The Company was among the first to be accredited as "Best 100 environmental-friendly projects of China", "Green Enterprise of Zhejiang Province", "Model Factory of Environmental Protection in Ningbo Municipality" for its commitment in protecting the environment during production.

The Company further improved its corporate governance in 2003. The Fourth Board of Directors and Supervisory Committee of the Company elected at the general meeting revised and fine-tuned documents regarding corporate governance including the "rules for the convention of Board meetings". The role of independent directors has also become more important. Moreover, the internal control system had been further revised and streamlined, which was aimed at achieving a more standardized internal management.

In 2003, the Company achieved record results amidst a volatile market environment. These achievements evidence



the ability of the Company's management in crisis management, their flexibility in seizing opportunities and their ability to make correct decisions; the staff's perseverance, self-confidence, determination to rise to the challenge and will to go all out for advancing themselves; and the Company's relatively strong capability to resist risk and its overall competitiveness.

PROSPECTS FOR THE YEAR OF 2004

In 2004, it is expected that the world economy will gradually recover, and China's economic growth will maintain a relatively fast pace. The improvement in the domestic consumption structure, tight energy supply and rapid development of the automobile industry will add fuel to the continued growth in demand for domestic petroleum products. With the global petrochemical industry entering an upward cycle, the Company's refining margin is expected to maintain at relatively high levels and the newly added chemical business of the Company is expected to generate higher operational efficiency. Despite uncertainties in the international and domestic markets, the outlook for the macro environment on the whole is promising. As such, the Company will be able to better capitalise on its overall competitiveness. We will make every effort to have the following tasks well performed, to ensure the Company's overall development will reach a new level in 2004.

First, to seize on opportunities to achieve a larger processing volume. The Company will continue to optimise its feedstock composition and operational structure. It will strive to raise the facility utilisation rate and to gradually increase its throughput on a monthly basis, and to realise its annual target throughput through achieving its quarterly and monthly targets, thereby fully utilising its 16 million tpa comprehensive processing capacity. In response to the change in China's export tax rebate policy being promulgated in 2004, the Company will duly

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increase its third-party processing business, in order to further increase the total throughput for third-party processing business. The Company targets to achieve a feedstock throughout (including third-party processing business) of over 15 million tonnes for the full year. The Company will, through stringent calculation and forecast, control its inventory level, capture opportunities, carry out flexible operations and strive to control the cost of crude oil.

Second, strive to realise maximum benefits through market-oriented operation and economies of scale. The Company will closely monitor and analyse the demand in the international and domestic markets. It will strive to increase the production of diesel and high quality gasoline; to further improve product mix, by increasing the total amount of high value-added products, such as PX, PP, aromatics and LPG, etc.; and to improve self-distributed products' cost-effectiveness to the Company. The Company will capitalise on the brand recognition from its supplying of asphalt for the construction of Shanghai F1 racing circuit to expand into the high-end asphalt product market to take over the market share of imported products. The Company will strive to increase the production of urea in accordance with market demand and favourable tax policy.

Third, to consolidate existing operations through continued improvement of the new production process formed after the commissioning of the new facilities and through further enhancement of the management quality. The Company will leverage the HSE system to ensure stable operation of its facilities. The Company will further optimize the process of the "integration of the refining and chemical businesses" to realize optimal resources allocation; improve technological and economic performance through advance in technology; continue to tighten its control over costs and expenses, in order to substantially lower unit complete cost, and to enable it to remain at the forefront of the domestic industry; further fine-tune internal control system to enhance the quality of corporate governance. Above all, the Company will continue to push forward with the reforms and staff diversion, in order to further enhance efficiency and profitability of the core business.

Fourth, to commence a 20 million tpa refining capacity expansion project, with an objective to further integrate refining and chemical businesses. In 2004, the Company's capital expenditure is expected to reach RMB1.3 billion. It will mainly be applied to the capacity expansion of a 3 million tpa atmospheric and vacuum distillation unit and the construction of a 1 million tpa delayed coking unit. The Company will proceed with the technical upgrading of the residue fluid catalytic cracking ("RFCC"), in order to enhance the yield of propylene. The Company plans to finish the construction of the aromatics disproportionation sector for the production of PX by the end of 2004, thereby increasing its PX production capacity from 450,000 tpa to 650,000 tpa (550,000 tonnes of PX plus 100,000 tonnes of orthoxylene per year).

Since its listing 10 years ago, the Company has remained robust, fulfilled its commitment to shareholders and continued to break new records. From a new starting point, the Company looks ahead to a promising future, which is filled with both challenges and opportunities as well as both hopes and difficulties. The Company will ride on its upward trend, and continue to follow its practical and innovative spirits. It regards its establishment and operation as a "world-class, hi-tech, integrated" refining and chemical enterprise with international competitiveness as its core development strategy. The Company aims to achieve rational and effective development, continue to establish new records in results and reach new highs.

Sun Weijun

Chairman

16 April 2004, Ningbo, the PRC