

## Chairman's Statement



# ZRCC

I am pleased to report the audited annual results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2004, and I would like to extend my heartfelt thanks to all the shareholders for their support to the Company.

**Sun Weijun**  
Chairman

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### REVIEW OF 2004

In 2004, the Company firmly seized market opportunities and made full use of its intrinsic advantages to overcome the severe challenges of continued rise in international oil prices and delayed domestic petroleum product price adjustments. As such, the Company's overall results reached a record high. Net sales for the entire year amounted to RMB40,338 million, representing an increase of 44.53% from that of the previous year. Profit attributable to shareholders rose by 140.19% from that of the previous year to RMB2,613 million. Earnings per share surpassed RMB1.00 for the first time and reached a record high of RMB1.04.



Growth in sales revenue for the entire year exceeded that of the crude oil throughput, while growth in profit outperformed that of sales revenue. Unit complete expense dropped by 6.57%. Outstanding improvement in the technical and economic indicators indicated substantial increase in the Company's profitability and earnings quality. All these achievements were attributed to the favourable market conditions as a result of the stable economic growth in the People's Republic of China (the "PRC"). When looking from an internal perspective, the results were contributed by the dedicated work of the management and all the staff, as well as the optimal utilisation of various advantages such as scale, technique, costs that the Company has formed and accumulated through many years.

The Board of Directors recommended a final dividend of RMB0.21 per share for the year ended 2004. Together with an interim dividend of RMB0.09 per share, the total dividends for the year will amount to RMB0.30 per share, which represent an increase of

114.29%. Through dividend distribution, the Company shares its great success with its shareholders.

In 2004, the Company snatched at the opportunities arising from strong demand for domestic petroleum products, explored the potential of production facilities and enhanced capacity utilisation. Throughput of feedstock for the entire year reached 16,140,900 tonnes (including third-party processing business), which represented an increase of 18.41% from that of the previous year and continued to be the highest in the domestic industry. The 16 million tonnes per annum ("tpa") comprehensive processing capacity had been fully utilised just a year after it was achieved by the Company at the end of 2003. Such an achievement indicated that the Company is well equipped with the ability to manoeuvre large-scale oil refining. In the face of crude oil price remaining at high levels all year round, the Company raised drastically the proportion of sour crude oil in processing. As a result of effective leverage of the intensified discrepancy in the prices of low sulphur crude oil and sour crude oil, the average price of processed crude oil for the entire year was lower than the average dated price of Brent crude oil in the international market during the same year by more than US\$1 per barrel (\$/bbl). This reflects the Company's overall risk-resistant ability as the largest sour crude oil processing base in the PRC.

In 2004, the Company's petrochemical business became a strong profit centre. Taking advantage of the booming period in the petrochemical industry, the petrochemical units including the newly constructed 450,000 tpa PX unit and 200,000 tpa PP unit had



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been operated at satisfactory levels. The output of PX and PP for the entire year amounted to 366,400 tonnes and 159,800 tonnes respectively, representing increases of 300,400 tonnes and 148,700 tonnes respectively from those of the previous year. PX and PP together accounted for 3.42% of the output of all products and 8.22% of the total net sales, while the proportion of their profit contribution was over 20%. As the advantage of the integration of refining and chemical operations became more obvious, profit before tax of chemical fertiliser business amounted to RMB177 million, which represented an increase of RMB136 million.

In 2004, the Company actively engaged in the development and production of high-end products in response to the trend for higher quality petroleum products. Output of gasoline of high octane number (above #93) for the entire year increased by 48.33% from the previous year to 1,981,400 tonnes. #98 high-standard clean gasoline was also launched to the market in the first half of the year and 469,000 tonnes of low sulphur diesel for urban vehicle use and meeting Euro II standard were put into batch production for the first time. The total output of various products for the entire year amounted to 15,403,800 tonnes, which represented a 20.70% increase from that of the previous year and an increase greater than that of throughput of feedstock. Output of the three major products, namely gasoline, diesel, kerosene ranked first in the country. High-grade paving asphalt had been used for the construction of the

international Formula One (F1) racing circuit in Shanghai, and had been listed as the approved asphalt for paving F1 racing circuit by the Federation Internationale de L'Automobile.

2004 marked a year of overall improvement in the Company's health, safety and environmental performance. With further implementation of the Health, Safety and Environment ("HSE") management system, the Company attained remarkable results in the aspect of environmental protection, and was among the first eight companies named as the "National Environmentally Friendly Enterprise" by the State Environmental Protection Administration.



In 2004, the Company's fixed assets investment amounted to RMB1,522 million, with which the Company increased its primary processing capacity to 20 million tpa and PX (including orthoxylene) production capacity to over 600,000 tpa. In addition, the technical upgrading of 1.8 million tpa residue fluid catalytic cracking ("RFCC") unit, which is aimed at increasing high value-added products, enhancing

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propylene yield and gasoline quality, had been successful.

2004 was the 10th anniversary of the Company's listing. In retrospect, within the 10 years after listing, the Company had built up all-round core competitive edge in the aspects of scale, products, costs, environmental protection and management, and had achieved great leaps in terms of quality, which has provided a solid foundation for further enhancement in sustainable and steady profitability in the future. During the past decade, the Company's comprehensive processing capacity had made "three great leaps": from 5.5 million tpa to 8 million tpa, from 8 million tpa to 12 million tpa, and from 12 million tpa to 16 million tpa, which put the Company among the 10 largest refineries in the Asia Pacific region. At the end of 2004, the Group's shareholders' equity amounted to RMB11,414 million, which was 2.68 times of that in the early days of its listing. Earnings per share rose from RMB0.22 in 1994 to RMB1.04 in 2004, providing satisfactory returns to its shareholders.

### PROSPECTS FOR 2005

In recent years, the Group has sustained rapid growth through strenuous efforts. In the face of a future business environment marked by greater complexity and volatility, the Group, with the aim of building a top world-class petrochemical enterprise, has established three basic points for its reform and development: 1) to keep on enhancing the overall core competitiveness of the refining business in order to maintain the business' leading competitive advantage in the PRC and Asia Pacific region; 2) to actively expand and develop the integrated refining and chemical operations and to create new integrated competitive edge; 3) to uphold a scientific approach to development, to dedicate efforts to sustaining continued steady profitability, and to strive to improve from being "excellent" to "outstanding".

In 2005, the PRC economy will continue to sustain relatively high growth and will drive growth in demand for domestic petroleum products and petrochemical products, which will in turn provide the Company's refining and chemical businesses with larger room for development. At the same time, the international crude oil prices will remain volatile at

high levels, which lead to greater pressure on production and operation. In the face of opportunities and challenges in 2005, the Company will adopt flexible and effective business strategies and concentrate on having the following tasks well performed:

First, to seize the opportunity of strong demand for petroleum products in order to increase the total throughput by taking advantage of the increased refining capacity upon the commencement of the 1 million tpa delayed coking unit. It will strive to achieve a throughput of feedstock (including third-party processing business) of over 17 million tonnes for the whole year. At the same time, it will continue to pay close attention to the changes in the price differences of low sulphur crude oil and sour crude oil. By timely capturing the opportunities arising from the changes in the price differences of high and low sulphur crude oil, it will process new crude oil varieties in order to lower crude oil purchase costs. In addition, the Company will choose the appropriate timing to expand its third-party processing business, in order to increase overall throughput and operation efficiency.

Second, to strive to increase the output of high quality and high value-added products by optimising allocation of resources and strengthening production process control. While striving to achieve high utilisation and stable operation of production facilities, the Company enhances the optimisation of raw materials, systems and public utility projects. The Company also strengthens its competitive advantage in integrated refining and chemical operations. All these are aimed at achieving an entire optimised production process. Starting from 1 July 2005, the State will impose a new gasoline and diesel quality standard. The Company strives to enhance the quality and output of its petroleum products to meet market demand. From 2005 onwards, the pricing mechanism for domestic naphtha will be operated according to that of the international market. The Company will make every effort to produce more naphtha, in order to increase output and revenue, and will strive to raise the utilisation rate of reforming unit. To explore the full potential of naphtha, the Company will use naphtha to increase the output of aromatic products.

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Third, to strive to increase the output of petrochemical products including PX and PP by seizing the window of opportunity of continued growth in demand for petrochemical products. It will dedicate efforts to increase the utilisation of PX production facility, and expects to produce 500,000 tonnes of PX for the full year, representing an increase of over 35% from that of the previous year. It will also continue to enlarge PP output and expects to produce for the full year over 190,000 tonnes of PP, representing an 18% increase from that of the previous year. To meet the robust market demand for benzene, the Company speeds up the progress of construction of a 450,000 tpa benzene extraction unit so that it will be completed and commence operation in the middle of the year. The Company will increase the output of benzene by over 80% during the current year, with an aim to make it a new profit centre of the Company.

Fourth, to make greater efforts to increase cost efficiency within the Company's internal operations. It will enhance the overall budget management system and implement the policy according to "Internal Control Handbook" and other relevant policies with due diligence. It will also augment its execution power. To maximise the wisdom of its workforce and the use of advanced techniques, the Company will strive to explore the potential and increase efficiency of projects that can be enhanced through the use of technology. The Company will strive to enhance light oil yield and composite commercial yield, reduce loss during processing and overall energy consumption as well as lower unit complete expense. In 2005, the Company will continue to push forward with reform on work diversion, to further enhance efficiency and profitability of core business.

Fifth, to push ahead with the 20 million tpa refining capacity expansion and technical upgrade project, with the aim of achieving integration of oil refining and chemical production operation. In 2005, the Company's fixed assets investment is expected to reach RMB1.3 billion, which will be mainly used in enhancing the secondary processing capacity of the

refining unit and production capacity of quality petroleum products. To improve the supplementary infrastructure to public facilities, the Company plans to increase the overall handling capacity of its port from 30 million tpa to 45 million tpa. In addition, the Company will also commence the construction of a 1.5 million tpa light oil hydrocracking unit.

2005 is the 30th anniversary of the establishment of the Company's refinery. As the saying goes, "A man at the age of 30 should be able to make independent judgement and plans that are in his long-term interest". The 30th anniversary ushers the Company in a period of maturity and a period of planning for long-term development. In other words, the Company, at its 30 years of establishment, is faced with great missions, which require much time and dedicated efforts to complete. The Company plans to leverage its feedstock advantage, which is attributable to the 20 million tpa large-scale refining capacity, to prepare for the construction of a 1 million tpa ethylene project, in order to succeed in shifting from a refining-oriented enterprise to one that integrates refining and chemical operations at a higher strategic level. The Company's basic concepts and ideas on this development are as follows: 1) to enhance the integration of "large-scale refining and large-scale petrochemical production", by fully exploiting the synergetic benefits of integrated refining and chemical operations; 2) to develop products with competitive advantage by highlighting propylene and aromatics as special product series; 3) to enhance global competitiveness of its new projects by capitalising on its market edge, economies of scale and cost advantage. The Board of Directors has complete confidence in the future development prospects of the Company.

By Order of the Board

**Sun Weijun**

*Chairman*

8 April 2005, Ningbo, the PRC



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