

Prospects for the Second Half of 2005

During the second half of the year, the Company will face tremendous pressure on its production operation: given that international crude oil price may continue to rise in volatility, the cost of crude oil processing will be pushed up; the situation where the adjustments to the prices of domestic petroleum products lag relatively behind will prolong, putting pressure on the Company's refining margin; the decline in the prices of petrochemical products from their highest in the previous year, and their flagging ability to make a rebound will squeeze the Company's profits. As such, the Company will follow closely the changes in the prices of crude oil and petroleum products in the international market, and flexibly adjust its operating strategies to fine-tune its internal resources through further exploiting its internal advantages, in order to overcome severe challenges and pressure, and to further enhance its competitiveness and sustainable, stable profitability.

First, the Company will leverage on existing outfit and technical advantages of its facilities, particularly the newly established coking capabilities, to widen the scope of crude oil varieties so as to enhance the choices of crude oil. To control crude oil processing cost, the Company will increase the throughput of high sulphur crude oil, high acid oil and heavy crude oil. In the second half of the year, the Company plans to achieve a feedstock throughput of approximately 8.7 million tonnes. The feedstock throughput for the entire year is expected to exceed 17 million tonnes.

Second, the Company will continue to make adjustment plan for its product mix to strive for greater output of high value-added products. The Company will further exploit the potential of high quality gasoline and diesel, to produce more high-octane gasoline. The Company also takes full advantage of the capacity of its disproportionation unit and newly constructed benzene extraction unit to increase the output of aromatic products, and adopts new catalyst to produce more propylene, which will help increase the proportion of high value-added products by raising the utilisation rate of the PP facility. The Company capitalises on the temporary exemption of value-added tax on urea effective since 1 July and plans to produce 300,000 tonnes of urea in the second half of the year.

Third, the Company will intensify the optimisation of the 18.5 million tpa processing capacity, to further enhance the quality and efficiency of production operation. The Company will focus on achieving a balanced aromatic system and intensify the synchronisation of old and new facilities' upgrade. The Company will exploit the potential of public utility projects system to reduce resources consumption.

Fourth, the Company will push ahead with the work on exploiting potentials and increasing efficiency and lowering costs and expenses. The Company will intensify its efforts in execution, strengthen internal control and strive to improve various technical and economic indicators. The Company will also implement the budget management system, to allow it to serve as the guidance in production operation. It will strengthen its basic work, foundation building and fundamental skills training, to further enhance management quality.

Fifth, the Company will proceed with the 20 million tpa refining capacity upgrade project, in order to develop a large and strong core refining business. In the second half of the year, the Company's fixed assets investment is expected to amount to approximately RMB700 million, which is mainly used for upgrading berths 2# and 3# to expand the overall handling capacity of the Company's port from 30 million tpa to 45 million tpa at the end of the year; and for constructing a 1.5 million tpa hydrocracking unit, a 100,000 tpa sulphur recovery unit and a 120 tonnes per hour steaming unit for wastewater disposal. All this is aimed at achieving a comprehensive processing capacity of 20 million tpa by the end of 2006.

In March this year, the Board of Directors of Sinopec Corp approved the Company's feasibility report on a 1 million tpa ethylene project. In April, the Board of Directors of the Company considered and passed the resolution on the construction of the 1 million tpa ethylene project. In May, China International Engineering Consulting Corporation completed its on-site inspection, research and appraisal of the Company's large ethylene project. At present, various types of pre-development work are being carried out as scheduled. Upon obtaining approval of the "Project Application Report" by the National Development and Reform Commission at the earliest possible date, the Company will commence the construction of the ethylene project in a cost-efficient manner, so as to render it a relatively strong competitive edge internationally. With this project, the Company will further enhance its profitability and risk resistance, and continue to strive to maximise shareholders' returns.