BUSINESS REVIEW AND PROSPECTS

Mr. Wang Jiming, Vice Chairman and President

BUSINESS REVIEW

In 2003, despite the negative influence exerted by SARS, China's economy still sustained a rapid and healthy growth with a GDP growth rate of 9.1%, and domestic demands for petroleum and petrochemical products increased accordingly. According to the estimation of the Company, the domestic consumption of refined oil products (gasoline, diesel oil and kerosene including jet fuel) reached 133.97 million tonnes in 2003, up by 7.22% over 2002 whilst the domestic apparent consumption of petrochemical products (in terms of ethylene) reached 15.055 million tonnes, up by 9.65% over 2002.

In 2003, the Company overcame the unfavorable market condition resulting from the significant fluctuations of international oil prices which affected its production and business operation, and also underwent severe challenges characterized by the slow down in domestic demands for refined oil products in the first half of 2003 due to SARS and dramatic demands growth in the second half of 2003. Faced with the complex and ever-changing market situations as such, the Company closely monitored the domestic and international market situation, adjusted its operating strategy with flexibility, and ensured safety in production. In addition, the Company adjusted its asset structure, increased the total production and sales volume, further reduced costs and headcount, and improved its economic and technical indicators. Thanks to the joint efforts of our employees, the Company achieved reasonably sound operating results. The Exploration and Production Segment continued to post a solid performance. The Refining Segment and Marketing & Distribution Segment recorded a stable growth of their operating results. The Chemicals Segment also posted a growth in profit at a relatively quick pace. Overall, advantage of integrated operation has gradually emerged.

1 REVIEW OF MARKET ENVIRONMENT

(1) Crude oil market

Due to various factors, the international crude oil prices in 2003 remained at a relatively high level. The Platts global Brent spot price averaged US$ 28.83 per barrel, up by US$ 3.87 per barrel over 2002 (Figure 1). The domestic crude oil price has basically followed the trend in the international market. Average realized price of crude oil produced by the Company was US$ 27.56 per barrel, up by US$ 5.14 per barrel over 2002.

(2) Refined oil products market

In 2003, domestic prices of refined oil products underwent relatively slight changes while domestic demand for refined oil products grew at a higher rate. In particular after SARS, demand for refined oil products surged dramatically as a result of rapid economic growth, increased number of automobile and power supply shortage in certain parts of the country.

(3) Chemicals Market

In 2003, China's domestic demands for chemical products continued to grow robustly. The annual apparent consumption of synthetic resins, synthetic fibers, monomer and polymer for synthetic fibers, and synthetic rubbers amounted to 29.02 million tonnes, 12.25 million tonnes, 19.12 million tonnes and 2.20 million tonnes, respectively, representing an increase of 11.2%, 14.7%, 11.9% and 8.9%, respectively, over 2002.

As the global chemical business gradually recovered, the gross margin of chemical production improved. The domestic price trend of the major chemical products basically followed the trend on the global market. The average realized prices of synthetic resins and synthetic fibers, which are the principal chemical products of the Company, increased by 15.2% and 14.3%, respectively, over 2002 (Figure 2).

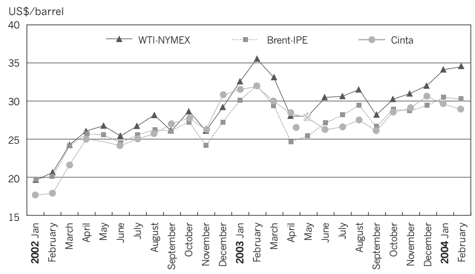

Figure 1: Price Trend of International Crude Oil

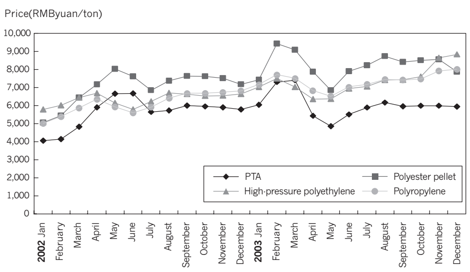

Figure 2: Monthly Average Prices of the Company's Major Chemical Products in 2002 and 2003

2 REVIEW OF PRODUCTION OPERATIONS

In 2003, the Company continued to closely follow the market demands, and proactively implemented its operating strategies, which are "expanding resources and market, reducing costs and disciplining investments", hence good achievements have been attained in both business operations and reform.

(1) Exploration and production segment

In 2003, the Company seized the opportunity of high crude oil prices, and made further efforts in exploration and achieved relatively good results in exploration, development and production of crude oil and natural gas.

In connection with exploration activities, the Company completed a planar seismic belt of 29,168 kilometers, a three-dimensional seismic belt of 7,927 square kilometers and drilled 550 test wells, with a drilling footage of 1,443 kilometers. Certain achievements were attained in terms of exploration of hidden oil reserves in the new blocks, buried hill and new series of strata within the Shengli Oil Field in East China, which enabled the Company to deliver a stable production and enhance its reserves in near term. In western part of China, the Company identified three zones (Tahe Region, and Tazhong region in Tarim Basin and the Eastern Part in the Hinterlands of Junger basin) as the important areas where more oil reserves could be discovered, thus providing important supplemental resources for addition of oil reserves as well as production of crude oil and natural gas in the last two years of the Tenth Five-Year Plan period. In South China and Ordos Basin, new progress was made in terms of exploration of natural gas, thus providing resources for the Company to expand its natural gas business. All these efforts resulted in the Company's improvement in reserve profile of crude oil and natural gas, making it possible to enhance its future oil reserve and production. Owing to the joint venture for the development of oil and natural gas at Xihu Trough, East China Sea, the Company's proved reserves of crude oil were reduced by 25.4 million barrels, and proved reserves of natural gas were reduced by 649 billion cubic feet. In addition, in accordance with the evaluation guideline used by the Company, those undeveloped reserves of crude oil and natural gas over 3 years were re-categorized. For these reasons, the newly added proved reserves of crude oil and natural gas in 2003 declined. In terms of development, the Company drilled 1,880 development wells in 2003, with a drilling footage of 4,258 kilometers and newly built crude oil and natural gas production capacity of 5.93 million tonnes per year, and 890 million cubic meters per years respectively. In 2003, the Company's production of crude oil and natural gas reached 270.96 million barrels and 187.7 billion cubic feet respectively, representing an increase of 0.43% and 4.98%, respectively, over 2002.

Energy Resources

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Fuel of the Economy

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Summary of Operations of the Exploration and Production Segment

	2003	2002	2001	Change from 2002 to 2003(%)
Crude oil production (mmbbls)	270.96	269.80	269.16	0.43
Natural gas production (bcf)	187.7	178.8	162.8	4.98
Newly added proved reserves of crude oil (mmbbls)	208	375	316	(44.53)
Newly added proved reserves of natural gas (bcf)	(254.3)	20.2	309.0	(1,358.9)
Year end proved reserves of crude oil (mmbbls)	3,257	3,320	3,215	(1.90)
Year end proved reserves of natural gas (bcf)	2,887.6	3,329.4	3,488.0	(13.27)
Year end proved reserves of crude oil and natural gas (mmboe)	3,738	3,875	3,796	(3.54)

Summary of Production and Operations of Shengli Oil Field

	2003	2002	2001	Change from 2002 to 2003(%)
Crude oil production (mmbbls)	189.25	189.68	189.43	(0.23)
Natural gas production (bcf)	28.6	26.5	30.01	7.92
Newly added proved reserves of crude oil (mmbbls)	196	240	250	(18.33)
Newly added proved reserves of natural gas (bcf)	70.1	(5.1)	24.9	1,475
Year end proved reserves of crude oil (mmbbls)	2,271	2,264	2,214	0.31
Year end proved reserves of natural gas (bcf)	308.9	267.4	299.0	15.52
Year end proved reserves of crude oil and natural gas (mmboe)	2,322	2,308	2,264	0.61

Business Review and Prospects

(2) Refining segment

In 2003, faced with ever-changing market situations, the Company further optimized its allocation of crude oil resources and improved coordination practices to ensured its oil refining facilities were operating at high load. In 2003, the Company processed 116.26 million tonnes of crude oil, up by 10.71% over 2002. The Company endeavored to adjust its product mix, increased the production of high value-added products and chemical feedstock to meet market demands. Meanwhile, the Company made efforts to revamp its existing oil refining facilities to improve product quality. The quality of its gasoline and diesel has met the new national standards. The Company produced 9.23 million tonnes of high-grade gasoline, up by 38.8% over 2002. The Company continued its reform in the lubricating oil marketing system, integrated its resources, launched a unified brand onto the market, and managed to expand its market shares. In addition, the Company continued to reinforce management practices and scientific and technological advancement. As a result, all of the major economic and technical indicators of the Refining Segment were improved. In 2003, the light products yield reached 73.80%, up by 0.58 percentage points over 2002. The refining yield reached 92.63%, up by 0.13 percentage points over 2002.

Sources of Crude oil Unit: 10,000 tonnes

	2003	2002	2001	Change from 2002 to 2003 (%)
Self-supply	2,820	2,890	2,941	(2.4)
PetroChina Company Ltd.	1,308	1,457	1,446	(10.2)
CNOOC	557	622	618	(10.5)
Imported	7,114	5,668	4,918	25.5
Total	11,799	10,637	9,923	10.9

Summary of Operations of the Refining Segment

	2003	2002	2001	Change from 2002 to 2003 (%)
Crude throughput (mbbls/day)	2,341.0	2,114.6	2,042.4	10.7
of which: sour crude throughput (mbbls/day)	478.7	402.8	387.6	18.8
Refinery utilization rate (%)	87.8	79.3	77.9	8.5 percentage points
Gasoline, diesel and kerosene including jet fuel (million tonnes)	68.72	62.42	61.14	10.1
of which: Gasoline (million tonnes)	21.74	19.62	18.74	10.8
Diesel (million tonnes)	41.67	37.74	37.93	10.4
Kerosene including jet fuel (million tonnes)	5.31	5.06	4.47	4.9
Chemical feedstock (million tonnes)	16.46	15.04	12.36	9.4
Light products yield (%)	73.80	73.22	72.33	0.58 percentage points
Refining yield (%)	92.63	92.50	92.23	0.13 percentage points

Notes:

a) Crude oil processing volume is converted at 1 tonne = 7.35 barrels.

b) All the operating data excluded Xi'an Petrochemical and Tahe Petrochemical.

Sustained Development

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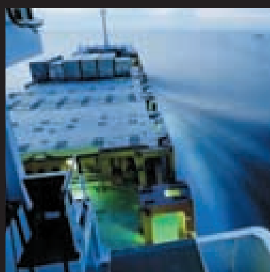


Growing with the World

FUTURE

(3) Marketing and Distribution segment

In 2003, based on the market demands, the Company made efforts to expand its total sales volume while further optimizing its various marketing channels to increase retail and distribution volume. In addition, the Company reinforced its internal management and resource allocation, improved its service quality, and paid close attention to the coordination between production and sales. At the same time, the Company further improved its distribution network by speeding up the construction of sales outlets, focusing on increasing the number of its petrol stations along expressways and main roads, and expanding its presence in rural areas and along the rivers. As a result, the Company's ability to control the end-customer market has been reinforced.

In 2003, the total domestic sales volume of refined oil products reached 75.92 million tonnes, representing an increase of 8.3% over 2002, of which the retail volume amounted to 38.85 million tonnes, up by 11.9% over the previous year. The Company's market share of retail volume in its principal markets reached 69%, up by 1 percentage over the preceding year. The efficiency of petrol stations kept growing with the annual throughput per petrol station reached 1,686 tonnes, up by 8.1% compared with that in the previous year. The retail sales volume together with direct distribution volume of refined oil products accounted for 71.36% of the total domestic sales volume, up by 3.76 percentage over 2002. At the end of 2003, the Company has 24,506 self-operated petrol stations, and 5,736 franchised petrol stations. In 2003, the Company adjusted its export volume to keep in line with market demand with a total export volume of 6.083 million tonnes of refined oil products, up by 21.2% over that in 2002.

Summary of Operations of Marketing and Distribution Segment

	2003	2002	2001	Change from 2002 to 2003 (%)
Total domestic sales of refined oil products (million tonnes)	75.92	70.09	67.74	8.3
of which:				
Retail volume (million tonnes)	38.85	34.73	30.43	11.9
Direct Distribution volume (million tonnes)	15.33	12.63	11.64	21.4
Wholesale volume (million tonnes)	21.74	22.73	25.67	(4.4)
Average annual throughput per petrol station (tonne/station)	1,686	1,560	1,473	8.1
Number of total petrol stations under SINOPEC brand at year-end (stations)	30,242	28,127	28,246	7.5
of which:				
Number of self-operated petrol stations (stations)	24,506	24,000	24,062	2.1
Number of petrol stations franchised (stations)	5,736	4,127	4,184	39.0
Percentage of retail to total domestic sales volume (%)	51.2	49.6	44.9	1.6 percentage points

(4) Chemicals segment

In 2003, the Company continued to coordinate and optimize supply of chemical feedstock, and actively promoted its experience in operating facilities for longer running periods and thus maintained the high utilization rate of chemical facilities. As a result, the production of its major petrochemical products has all increased significantly. In 2003, the Company produced 3.169 million tonnes of ethylene, up by 16.67% over that in 2002. The production of its major chemical products such as synthetic resins, synthetic fibers, monomers and polymers for synthetic fibers, and synthetic rubbers have all increased significantly. Since the Company resorted to scientific and technological measures to improve its product mix, the production of high value-added products was further increased. Furthermore, the Company actively tapped the market, and managed to register a growth in terms of the production, prices and sales volume of its chemical products. In addition, the Company proactively carried forward the reform to its distribution system of chemical products, and established an acrylic fibre marketing branch, thus making a solid step forward in terms of reforming its chemicals marketing system.

Production of Major Chemicals

Unit: 1,000 tonnes

	2003	2002	2001	Change from 2002 to 2003 (%)
Ethylene	3,169.1	2,716.4	2,153	16.67
Synthetic resins	4,691.0	4,004.8	3,204	17.13
of which: performance compound resins	2,304.9	1,846.9	1,332	24.80
Synthetic rubbers	501.9	457.7	398	9.66
Monomers and polymers for Synthetic fibers	4,417.5	3,833.5	3,598	15.23
Synthetic fibers	1,279.5	1,153.0	1,028	10.97
of which: differential fibers	477.4	402	326	18.76
Urea	2,027.6	2,666.3	2,342	(23.95)

Notes: all the operating data excluded Maoming Ethylene.

(5) Research and development

In order to enhance its core competitiveness, the Company launched an active drive for scientific and technological innovation and advancement, and has succeeded in implementing a number of technological projects, including exploration of concealed oil and gas reserves in tertiary system strata in Jiyang Trough and related technologies and second generation of packaged technology for 200,000 tonnes/year loop polypropylene unit. In addition, a number of technological advancements have been commercialized, including the detailed profiling and developing technology for severe heterogeneous petroleum reserves, flexible and multi-functional catalytic cracking technologies and 70,000 tonnes/year cyclohexanone oxime technology. Besides, the technologies such as prospecting and monitoring the distribution of remaining petroleum reserve at high water content stage, and catalyst and promoter for olefin concentration reduction in cat-cracked gasoline were applied on a wide range. Among others, a series of techniques, which have been developed solely by the Company, have allowed the Company to produce gasoline that complies with China's new quality standard with a lower investment. Besides, the Company also made new progress in a number of research projects, such as technology for desulfuration and reduction of olefin concentration in cat-cracked gasoline by aromatisation. Furthermore, the "Great Wall" branded specialty lubricant and grease developed by the Company have been successfully used in China's Shenzhou 5 spaceship.

Major breakthroughs were made in terms of pilot test and implementation of ERP programs. So far, the application results of ERP are becoming apparent. The Company also made progress in, among other areas, applying domestically-made high-performance computers in exploration and development of crude oil and natural gas, application of IC cards at petrol stations, developing and applying the "Ningbo-Shanghai-Nanjing crude oil transportation and distribution management system", "comprehensive oil field management system", and "advanced process control system".

(6) Cost saving

In 2003, the Company made significant efforts in carrying out its cost saving plans. In addition to reducing procurement cost of bulk material such as crude oil, the Company focused on minimizing material and energy consumption and controlling expenses. The results in cost saving were remarkable.

In 2003, the Company effectively saved costs by RMB 2.722 billion, which exceeded the original target of RMB 2.5 billion by RMB 222 million. Of the total costs saved, the Exploration and Production Segment achieved a cost saving totaled RMB 805 million. As the Company took the opportunity of higher crude oil price, the Company increased certain in-well operations, and incurred more costs in order to resume production in those fields that suffered stormy sea tide and flood. The lifting cost increased from US$ 6.12 per barrel in 2002 to US$ 6.47 per barrel in 2003. The Refining Segment achieved a cost saving of RMB 740 million with cash operating cost slightly declined to US$ 2.00 per barrel from US$ 2.02 per barrel. The Chemicals Segment achieved a cost saving of RMB 639 million with cash operating cost of ethylene dropped to US$ 142.63 per tonne from US$ 149.24 per tonne. The Marketing and Distribution Segment achieved a cost saving of RMB 538 million. As the Company made efforts to increase its retail and distribution volume, the transportation costs increased accordingly. Cash operating cost in the segment went up to RMB 174.95 per tonne in 2003, from RMB 166 per tonne in 2002.

Concern for the Environment

Bringing Quality to Life

FUTURE

(7) Capital expenditure

In 2003, the Company's capital expenditure was RMB 45.049 billion. Among which, the expenditure for Exploration and Production Segment was RMB 20.628 billion. The Company found new reserves and increased oil and gas production, reinforced the foundation of its resources, and improved its profile of the possible, probable and proved reserves. The expenditure for Refining Segment was RMB 9.729 billion. With the investment, a number of facilities were revamped to improve the product quality, and to increase refining capacity. Refining capacity increased by 5.5 million tones per year for the whole year. The Ningbo-Shanghai-Nanjing imported crude oil pipeline will soon be put into operation, which will help optimize the allocation of crude oil and reduce transportation costs. The expenditure for the Marketing and Distribution Segment was RMB 6.826 billion, which was mainly used to construct pipelines of refined oil products, and to further optimize the marketing networks by building new petrol stations and upgrading existing petrol stations. As a result of the investment, the Company secured its leading position in its principal market, raised brand awareness and further enhanced customer loyalty. The expenditure for the Chemicals Segment was RMB 7.348 billion. With the investment, the Qilu ethylene revamp project was under construction and the chemical fertilizer revamp projects have all started. The ethylene capacity increased by 70,000 tonnes/year, and capacity of monomers and polymers for synthetic fibers increased by 770,000 tonnes/year. Capital expenditure for corporate and others was RMB 518 million, which was principally used in the construction of information technology system.

In addition, the Company's joint ventures including the project with BP in Shanghai were progressing smoothly, the capital expenditure by the Company for these joint ventures was RMB 4.193 billion in 2003.

(8) Cooperation with foreign partners

In 2003, the Company's major joint ventures progressed smoothly. The joint venture with CNOOC, Shell and Unocal for exploration and development of natural gas at Xihu Trough, East China Sea was officially launched. The joint venture ethylene projects with BASF in Nanjing and with BP in Shanghai, both of which are expected to be put into operation in early 2005, are under construction in full scale. The joint venture with Shell for Coal Gasification in Hunan province is under construction, which is expected to complete construction in 2005. The feasibility study of joint venture with ExxonMobil and Saudi Aramco for an integrated oil refining and chemical project in Fujian, has already been approved by the government authorities and preparation work is under way. The joint feasibility study of joint venture with Shell in Jiangsu province for retail business cooperation of refined oil products has been approved by the State Council, and a joint venture company is to be established soon. The joint feasibility study of joint venture with BP in Zhejiang for retail business cooperation of refined oil products has been submitted to the Ministry of Commerce of the People's Republic of China for approval. All these joint venture projects will help the Company in adopting advanced technologies and managerial expertises of multinational corporations, and hence enhance its market competitiveness and help the Company meet the growing demands of products in China and Asian Pacific regions.

BUSINESS PROSPECT

1 Market Outlook

Looking forward for 2004, in terms of the domestic and international market, the Company will be confronted with both good opportunities and severe challenges.

(1) Opportunities

The recovery of global economy is expected to accelerate. Both refining and chemicals business seem to be moving into cyclical upturn. China's economy also presents a significant opportunity for strategic development. It is predicted that China's GDP growth rate will be around 7% in 2004, which will drive consumption for petroleum and petrochemical products, and further provide a sound environment for the Company's business growth.

(2) Challenges

Aside from the above opportunities, the Company is also faced with various challenges: (1) the international oil market is undergoing big fluctuations, and the crude oil price is likely to fall below the 2003 average, (2) a number of factors including the further opened domestic market to overseas competitiors, cancellation the import quota of state designated trading company for importing refined oil products, the increased import quota of non-state designated trading companies for importing refined oil products, as well as additional reduction of import duty for chemical products, will give rise to even fiercer competitions in the market.

2 Production and Operations

Faced with the opportunities and challenges in 2004, the Company intends to adopt a flexible operating strategy and focus on the following areas:

Exploration and Production Segment: The Company will adhere to the principle of "balanced reserves, production, investment and efficiency", set up a notion of "operations of oil reserves", make efforts to add supplemental resources, and reduce costs, as well as to enhance the recovery rate and commodity rate. Meanwhile, the Company will give priority to the exploration in the western areas to increase the production in those areas. In addition, the Company will make efforts to further tap the existing resources in the eastern matured areas and maintain the stable production of crude oil and natural gas so that the Company can keep balance between newly added reserve and production, and at the same time ensure a sustainable growth of its exploration and production business.

In 2004, the Company plans to produce 38.60 million tonnes of crude oil, 5.8 billion cubic meters of natural gas, and newly build production capacity of crude oil would be 5.98 million tonnes per year and that of natural gas 1.534 billion cubic meters per year.

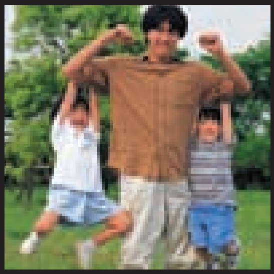
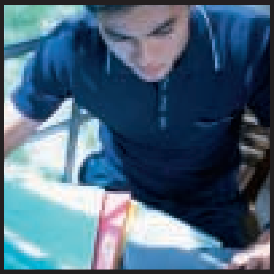
Refining Segment: the Company intends to rationally arrange its crude oil throughput in line with market demands, optimize the allocation and transportation of crude oil resources, as well as adjust its product mix. For the year 2004, the Company plans to process 120.3 million tonnes of crude oil. The Company will continue to tap the market for the petroleum products other than gasoline, diesel and kerosene, and will endeavor to increase the production of high value-added products, such as LPG, propylene, high-grade road asphalt, and lubricating oil, to further increase the major techno-economic indicators with the target for light products yield at 74% and refining yield at 92.7%.

Marketing and Distribution Segment: The Company will continue to strengthen its awareness and concept of "market, competitiveness and services" and proactively tap the market. Meanwhile, the Company will further adjust its marketing structure, increase its retail and direct distribution volume, and increase the retail market shares. The Company intends to continue to optimize the allocation of refined oil products, reduce costs and improve its efficiency. Based on the domestic and international market situation,


Step Ahead
VISION

Improving Our Future

FUTURE

the Company will rationalize domestic sales and export volume. In 2004, the Company plans to have a total domestic sales volume of refined oil products of 80 million tonnes, including a retail sales volume of 42 million tonnes, and a direct distribution volume of 16.5 million tonnes.

Chemicals Segment: Efforts will be made to "ensure safe, stable, sustained and optimal production at a high utilization rate", and to increase the total production and sales volume. The Company will continue to monitor the market demands and make efforts in marketing promotion and customer service. In addition, the Company will speed up its reform of its marketing system to improve the competitiveness in the market. In the 2004, the Company plans to produce 3.56 million tonnes of ethylene, 5.4 million tonnes of synthetic resins, 520 thousand tonnes of synthetic rubbers, 1.28 million tonnes of synthetic fiber, and 4.76 million tonnes of synthetic fiber monomers and polymers. The priority will be given to quality, varieties and cost control. As a result, the Company intends to further improve its competitiveness, and increase the production of performance compound resins and differential fibers.

Scientific and Technological Development: The Company accelerated its development of core technology and proprietary technology. In light of the difficulties in maintaining stable production in those matured fields in the east of China and the breakthrough in those newly developed fields, the Company will focus on conducting in-depth research of concealed reserves of crude oil and natural gas and the formation mechanism of natural gas reserves, and intensifying its study of the general geology in the west and south of China, and to solve the engineering roadblocks in terms of the technology for development of oil reserves in carbonate rock cavity, and to improve the technology for enhancing the recovery rate in those matured fields. Besides, the Company has followed market demands closely, made efforts to increase the aggregate operating results of the Refining and Chemicals Segments, and endeavored to achieve such operating objectives as "improving the product quality and adjusting the product mix". Moreover, the Company pooled its resources and made efforts in developing a number of techniques for production of clean fuel, production increase of chemical feedstock, production of low-cost hydrogen, and the "Localization of packaged technology for large-scale ethylene unit", with an aim to develop its core technology, proprietary technology and popular products of its own. Meanwhile, the Company formed its own investment plan with reference to the actual needs of each of its business segments in terms of production and business operation, and made further efforts in promoting its scientific and technological research results.

Continued efforts were made in the construction of information system with a focus on ERP, reinforce the building of information system in production level. Additionally, the Company urged its affiliated subsidiaries to apply the ERP system, and improve and optimize the functions of the ERP system as well, set up the information management system to work in conjunction with its established modern logistics system. The Company also intends to promote the application of the primary and secondary logistic optimization programs for refined oil products in a full range, and realize the full-process monitoring over and deployment optimization of Ningbo-Shanghai-Nanjing crude oil pipeline transportation and distribution management system, as well as initialize the construction of an information management system for the crude oil pipeline along the Yangtze River and southwest refined oil products pipeline at an appropriate time.

Cost Saving: In 2004, the Company will resort to scientific and technological advancement, reinforce its management practices, and intensify its reform measures, enhance its operating efficiency. It plans to achieve a cost saving of RMB 2.5 billion, of which Exploration and Production Segment is going to achieve a cost saving by RMB 600 million, Refining Segment RMB 600 million, Chemicals Segment RMB 700 million, and Marketing and Distribution Segment RMB 600 million.

Prudent Investment: The Company is going to assume the adjustment on investment structure as the starting point, motivate the streamlining on existing assets through adjusting newly added investments. In 2004, the Company is expected to budget its capital expenditure at RMB 50.2 billion, of which RMB19.9 billion for the Exploration and Production Segment, RMB11.8 billion for Refining Segment, RMB 9.5 billion for Chemicals Segment, RMB 8.0 billion for Marketing and Distribution Segment, and RMB 1 billion for ERP system construction and other sectors. The capital expenditure in 2004 will focus on the following areas:

Exploration and Production Segment: While maintaining stable production and ensuring a balance between newly added reserves and production in eastern China, efforts are to be made to speed up the exploration in those new blocks in southern China and in western China, proactively adjust crude oil and natural gas resource structure to enhance reserves and production, further improve reserve series and reduce cost.

Refining Segment: In accordance with the regional demand of refined oil products, the company will speed up the revamp of costal refineries such as Shanghai Petrochemical, Gaoqiao, Maoming and Guangzhou refinery. The Ningbo-Shanghai-Nanjing crude oil pipeline is to be put into operation to help the optimization of crude oil resources.

Moreover, the Company will further develop its competitive advantage for integration of oil refining and chemical production facilities, further optimize product mix and increase chemical feedstock production.

Chemicals Segment: The Company will speed up the adjustment on product mix and technological innovation for chemical business, focus on core business and increase total production. Emphasis will be drawn on the second-round upgrading projects for Qilu and Maoming ethylene facilities and the project of substituting oil by coal as raw materials in some chemical fertilizer enterprises.

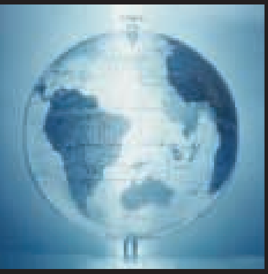
Marketing and Distribution Segment: the Company will complete the construction of southwest refined oil products pipeline, and further optimize the marketing and distribution network. Efforts are to be made to construct petrol stations along expressways and rivers and in rural areas, and to set up distribution networks in major cities, to consolidate the Company's leading position in the market, and to improve the Company's profitability and market share.

In addition, the two world-class ethylene joint ventures with BASF and BP is at critical construction phase. The Company will, according to schedule and scale of construction determined by the board of directors of the two joint ventures and the Sinopec Corp.'s percentage of shareholdings in the joint ventures, inject investment in a timely manner. The investment to be incurred shall be included in the Company's investment in associates and the Company's capital expenditure as appropriate.

In this year, we are confident that under leadership of the Board of Directors and with the joint efforts made by our employees, the Company will further improve its competitiveness, and continue to post reasonably good operating results.

Unlimited Productivity

VISION




Making a Better World

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