



# CHINA PETROLEUM REPORT

*A weekly report on China's petroleum and petrochemical industries*

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## In this issue

### News

- China to invest 800 million yuan in exploring for gas hydrate
- PetroChina signs product-sharing contract with Singaporean firm
- CNPC awarded new contract in Uzbekistan
- CNOOC, Caterpillar team up
- PetroChina's hydrocarbon output expected to rise 5% annually over next five years

## China to establish first industrial coal-to-olefin project

Sino Biopharmaceutical Limited announced on September 3 that it will cooperate with the Shaanxi provincial government to establish a coal-to-olefin project in Yulin, north Shaanxi province.

The project will involve an investment of 5 billion yuan and will be the first industrial coal-to-olefin project in China, Sino Biopharmaceutical said in a statement.

The statement did not disclose any details on the project, but only said that the company will establish a joint venture with Shaanxi Coal Industry Chemical Group, Shaanxi Investment Group and Shaanxi Xinxing Coal Chemical Company for the construction and operation of the project.

The new venture will have a registered capital of 1.75 billion yuan and is expected to start operating in the first quarter of 2007, according to the statement.

Sino Biopharmaceutical is a pharmaceutical enterprise headquartered in Hong Kong and listed on the Hong Kong Stock Exchange. The company has many subsidiaries on the Chinese mainland.

## CNPC awarded new contract in Uzbekistan

On August 30, a consortium comprising China National Petroleum Corporation (CNPC), Uzbekistan's Uzbekneftegaz, Russia's LUKoil, Malaysia's Petronas and South Korea's KNOC signed a product-sharing contract with the government of Uzbekistan on the exploration and development of oil and gas deposits in the Aral Sea.

This is the second contract that CNPC has been awarded in Uzbekistan since the beginning of this year.

Last June, CNPC and Uzbekneftegaz signed an oil and gas exploration agree-



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ment for five onshore blocks in Uzbekistan.

According to that agreement, CNPC plans to acquire 7,000 kilometers of 2D and 1,320 square kilometers of 3D seismic data and drill 27 exploration wells in these five blocks.

Uzbekistan's section of the Aral Sea covers more than 10,000 square kilometers and contains significant oil and gas resources.

The consortium plans to acquire 2,300 kilometers of 2D-seismic data and drill 2 exploration wells in the first three years, after the development of the project begins.

The consortium will also establish a joint venture to operate the project.

Uzbekistan has more than 5 billion tons of oil and more than 5 trillion cubic meters of natural gas resources, including 530Mt of proven oil reserves and approximately 3.4 trillion cubic meters of proven natural gas reserves.

In 2005, Uzbekistan produced 5.9Mt of crude oil and gas condensate and 62 billion cubic meters of natural gas.

### **Lutianhua acquires 100% equity in Ningxia Jiemei**

Sichuan Lutianhua Company Ltd. announced on September 1st, 2006 that it is expected to acquire 100% equity in Ningxia Jiemei Fengyou Chemical Co., Ltd. (Ningxia Jiemei) with a consideration of RMB212 million.

Ningxia Jiemei is a 90:10 joint venture between Sino Champion Ltd. and Ningxia Fengyou Chemical Co., Ltd., which is building an integrated fertilizer project with a total investment of approximately RMB1.5 billion, namely a 440 000 t/a synthetic ammonia unit and a 760 000 t/a urea production line, it is scheduled to be completed in 2009.

On August 26th, Lutianhua signed an agreement with Sino Champion Limited. Lutianhua will acquire 90% equity in Ningxia Jiemei, with the deal price of RMB212 million from itself resource.

On August 27th, Lutianhua entered into an equity transfer agreement with Ningxia Fengyou Chemical, for Lutianhua acquiring 10% interest in Ningxia Jiemei with no payment.

Headquartered in Chengdu of Sichuan province, Lutianhua is a leading fertilizer producer in China, with the capacities of 1Mt/a synthetic ammonia, 1.6Mt/a urea and 50, 000 t/a nitric acid as well as 30kt/a oil and fat chemicals, its site is at Luzhou of Sichuan province.

### **CNOOC, Caterpillar team up**

US manufacturing giant Caterpillar has signed a long-term strategic agreement with China National Offshore Oil Corporation (CNOOC) for solar gas turbine equipment.

Caterpillar subsidiary Solar Turbines is now the preferred aftermarket supplier of these goods

and services.

CNOOC already has a large fleet of solar gas turbine generator sets and compressor units supporting its offshore oil and natural gas operations in China and elsewhere in Asia.

The goal of the long-term strategic agreement is to provide CNOOC with a total lower cost option and the greatest value for the continued service and maintenance of the Solar Turbines fleet. The new agreement should also mean any needed or scheduled service will be completed in a more timely and efficient manner, said Caterpillar.

### **CNPC to invest more in CNPC AKTOBEMUNAYGAS**

CNPC intends to invest about US\$400 million in developing its CNPC AKTOBEMUNAYGAS subsidiary (the Aktobe Region, Western Kazakhstan) this year.

Last year US\$350 million was invested. CNPC has invested a total of over US\$1.4 billion in its subsidiary since 1997, when it purchased a major stake in AKTOBEMUNAYGAS. CNPC AKTOBEMUNAYGAS targets a boost in oil output from last year's 5.8Mt to 6.06Mt this year.

A leading oil extracting company of the Aktobe Region, CNPC AKTOBEMUNAYGAS is developing the Zhanazhol, Kenkiyak oversalt and Kenkiyak subsalt deposits.

### **Beijing raises natural gas prices for non-residential sector users**

Beijing raised the prices of natural gas supplied to non-residential sector users by 0.15 yuan per cubic meter on September 1.

The price of natural gas supplied to industrial users and heating plants was raised to 1.95 yuan per cubic meter from 1.8 yuan per cubic meter, that of gas to the service industry and automobiles was raised to 2.55 yuan per cubic meter from 2.4 yuan per cubic meter and that of gas used for refrigeration was raised to 1.85 yuan per cubic meter from 1.7 yuan per cubic meter.

In recent years, the growth in Beijing's natural gas demand has been very fast. In 2005, Beijing used 3.17 billion cubic meters of natural gas, a 1.5-fold increase from 2001.

The city's natural gas demand is expected to reach 6.8 billion cubic meters by 2010, more than doubling that in 2005.

### **Sinopec Northwest Co to supply more than 700 million cubic meters of natural gas to Xinjiang enterprises annually**

Sinopec Northwest Company will supply more than 700 million cubic meters of natural gas annually to Aksu and Luntai county in Bazhou, Xinjiang Autonomous Region, a company source said recently.

This will greatly alleviate the shortage of natural gas needed in the production of fertilizer in the remote areas in southern Xinjiang.

In addition, Sinopec's Northwest Petroleum Bureau will supply natural gas to residential sector users in Kuqa and Luntai in southern Xinjiang.

Sinopec Northwest Company established a methanol plant with a nameplate production capacity of 60kt/a in Luntai in Xinjiang in 2005. The company plans to supply 53 million cubic meters of natural gas to that plant this year.

### **Anhui Quanjiao county attracts investment to build natural gas project**

On Sep. 1, Anhui Quanjiao government signed an agreement with Chuzhou Xin'ao Gas Ltd. on the urban gas pipeline networks project. In Mar. 2007, people in Quanjiao could use the natural gas of West to East Natural Gas Transportation Pipeline project.

It is reported that Chuzhou Xin'ao Gas Ltd. will invest RMB 60 million yuan in the project, which will be phased into three stages. The project will be commenced in early Oct. with the first phase to be finished in Feb. 2007. It is available for first batch of users in Mar. 2007 using the natural gas.

### **4kt/a fluororubber project breaks ground**

On August 28th, 2006, Chenguang Research Institute of Chemical Industry held the groundbreaking ceremony for its 4 kt/a fluororubber project at Chemical New Material Zone of Chenguang Industry Park in Zigong, Sichuan province. With a total investment of RMB150 million, the project has the largest fluororubber unit in China today.

### **China BlueChemical and Yara Enter Partnership**

China BlueChemical Limited, a subsidiary of China National Offshore Oil Corporation (CNOOC) said that it and Yara International ASA have agreed to form a strategic partnership. China BlueChemical will propose initial public offering and list on the Hong Kong Stock Exchange at the end of September 2006.

The raised consideration (approximately US\$400 million) will be put in a newly-built fertilizer plant in Inner Mongolia, refunding loan and operation of China BlueChemical. Yara is the exclusive strategic investor in China BlueChemical's proposed IPO and will acquire up to 3.2% of the equity interests in China BlueChemical at a price to be set in the IPO.

Registered site in Dongfang city of Hainan province, China BlueChemical engages in the development, production and sale of fertilizers and chemicals. The company is one of the largest and most efficient producers of nitrogen fertilizers in China.

## **Policy & Law**

### **Shanghai city government cooperates with enterprises building energy reserve**

During the Eleventh Five-year Plan period, Shanghai government will build and execute a new energy reserve and management system combining government energy reserve and enterprise energy reserves.

The aim is to improve energy reserve policies and strengthen the construction of energy reserve

bases. At the mean time, it's to expand the scale of natural gas reserves.

Formerly, energy reserve of Shanghai mainly depended on enterprises, whereas the government did not form its own energy reserve system.

During the Eleventh Five-year Plan period, Shanghai government determined to build energy reserve base with enterprises, mainly targeting natural gas reserves, including coal and petroleum.

Therefore, Shanghai government will promote new energy reserve policies to benefit relevant enterprises and users.

At the same time, Shanghai government will intensify the development of alternative energy, like hydrogen energy. The relevant infrastructure and technical specification also be built and strengthened.

## Exploration & Production

### China to invest 800 million yuan in exploring for gas hydrate

In the face of soaring international crude oil prices and rapidly increasing crude oil imports, China is quickening its pace of developing alternative energy sources.

According to a report, *China's Petroleum Substitute Development Plan*, recently released by the National Development and Reform Commission, China will invest 800 million yuan over the next 10 years in exploring for gas hydrate, hoping that this alternative source of energy could help reduce its reliance on imported crude oil.

Gas hydrate forms under pressure with deposits found beneath permafrost in the Arctic regions and beneath deep ocean floors.

The NDRC has predicted that China would be able to start trial production of gas hydrate in the period between 2010 and 2015. However, the Commission admitted that China will still need a technical breakthrough to start the commercial production of this energy source.

According to the NDRC, the amount of gas hydrate on Earth is more than twice the amount of all other fossil fuels, i.e., petroleum, coal and natural gas, combined. The energy released by one cubic meter of gas hydrate, when burnt, is equivalent to the energy released by 180 cubic meters of natural gas.

According to the NDRC, China and Germany will start drilling for gas hydrate samples in the northern South China Sea by the end of this year. China has located a large reserve of gas hydrate in its offshore areas.

The gas hydrate reserves located in the northern South China Sea alone are equivalent to approximately 50% of China's total onshore oil reserves.

Since 99% of China's gas hydrate reserves are buried in seabeds, currently only China National

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Offshore Oil Corporation and the Ministry of Land and Resources conduct exploration of gas hydrate in China.

### **PetroChina signs product-sharing contract with Singaporean firm**

PetroChina Limited, China's largest oil producer, and Singapore's Win Business Co. will sign a production sharing contract on August 31 on a natural gas block in southwestern China's Sichuan province, said a company official.

"The block is the only one open to foreign oil companies in gas-rich Sichuan province so far," given the high technical requirement for high-sulfur gas exploration and development in the block, the official, from PetroChina's unit in Sichuan province, said.

Under the contract, Win Business will conduct exploration work over the next few years and jointly develop the block with PetroChina if the exploration proves the block is economically valuable.

The block is located in the Xichang basin in southeastern Sichuan, covering about 5,000 square kilometers, with possible natural gas reserves of billions of cubic meters.

Win Business, a small Singapore-based oil company, is among the pioneering foreign oil companies in the region. It signed a memorandum of understanding with PetroChina early this year and has drilled a well in the block.

### **Two counties in Hengshui hold 10bln tons of coal, 100bln cubic meters of coalbed methane**

Chinese geologists recently discovered rich coal and coalbed methane resources in Fucheng and Jingxian counties in Hengshui city, south central Hebei province.

This is the first time that solid mineral deposits have been found in Hengshui. Geologists also found terrestrial heat resources and oil earlier in the city.

Geologists said that there are significant coal resources buried deep underground in the Jizhong Plain. Coal deposits in Hengshui are buried in a depth of 1,000-1,800 meters underground, with four recoverable coal formations. The thickness of coal formations in the city ranges from four meters to six meters.

Geologists have calculated that there are 1.07Mt of coal and 115.83 billion cubic meters of coalbed methane resources buried in depth of less than 2,000 meters underground in Hengshui and that 3.9 billion tons of the coal resources and 42.1 billion cubic meters of the coalbed methane resources are buried in depth of less than 1,500 meters underground.

The Hebei Provincial Department of Land and Resources plans to invest more than 13 million yuan in exploring for coal and coalbed methane in Hengshui. The working area for coal exploration in Hengshui will be about 534 square kilometers, around 350 square kilometers in Fucheng county and about 184 square kilometers in Jingxian county.

In the next two years, Hebei plans to drill two exploration boreholes each with a depth of about 4,000 meters in the above two counties.

### **Natural gas reserves of Qaidam basin reach 300 billion cubic meters**

Recently, Tainan Gas Field of the Qinghai Oilfield reserves has been evaluated by the Ministry of Land and Resources. A newly added 52.6 billion cubic meters of natural gas of Tainan Gas Field was proven up. Then, the proven natural gas reserves of Qaidam Basin hit 300 billion cubic meters.

Discovered in 1987, Tainan Gas Field of Qinghai Oilfield is one of the three main gas fields located in Qaidam Basin.

In recent years, Qinghai oilfield insisted on promoting its oil and gas exploration and development campaign, which has made significant progress and further consolidated its status as the Chinese fourth largest gas field.

### **China's crude oil production to grow by 2% over next few months**

According to CNPC Petroleum Economics & Technology Research Center, influenced by high oil price and limited domestic oil resource, growth rate of domestic crude oil production will remain at about 2% in the future several months. The average crude output will be about 15.50Mt per month.

Despite prices of domestic refined oil products rose sharply in the early time, Chinese crude runs will be affected to some extent as a result of escalating international oil prices and low oil refining profit. It is estimated that the monthly domestic crude runs will cling to about 25.5Mt in the coming period. The estimated crude imports will be above 11Mt in the future 2-3 months.

It is estimated that Chinese export growth rate of oil products will be limited as a result of the national oil export control policy and abolition of export rebate policy on oil products.

### **China, Vietnam to speed up hydrocarbon exploration cooperation in Beibu Bay**

On Aug.24, China and Vietnam proclaimed that they have reached an agreement on accelerating cooperation in oil and gas exploration in cross-border area of Beibu Bay. Several months ago, both sides have basically resolved their disagreement on the border issue.

In recent years, Sino-Vietnam cooperation has made lots of significant progress.

The successful conclusion of the borders demarcation and solution of disputes between China and Vietnam laid a solid foundation for bilateral energy cooperation in the Beibu Bay.

On Oct.31 2005, CNOOC and PetroVietnam reached an agreement named "Framework Agreement on Hydrocarbon Exploration in Beibu Bay", marking two companies decided to join hands in hydrocarbon exploration in this area.

According to the exploratory statistics, this acreage contains abundant oil and gas reserves with oil reserves at 2.29 billion tons and natural gas reserves at 1.444 trillion cubic meters.

### **Update of joint oil shale project between China and Shell**

Recently, Mr. Liu Xiaowei from Shell (China) released that the joint oil shale project between China and Shell (China) in Jilin Province has made substantive progress. The remark was made in the second Northeast Asia Expo. Up still now, five exploration wells have been drilled in Nong'an, Shulan, and Yitong of Jilin Province.

Liu also introduced the main updates in Shell (China)'s oil shale project. In Mar. 2006, Jilin Shell Oil Shale Development Co., Ltd. was established in Hague, Netherlands, headquarter of Shell Group. In May 2006, the oil shale project was officially commenced, with its first exploration well spudded in Chaigang Town, Nong'an County.

In 2000, China approached Shell to initiate the oil shale development cooperation. Liu said that the project will be carried out in three phases.

The first phase will focus on exploration to ascertain the oil shale reserves which can be developed commercially, which will take two years. The second phase project will address the pre-production of oil shale with the under developed on-site conversion technology. The third phase project will enter into the large-scale production period.

### **PetroChina's hydrocarbon output expected to rise 5% annually over next five years**

PetroChina's oil and gas output is expected to rise by 5% annually over the next five years after the company completes its acquisition of PetroKazakhstan.

PetroChina had earlier stated that it will purchase the 67% stake that its parent company, China National Petroleum Corporation, holds in PetroKazakhstan via its subsidiary, China National Oil & Gas Exploration and Development Corporation (CNODC).

This acquisition will cost approximately US\$2.74 billion (around 21.9 billion yuan) and after the deal is completed, CNODC and KazMunaiGaz will respectively hold a 67% and 33% stake in PetroKazakhstan.

The deal is expected to be closed within this year. PetroChina expects that the acquisition of PetroKazakhstan would raise its earnings per share by 2.4%.

PetroKazakhstan generated US\$735 million in revenues in 2005. The company's net profits in the same year stood at US\$379 million. Last year, the company's oil and gas output reached 42.27 million barrels of oil equivalent.

PetroChina generated 115.29 billion yuan in revenues in the first half of 2006, up 28% from the same period in 2005. The company's net profits in the first half of this year reached 80.68 billion yuan, up 29.4% from the same period last year.

### **CNPC Proven Oil Reserves at Daqing Rise 390 mln tons**

China National Petroleum Corp, the parent of Hong Kong-listed PetroChina Co., Ltd., said proven oil reserves have risen by 390 mln tons after new technology was applied in estimating the size of the Daqing field, according a statement on its website.

CNPC said the new discovery will add 8.48 mln tons of output and RMB 18.97 billion yuan of revenue over the next few years.

The mature Daqing field in Heilongjiang province has long been a key source of China's oil, accounting for around one-third of the country's oil output in 2002. Daqing output fell three pct to 44.95 mln tons in 2005.

## **Storage & Transportation**

### **Ji-Ma oil pipeline starts operation**

China put a new cross-province oil pipeline into operation on August 30.

The pipeline starts at Jiyuan in Dingbian county, Shaanxi province and terminates at the Mafang heat pump station in Dashuikeng town, Yanchi county, Ningxia Autonomous Region. The pipeline is 32.72 kilometers in length and has a designed oil supply capacity of 1.5Mt/a.

The project receives regulatory approval in April of this year and construction started in July and was completed in August.

### **Terminal of Sichuan-Shanghai natural gas pipeline determined**

It is reported that the terminal station of Sichuan-Shanghai Natural Gas Pipeline was determined. It is planned in South of Zhanglian Village, Liantang Town, Qingpu District, Shanghai.

The main gas source of Sichuan-Shanghai Natural Gas Pipeline will come from Puguang Gas Field of Sichuan Province. It is one of the largest gas fields in China with the proven natural gas reserves at 251.07 billion cubic meters. The natural gas pipeline corridor will start from Dazhou City, Sichuan Province, and terminate in Shanghai, spanning 9 provinces.

The project will dramatically affect the gas supply structure of Shanghai City. It is reported that the current gas source for Shanghai are pipe gas produced in Xinjiang and East China Sea.

However, seasonal natural gas shortfall is inevitable as a result of surging industrial and civil natural gas demand in Shanghai. Thus, the planned natural gas project will definitely mitigate the tight natural gas supply situation of Shanghai City.

### **LUKoil in Talks to Open Gas Stations in China**

LUKoil, Russia's largest private oil firm, is currently in talks with China National Petroleum Corporation (CNPC) on the establishment of a joint venture to set up a network of

more than 100 gas stations in northeastern China.

LUKoil plans to export the Russian crude oil coming to China through the East Siberia-Pacific oil pipeline, which is currently under construction. According to the Russian newspaper Kommersant, one-fifth of the oil transported by the East Siberia-Pacific pipeline will come from LUKoil.

If an agreement is reached with CNPC, LUKoil will be the second Russian oil company to enter China's retail market after Rosneft. This spring, Rosneft and CNPC signed an agreement on the establishment of a joint venture to retail petroleum products in China.

## Refining & Petrochemical

### **Guangzhou Petrochemical's oil-refining capacity exceeds 13Mt/a**

Guangzhou Petrochemical Company, a subsidiary of the country's largest oil refiner Sinopec, has raised its crude oil processing capacity to more than 13Mt/a after completing a large-scale oil-refining capacity expansion project on August 30.

Guangzhou Petrochemical invested a total of 4.3 billion yuan in the said project which involved the establishment of four new units.

The new units include one 1Mt/a delayed coking unit, one 140kt/a sulfur recycling unit and one 8Mt/a atmospheric and vacuum distillation unit.

Guangzhou Petrochemical now has a production capacity of 1.85Mt of gasoline, 1.27Mt of aviation kerosene and 5.09Mt of diesel oil annually.

There are currently only six enterprises with an oil-refining capacity larger than 10Mt/a in China.

Prior to the completion of the project, Guangzhou Petrochemical's crude oil processing capacity stood at 7Mt/a.

### **Xiamen builds large paraxylene project**

Xiamen in south China's Fujian province will invest 10.8 billion yuan to build an 800kt/a paraxylene (PX) project in its Haicang District.

The project will be funded by Tenglong Aromatic Hydrocarbon (Xiamen) Co., Ltd. In addition to a PX plant, the project will also establish a heating and power plant, a wharf and some PX storage tanks.

PX produced by the project will be supplied to a 2.7Mt/a purified terephthalic acid (PTA) production line in Xiamen Xianglu Group.

The project recently received regulatory approval.

Construction of the project is slated to start at the end of this year and after the project becomes operational, Tenglong Aromatic Hydrocarbon will become the largest PX producer in the Chinese mainland.

### **Methanol production capacity of Qinghai oilfield to reach 400kt/a**

After the 100kt/a methanol facility of Golmud refinery was put into production in 1999, a new 300kt/a methanol facility invested by Qinghai Oilfield will come on stream in Sep. This marks the Qinghai Oilfield has the ability to produce 400kt of methanol per year.

The total investment of the project is about RMB 600 million yuan and it will consume 300 million cubic meters of natural gas annually.

The annual output value of the project will exceed RMB 400 million yuan and average after-tax profit will reach RMB 58.77 million yuan. It will take less than eight years to recover the total investment.

### **Bluestar New Chemical Materials to launch projects**

Bluestar New Chemical Materials Co., Ltd. announced on August 15th, 2006 that it has decided to build newly 90kt/a bisphenol-A project and 30kt/a epichlorohydrin (ECH) project, for further promoting phenol/acetone - bisphenol A- epoxy resin products chain.

The 90kt/a bisphenol A project will be constructed in Nantong Xingchen Synthetic Material Co., Ltd. with a total investment of around RMB583.65 million. Bluestar New Chemical Material will extend an investment of RMB161.23 in its wholly owned subsidiary Nantong Xingchen.

The 30kt/a ECH project and its matching facilities is underway in Bluestar New Chemical Material (Yancheng) Co., Ltd., a 70% equity subsidiary of Blue New Chemical Material, with a total investment of RMB526.56 million.

## **Imports & Exports**

### **Chinese grease imports dropped in Jul.**

According to latest statistics, China imported 1528.448 tons of grease in Jul. 2006, decreasing 3.19 tons or 0.21% from last month. Compared with the same time last year, it dropped 2934.566 tons or 65.75%. From Jan. to Jul., Chinese total grease imports stood at 9,439.895 tons, a decrease of 9,938.11 tons over the same period last year, down 51.29%.

In terms of exports, Chinese exported grease was 245.57 tons in Jul., a reduction of 96.478 tons or 28.21% over last month, and a growth of 372.51% over the same time last year. From Jan. to Jul., China accumulatively exported 1485.694 tons of grease, an increase of 506.42 tons or 51.71% over last year.

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