



BUSINESS REVIEW AND PROSPECTS

I. BUSINESS REVIEW

In 2000, China's economy maintained a healthy and stable development, with a GDP growth rate of 8%. Correspondingly, domestic demand for oil and petrochemical products continued to grow. Being the largest integrated energy and chemical company in China, the Company captured the opportunities presented by these favorable market conditions. Thanks to its meticulous efforts, the Company's 2000 business results outshone the 1999 performance significantly, with an operating profit of RMB 34.804 billion – an increase of 126.3% over 1999.

1. Product Market Review

Refined oil products: In 2000, domestic demand for oil products maintained its growth momentum, with total national consumption of gasoline, diesel and kerosene reaching 109.157 million tonnes, up by 4.8% over 1999.

The Chinese government continued its suspension of gasoline and diesel imports, and started in June 2000 to stipulate and promulgate retail-guidance prices for gasoline and diesel on a monthly basis with reference to FOB prices in the Singapore market. As a result, refined products prices in China have since more closely reflected price changes in the international market.

Chemicals: Domestic demand for chemicals was also relatively strong in 2000. China had to import a significant amount of chemicals to make up the shortage in domestic supply. Consumption of synthetic resin, synthetic fiber, monomers and polymers for synthetic fiber and synthetic rubber reached 20.73 million tonnes, 7.87 million tonnes, 12.05 million tonnes, and 1.52 million tonnes,



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showing increases of 17.52%, 16.25%, 20.98% and 11.76% over 1999 respectively.

The domestic market for chemicals has long been opened for foreign participation. Free from government control, prices of chemicals fluctuate concurrently with the international market.

2. Crude Market Review: In 2000, the international market saw the crude oil price fluctuate over a wide range. Daily Brent once climbed to a ten-year high,

and the year ended with a Platt's Singapore average spot quote of US\$ 28.54/bbl, representing a sharp increase of 58.26% over 1999. Because the domestic crude price was linked to the international market, crude oil prices also fluctuated widely in the home market in 2000.

In 2000, China produced 161.83 million tonnes and imported, net of exports, 59.69 million tons of crude oil, representing growth of 1.0% and 102.8% over 1999, respectively.

EXPLORATION & PRODUCTION

THE COMPANY EXPLORES FOR, DEVELOPS AND PRODUCES CRUDE OIL AND NATURAL GAS IN 13 PROVINCES, CITIES AND AUTONOMOUS REGIONS IN CHINA. IN 2000, APPROXIMATELY 26% OF THE COMPANY'S REFINING AND CHEMICAL OPERATIONS' CRUDE OIL REQUIREMENTS WERE PROVIDED BY THE COMPANY'S OWN CRUDE OIL EXPLORATION AND PRODUCTION OPERATIONS.

