General

Mr. Zhao Qichao
Executive Director
and General Manager

This discussion should be read in conjunction with the information in the Auditors' Report contained in this annual report. The information presented below interprets the Company's accounts as prepared in accordance with International Accounting Standards ("IAS"). For the Company's accounts as prepared in accordance with the Generally Accepted Accounting Principles in the United States of America ("US GAAP"), please see the Company's annual report on Form 20-F filed with the Securities and Exchange Commission of the United States of America, which will be provided to any shareholder upon written request.

The information set out below does not form part of the accounts audited by Arthur Andersen, the auditors of the Company, and is included for information purposes only.

The Company is one of the largest producers of ethylene, resins and plastics in the PRC. The vast majority of the Company's products fall within three principal product groups: (i) resins and plastics, (ii) synthetic rubber and (iii) basic organic chemical products. In 2000, the Company accounted for approximately 10.4% of the total ethylene production in the PRC. The Company is a leading producer in the PRC of LDPE, cis-polybutadiene rubber, butyl rubber, phenol, acetone, SBS and polypropylene.

The Company's principal raw material is cracking feedstock, substantially all of which is purchased from the Parent Company. The Company mainly uses light industrial oil as its cracking feedstock. The Company is also able to use naphtha, VGO, cracking wax oil, and hydrogenated raffinate oil as its cracking feedstock through its own research and development efforts. They are similar to light industrial oil in terms of production efficiency.

Since the establishment of the Sinopec Group in 1998, prices for light industrial oil and naphtha have been determined by the Sinopec Group based on the indicative state price set by the State Development and Planning Commission ("SDPC") of the PRC for gasoline and diesel oil. In 2000, the price of light industrial oil increased on seven occasions from RMB2,200 per ton (inclusive of 17% value added tax) at the end of 1999 to RMB2,240, RMB2,340, RMB2,630, RMB2,690, RMB2,760, then to RMB2,910 per ton (in each case inclusive of 17% value added tax) respectively in February, March, June, August, September, and November of 2000, before falling to RMB2,850 (inclusive of 17% value added tax) in December of 2000, in response to increases in the price of crude oil. These increases in price imposed pressure on the cost structure of the Company. During the year 2000, the Parent Company provided VGO, cracking wax oil and hydrogenated raffinate oil to the Company at the respective prices, exclusive of value added tax, of approximately RMB220, RMB430 and RMB430 per ton, less than the prevailing price for light industrial oil.

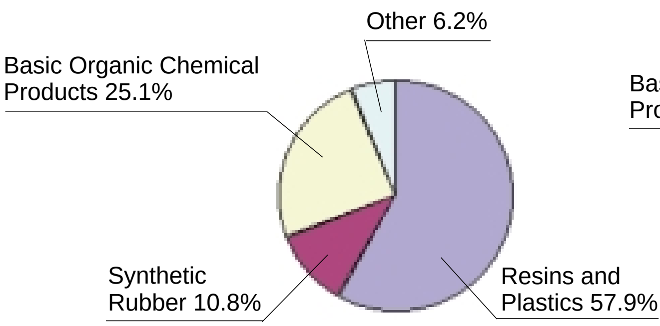
The Parent Company has undertaken to give the Company the exclusive right of first refusal to purchase all types of cracking feedstock it produces.

Operating Results

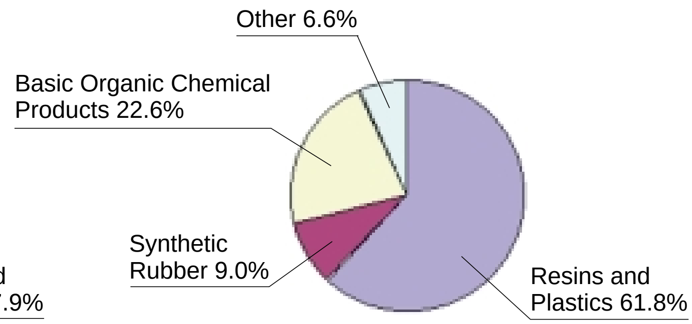
For the year ended 31st December, 2000, the Company's total sales reached RMB7,824.5 million, an increase of 21.2% from RMB6,454.7 million in 1999. This increase in sales can be attributed to the improvement of economic conditions in neighboring countries compared with 1999, which resulted in increased demand for petrochemical products in the region as a whole and to the higher prices for petrochemical products resulting from increases in crude oil prices. During the reporting period, the weighted average price of the Company's eight principal petrochemical products increased by 24.5%. These eight principal petrochemical products are LDPE, polypropylene, HDPE, polyester chips, polystyrene, cis-polybutadiene rubber, phenol and acetone. However, the increase in profit attributable to higher product prices was partially offset by the increase in cracking feedstock expense as compared with 1999, and decrease in production caused by a one-month shutdown of the Company's facilities for a maintenance overhaul due to the ethylene facility expansion through technological renovation. Profit before taxation decreased to RMB508.8 million in 2000, a decrease of 1.6% over the RMB517.0 million in 1999. Net profit increased to RMB347.8 million in 2000, an increase of 0.4%, from RMB346.4 million in 1999.

The following table sets forth a summary of the profit and loss accounts for the years ended December 31, 2000 and 1999 :

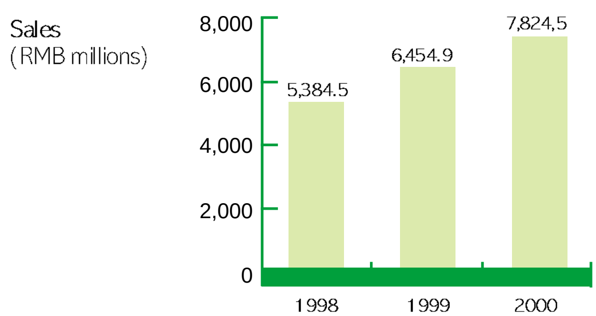
	2000	1999
	RMB'000	RMB'000
Sales	**7,824,547**	6,454,683
Cost of goods sold	**(6,664,093)**	(5,270,592)
Gross profit	**1,160,454**	1,184,091
Selling, general and administrative expenses	**(530,743)**	(578,544)
Operating profit	**629,711**	605,547
Financial expenses, net	**(97,893)**	(98,417)
Other (expenses) income, net	**(23,030)**	9,916
Profit before taxation	**508,788**	517,046
Taxation	**(161,029)**	(170,625)
Net profit	**347,759**	346,421
Earnings per share	**RMB 0.103**	RMB 0.103
Earnings per ADS	**RMB 5.154**	RMB 5.134



2000 Sales



1999 Sales



The following table sets forth a summary of the financial data of the Company for the respective years as hereunder stated :

	2000	1999	1998	1997	1996
	RMB'000	RMB'000 As restated	RMB'000 As restated	RMB'000 As restated	RMB'000 As restated
Total assets	**9,159,923**	8,852,805	8,430,316	7,600,671	4,833,922
Total liabilities	**3,429,551**	3,267,752	3,127,832	2,229,320	3,075,006
Net assets	**5,730,372**	5,585,053	5,302,484	5,371,351	1,758,916
Sales	7,824,547	6,454,683	5,384,467	6,293,463	5,980,924
Operating profit	692,711	605,547	232,154	1,107,552	976,962
Net profit	347,759	346,421	115,799	728,372	569,286
Dividends declared	134,960	202,440	67,480	205,814	209,380

The following table sets forth the sales analysis, net of product discounts, returns and VAT, by principal product groups for the years ended December 31, 2000 and 1999:

	2000		1999	
	Net Sales (RMB '000)	Percentage of net sales	Net Sales (RMB '000)	Percentage of net sales
Resins and plastics	4,531,438	57.9	3,986,259	61.8
Synthetic rubber	848,028	10.8	580,744	9.0
Basic organic chemical products	1,964,733	25.1	1,457,829	22.6
Other	480,348	6.2	429,851	6.6
Total	7,824,547	100.0	6,454,683	100.0

The following table sets forth the Company's sales, net of product discounts, returns and VAT, by geographical analysis for the years ended December 31, 2000 and 1999.

	2000		1999	
	Sales (RMB Million)	Percentage of sales	Sales (RMB Million)	Percentage of sales
Northeastern China	**219.1**	**2.8**	174.3	2.7
Northern China	**3,294.1**	**42.1**	3,104.7	48.1
Eastern China	**2,300.4**	**29.4**	1,762.1	27.3
Central-southern China	**1,025.0**	**13.1**	787.5	12.2
Southern China	**477.3**	**6.1**	322.7	5.0
Northwestern China	**86.1**	**1.1**	71.0	1.1
Southwestern China	**281.7**	**3.6**	174.3	2.7
Exports	**140.8**	**1.8**	58.1	0.9
Total :	**7,824.5**	**100.0**	6,454.7	100.0

The following table sets forth the percentages of total sales of the principal operating expenses associated with the Company's business.

	2000	1999
	%	%
Sales	**100.0**	100.0
Less expenditure:		
Raw materials	**62.2**	53.8
Utility expenses	**10.2**	10.8
Depreciation	**6.2**	9.4
Repairs and maintenance	**2.8**	2.5
Wages and bonus	**2.8**	3.1
Other overheads	**1.0**	2.1
Selling, general and administrative expenses	**6.8**	8.9
Operating margin	**8.0**	9.4

Raw material expenses were the largest component of the operating expenses. In 2000 and 1999, approximately 53.5% and 49.0%, respectively, of cost of goods sold were expenses relating to purchases of cracking feedstock. In 2000, the total cracking feedstock expense was RMB3,567 million as compared with RMB2,588 million in 1999, representing an increase of RMB979 million (37.8%), causing an appreciable adverse impact on the profitability of the Company. This was caused by higher cracking feedstock expense attributable to escalating crude oil prices in 2000. In 2000, the price of light industrial oil was increased on seven occasions from RMB2,200 per ton at the end of 1999 to reach a high of RMB2,910 per ton, before falling to RMB2,850 per ton in December of 2000 (in each case inclusive of 17% value added tax) , in response to increases in the price of crude oil. The average price of the cracking feedstock used by the Company increased 49.4% as compared with the same in 1999.

Since a significant portion of the Company's expenses has been either fixed (as depreciation expense of equipment) or has consisted of stable unit costs (as cracking feedstock), fluctuations in sales, particularly those caused principally by changes in product prices or raw material prices have tended to cause large fluctuations in profitability. In 2000, prices of cracking feedstock continued to increase throughout the year and prices of products increased by a smaller margin as compared with the price increase in cracking feedstock. Consequently, the operations margin of the Company decreased from 9.4% in 1999 to 8.0% in 2000.

Year ended 31st December, 2000 compared with year ended 31st December, 1999

Total sales increased by RMB1,369.8 million, or approximately 21.2%, to RMB7,824.5 million in 2000 from RMB6,454.7 million in 1999. This increase in sales was principally due to higher crude oil prices. The weighted average price of the Company's eight principal products, which accounted for 75.4% and 77.3%, respectively, of total sales in 2000 and 1999, increased 24.5% in 2000. This increase was partially offset by a 5.0% decrease in the sales volume of the same eight principal products compared with 1999 due to the one-month shutdown of the Company facilities for ethylene facility expansion through technology renovation.

Sales of resins and plastics, which accounted for 57.9% of the Company's sales, increased approximately 13.7% from RMB3,986.3 million in 1999 to RMB4,531.4 million in 2000. This increase was principally attributable to a 24.2% increase in the weighted average prices of resins and plastics products, of which in 2000 the average prices for LDPE, HDPE, polypropylene, polystyrene and polyester chips increased by 23.9%, 23.6%, 21.7%, 42.8% and 23.1% respectively.

Sales of synthetic rubber, which accounted for 10.8% of total sales, increased approximately 46.0% from RMB580.7 million in 1999 to RMB848.0 million in 2000. The increase was due to 14.8% and 31.7% increases in the respective average prices of cis-polybutadiene rubber and SBS as compared with the same in 1999 and an increase of 14.4% in the total sales volume of synthetic rubber compared with 1999.

Sales of basic organic chemical products, which accounted for 25.1% of total sales, increased approximately 34.8% from RMB1,457.8 million in 1999 to RMB1,964.7 million in 2000 as a result of 38.1%, 39.7% and 25.2% increases in respective average prices of phenol, acetone and ethylene glycol as compared with 1999.

Sales of other products, which accounted for 6.2% of total sales, increased approximately 11.7% to RMB480.3 million in 2000 from RMB429.9 million in 1999.

Cost of goods sold increased to RMB6,664.1 million, or 26.4%, in 2000 from RMB5,270.6 million in 1999, mainly due to the increased material and fuel expenses attributable to increasing crude oil prices in 2000, as well as higher repair and maintenance costs resulting from the one-month facility shutdown for technological renovation. The Company's gross margin decreased from RMB1,184.1 million in 1999 to RMB1,160.5 million in 2000, as gross profit fell from 18.3% in 1999 to 14.8% in 2000.

Selling, general and administrative expenses decreased by RMB47.8 million, or approximately 8.3%, to RMB530.7 million in 2000, from RMB578.5 million in 1999. This decrease was mainly due to sharp decreases in depreciation, office expenses and provision for bad debt.

The Company's operating profit increased approximately 4.0% in 2000 to RMB629.7 million, from RMB605.5 million in 1999 and its operating margin decreased to 8.0% in 2000, compared to 9.4% in 1999, mainly due to higher sales costs and lower sales volumes for principal products.

Aggregate financial expenses decreased to RMB97.9 million in 2000 from RMB98.4 million in 1999, primarily due to a decline in interest expenses resulting from efforts by the Company's management to adjust the borrowing periods of bank loans in response to an increase in the total borrowing of the Company in the same period.

Profit before taxation decreased by RMB8.2 million, or approximately 1.6%, to RMB508.8 million in 2000, from RMB517.0 million in 1999. Taxation decreased by approximately 5.6%, to RMB161.0 million in 2000 from RMB170.6 million in 1999 due to income tax deductions under relevant PRC laws resulting from the use of import-substitute facilities. Net profit increased approximately 0.4% to RMB347.8 million in 2000, yielding a net margin of 4.4%, as compared to the net income of RMB346.4 million, with a net margin of 5.4% in 1999.

Liquidity and capital resources

The Company has principally relied on funds from operations, bank loans and equity capital to finance its capital expenditures and working capital.

The Company's net cash flow derived from operations is generally higher than its net profit, mainly due to substantial depreciation and amortization expenses. In 2000, the Company's net cash flow from operating activities was RMB1,223.9 million, primarily consisting of (i) profit before taxation of RMB508.8 million, (ii) total depreciation and amortization expenses of RMB557.8 million and (iii) a net decrease of RMB302.2 million in net operating assets. The net decrease in net operating assets was due to a RMB211.7 million decrease in operating assets and a RMB90.5 million increase in operating liabilities. The decrease in operating assets was principally due to a RMB258.1 million decrease in account receivables and a RMB182.9 million decrease in receivables from related companies attributable to the Company's strict control on account receivables and account receivables from related companies. As of 31st December, 2000, the Company's accounts receivable and notes receivable were RMB512.9 million, equivalent to 24 days of 2000 sales. The increase in operating liabilities was primarily due to an increase of RMB123.5 million in payables to related companies. Cash flow from operating activities was also reduced due to the payment of interests in the amount of RMB97.2 million and enterprise income tax paid of RMB185.4 million.

Net cash used in investing activities was RMB1,444.0 million in 2000. It was mainly due to the Ethylene Project, including supporting facilities, are undergoing construction.

The Company's short-term and long-term loans were primarily obtained from PRC domestic banks. In 2000, the Company repaid RMB1,284.0 million in short-term loans and RMB466.5 million in long-term loans, and borrowed RMB1,130.0 million in short-term loans and RMB725.0 million in long-term loans. As of 31st December, 2000, the Company's total bank loans increased approximately 4.2% to RMB2,598.5 million (including RMB980.0 million in short-term loans) from RMB2,494.1 million (including RMB1,134.0 million in short-term loans) as of 31st December, 1999.

The Company expects to require capital expenditures of RMB1,900.0 million, RMB500.0 million and RMB300.0 million in 2001, 2002 and 2003, respectively. Such capital expenditures include approximately RMB3,500.0 million for the Ethylene Project and other technical improvement projects. The Company believes the cash flow from its operating activities and new bank loans will be sufficient to cover the Company's expected capital expenditures for the period described.

Following the establishment of the Company as a joint stock limited company in April 1997, the Company's dividends have been considered annually by the Board of Directors and decided upon by the shareholders.

US GAAP reconciliation

The Company prepares a set of accounts in compliance with IAS, which differs in certain respects from US GAAP. Please refer to note 24 of the financial statement for the differences in accounting policies.