

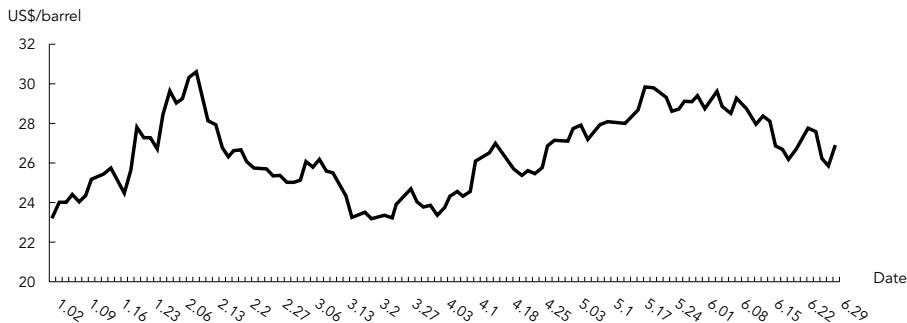
## MANAGEMENT DISCUSSION AND ANALYSIS

### Operational Environment

In the first half of 2001, the domestic demand for petroleum products continued to increase and the total consumption of gasoline, diesel and kerosene in the PRC was 57.04 million tonnes, 3.59 per cent higher than that of the same period of 2000.

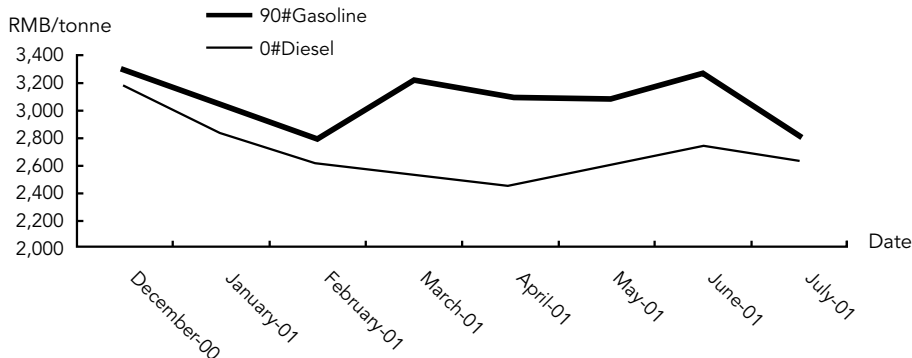
In the first half of 2001, the prices of petroleum oil in the international market remained volatile at high price levels, and the average prices of crude oil and petroleum products in the international market were basically at the same levels of those of the same period last year respectively. The average prices of domestic petroleum products increased substantially under the current petroleum product pricing mechanism.

**Chart 1: Price movement of BRENT crude oil in the Singapore market in the first half of 2001**



Source of Information: Platts

**Chart 2: The movement of the Company's ex-factory prices of gasoline and diesel in the first half of 2001 (RMB/tonne)**



## Analysis of Operating Results<sup>2</sup>

In comparison with the same period of 2000, the Company benefited from the price increase in petroleum products in the first half of 2001. During the period, the Company also adjusted the product mix and controlled its operating cost. As a result, the Company's profit after taxation in the first half of 2001 increased by 92.3 per cent over that of the corresponding period of last year.

### Turnover

In the first half of 2001, the Company processed 5.23 million tonnes of feedstock oil, which was at the same level of that of the same period of 2000, and reported a product sales volume of 4.63 million tonnes. The output of diesel, jet fuel and gasoline ranked the first, the second and the fourth in the petrochemical industry of the PRC respectively. The turnovers of gasoline and diesel increased by 16.57 per cent and 20.97 per cent over those of the same period last year respectively. The combined turnover of gasoline and diesel accounted for 62.11 per cent of the total turnover, 7.78 percentage point higher than that of the same period last year.

In the first half of 2001, the average price (excluding consumption tax) of the Company's total products was RMB2,123.52 per tonne, 11.42 per cent higher than that of the same period of 2000. The average prices (excluding consumption tax) of gasoline and diesel were RMB2,370.63 per tonne and RMB2,134.53 per tonne respectively.

Due to increase in product price and adjustments to product mix, the Company's turnover during the first half of 2001 rose by 4.6 per cent over that of the same period of 2000 despite a drop in sales volume.

**Table 1: Sales volume, average selling price and turnover**

	2001 1H	2000 1H	% change
Sales volume ('000 tonnes)	4,634.6	4,887.5	-5.17
Average selling price (RMB/tonne)	2,123.52	1,905.95	11.42
Turnover (RMB'000)	9,920,791	9,488,960	4.6
Including: Turnover of subsidiaries (RMB'000)	79,094	173,650	-54.45

### Cost of sales

In the first half of 2001, the Company's processing cost of feedstock oil rose slightly from that of the same period of 2000 as a result of consumption of higher-cost crude oil in stock at the beginning of 2001. The feedstock oil cost accounted for 90.31 per cent of the total cost.

The manufacturing overheads increased by 4.09 per cent as compared with the same period last year due to the increase in depreciation and energy and material consumption caused by the switching on and off of facilities during the facility overhaul.

The total cost of sales increased by 2.2 per cent as compared with the same period last year.

<sup>2</sup> The following discussion should be read along with the audited combined financial statements and their notes of the Company, which were included in this interim report.

**Table 2: Cost of sales**

<i>(RMB '000)</i>	<b>2001 1H</b>	<b>2000 1H</b>	<b>% change</b>
Raw material	8,227,290	8,065,730	2.00
Direct labor	28,520	26,550	7.42
Manufacturing overheads	854,060	820,490	4.09
<b>Total</b>	<b>9,109,880</b>	<b>8,912,770</b>	<b>2.21</b>

**Operating, administration and financial expenses**

In the first half of 2001, the total operating, administration and financial expenses increased by 16.47 per cent year over year to RMB444.93 million.

While there was an increase in handling charges for exporting activities and leasing expenses, the operating expenses decreased slightly by 0.5 per cent year over year due to the reduction in sales volume.

The administration expenses increased by 35.7 per cent year over year mainly due to the payment of RMB39.11 million for staff reduction, an increase of RMB8 million in labor insurance premium and an increase of RMB10.33 million in inventory loss.

The financial expenses decreased by 8.6 per cent year over year due to the significant decline in interest expenses for short-term loans as a result of the Company's strengthened capital management.

**Table 3: Operating, administration and financial expenses**

<i>(RMB '000)</i>	<b>2001 1H</b>	<b>2000 1H</b>	<b>% change</b>
Operating expenses	129,559	130,159	-0.46
Administration expenses	260,934	192,293	35.70
Financial expenses	54,435	59,553	-8.59
<b>Total</b>	<b>444,928</b>	<b>382,005</b>	<b>16.47</b>

**Unit refining cash operating cost and unit complete expenses**

Due to the replacement of catalyst and the increase in the energy and material consumption caused by the switching on and off of facilities during the overhaul, the unit refining cash operating cost increased by RMB14 per tonne over that of the same period of 2000 to RMB86.88 per tonne, (1.44 \$/b). Accordingly, the unit complete expenses increased by RMB20.48 per tonne to RMB164.38 per tonne (2.72 \$/b).

The unit refining cash operating cost and the unit complete expenses of the Company remained among the lowest within the domestic oil refining industry.

**Table 4: Unit refining cash operating cost and unit complete expenses**

<i>(RMB '000)</i>	2001 1H	2000 1H	% change
Unit refining cash operating cost	86.88	72.88	19.21
Unit complete expenses	164.38	143.90	14.23

Note: the unit refining cash operating cost is the current cash paid expenses, after deducting the financial expenses and the depreciation and amortization expenses from the unit complete expenses.

**Profit before taxation and profit after taxation**

In the first half of 2001, the profit before taxation of the Company increased by 83.7 per cent year over year. Although the subsidiaries of the Company did not enjoy the preferential income tax policy promulgated by the local government any longer, the Company received a tax refund of RMB69.69 million from the disposal of three kinds of residue according to the relevant national policy. As a result, in the first half of 2001, the percentage growth in the profit after taxation of the Company was higher than that in the profit before taxation of the Company.

**Table 5: Profit before taxation and profit after taxation**

<i>(RMB '000)</i>	2001 1H	2000 1H	% change
Profit before taxation	330,443	179,914	83.67
Income tax	(36,575)	(27,094)	35.00
Profit after taxation	293,868	152,820	92.30