On behalf of the Group's management team, I am pleased to provide the following discussion and analysis of the Group's 2001 financial results. Please note that the information set out in this section does not form part of the accounts audited by PricewaterhouseCoopers, the international independent auditors, as set forth in this annual report and should be read in conjunction with the information contained in the Consolidated Accounts and Notes thereto (the "Accounts") presented in the annual report. The information presented below analyses the Group's accounts as prepared in accordance with International Accounting Standards. For an analysis of the Group's consolidated results of operations and shareholders' equity as prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP"), please refer to the Company's annual report on Form 20 F to be filed with the Securities and Exchange Commission of the United States of America, which will be provided to any shareholder upon written request.

Our historical financial performance has been affected significantly by factors arising from operating in a planned economy which are beyond our control. Although government controls have relaxed over time, controls over allocation and pricing of crude oil and petroleum products still exist. We believe that these controls are intended to enable the PRC government to control and moderate the effect of changes in availability and pricing of crude oil and petroleum products and should provide generally for greater stability in our operating results with respect to crude oil costs and petroleum product sales.

The PRC entered into the World Trade Organisation ("WTO") on December 11, 2001. As part of its WTO accession commitments, the PRC government will gradually eliminate import quota and import license systems, reduce tariff, and permit foreign invested enterprises to engage in domestic distribution and retail for all of our major products. The PRC will also eliminate state trading for our major products exclusive of petroleum products and chemical fertilizer. These commitments, once being carried out, may cause the prices for our raw materials and products to be more aligned with those in the international markets and thus affecting the stability in our operating results.

In 2001, we experienced significant decrease in turnover as a result of the low demand in international markets for petrochemical products that have adversely affected product prices in the domestic market. These market conditions, together with the significant amount of reserves we set aside providing for diminution in value of inventories and impairment of receivables, led to a significant operating and net loss.

We have identified the accounting policies below as critical to our business operations and the understanding of our results of operations. For a detailed discussion on the application of these and other accounting policies, see Note 2 to the Consolidated Financial Statements. The application of these policies may require management to make judgments and estimates that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements, and the reported amounts of revenue and expenses during the reporting period. Management uses historical experience and all available information to make these estimates and judgments, and different amounts could be reported using different assumptions and estimates.

- Revenue recognition. Our revenue recognition policy is critical because our revenue is a key component of our results of operations. We follow very specific and detailed accounting guidelines in measuring revenue. However, certain judgments affect the application of our revenue policy. Should changes in conditions cause management to determine certain criteria for revenue recognition are not met for future transactions, revenue recognised for any reporting period could be adversely affected.

- Provision for accounts receivables. Accounts receivables are carried at original invoice amount less provision for impairment. We specifically analyse historical bad debts, receivable ageings, customer concentrations, customer credit-worthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts.

- Inventories. Inventories are stated at the lower of cost or net realisable value. We estimate net realisable value based on intended use, current market value and inventory ageing analyses.

- Impairment of long-lived assets. We review long-lived assets for possible impairment by evaluating whether the carrying amount of assets exceed its recoverable amount. Our judgements regarding the existence of impairment indicators are based on legal factors, market conditions and operational performance of each asset. Future events could cause us to conclude that impairment indicators exist and that long-lived assets are impaired. Any resulting impairment loss could have a material adverse impact on our financial condition and results of operations.

The following table sets forth the Group's sales volume, net sales volume and proportions of total net sales for the periods indicated:

	2001			2000		
	Sales Volume *('000tons)*	**Net Sales *(RMB Millions)***	**% of Net Sales**	Sales Volume *('000tons)*	Net Sales *(RMB Millions)*	% of Net Sales
Petrochemical and organic chemical products[1]	**1,618.5**	**5,386.5**	**43.0**	1,360.2	5,830.8	43.5
Petroleum products	**2,645.9**	**5,208.0**	**41.6**	2,633.3	5,410.4	40.4
Synthetic rubber products	**108.6**	**781.7**	**6.2**	114.6	878.5	6.6
Chemical fertilizers and inorganic chemical products	**144.8**	**107.1**	**0.9**	521.8	458.2	3.4
Other	**N/A[2]**	**1,035.3**	**8.3**	N/A[2]	818.4	6.1
Total	**4,517.8[3]**	**12,518.5**	**100**	4,629.9[3]	13,396.2	100

(1) The Group ceased production of dyestuff and some dye intermediates in late 2000. The sales data for "dyestuff and dye intermediates" have been combined into those for "petrochemical and organic chemical products". The sales data for "petrochemical and organic chemical products" in 2000 were adjusted accordingly.

(2) Sales volume includes certain products, the measurement of which in tons does not provide a meaningful comparison vis-a-vis products in other product categories.

(3) Excluding sales volume of "Other." See note 2.

The following chart sets forth the financial information of the Group for the periods indicated:

	Year ended December 31, 2001		Year ended December 31, 2000	
	RMB millions	**% of net Sales**	RMB millions	% of net Sales
Turnover	**12,518.5**	**100**	13,396.2	100
Cost of sales	**(12,541.9)**	**(100.2)**	(12,164.2)	(90.8)
Distribution costs, administrative expenses and employee separation costs and expenses for shut down of manufacturing assets	**(1,278.5)**	**(10.2)**	(1,567.9)	(11.7)
Operating loss	**(1,308.5)**	**(10.5)**	(334.6)	(2.5)
Interest expense	**(598.9)**	**(4.8)**	(641.1)	(4.8)
Taxation	**(0.8)**	**–**	58.5	0.4
Profit/(loss) attributable to shareholders	**(1,817.4)**	**(14.5)**	(836.0)	(6.2)

OPERATING RESULTS

Year ended December 31, 2001 compared with Year ended December 31, 2000

Turnover decreased by 6.6% to RMB12,518.5 million in 2001 compared to RMB13,396.2 million in 2000.

Segment analysis

Net sales of petrochemical and organic chemical products decreased by 7.6% to RMB5,386.5 million in 2001 from RMB5,830.8 million in 2000, accounting for 43.0% of aggregate net sales in 2001, down from 43.5% in 2000. Sales decreased as declining product prices reflecting deterioration in the PRC domestic petrochemical products market more than offset increases in sales volume. In 2001, the weighted average price for products in this segment decreased by 22.4% from 2000. Sales volume for petrochemical and organic chemical products in 2001 increased by 19.0% from 2000.

Net sales of petroleum products decreased by 3.7% to RMB5,208.0 million in 2001 from RMB5,410.4 million in 2000, accounting for 41.6% of aggregate net sales in 2001, up from 40.4% in 2000. The decrease in net sales was attributable primarily to a 4.2% decrease in the weighted average price of petroleum products reflecting decrease in the crude oil price in the international markets, and a 0.5% decrease in sales volume over 2000.

Net sales of synthetic rubber decreased by 11.0% to RMB781.7 million in 2001 from RMB878.5 million in 2000, accounting for 6.2% of aggregate net sales in 2001, down from 6.6% in 2000. The decrease in net sales was attributable primarily to the decrease of weighted average price and sales volume as a result of the weaker domestic market. The sales volume of synthetic rubber products decreased by 5.2% compared with 2000 and the weighted average price of such products decreased by 6.1% from 2000.

Net sales of chemical fertilizers and inorganic chemical products decreased by 76.6% to RMB107.1 million in 2001 from RMB458.2 million in 2000, accounting for 0.9% of aggregate net sales in 2001, down from 3.4% in 2000. The decrease in sales was attributable primarily to the decrease of sales volume as a result of the Group's termination of production of some chemical fertilizer products. The sales volume of chemical fertilizer and inorganic chemical products decreased by 72.2% compared with 2000 and the weighted average price of such products decreased by 15.7% from 2000.

Revenue from other products and services increased by 26.5% to RMB1,035.3 million in 2001 from RMB818.4 million in 2000 due to an increase of supply in certain products and services provided to JCGC Group Companies.

Cost and expenses

Cost of sales increased by 3.1% to RMB12,541.9 million in 2001 from RMB12,164.2 million in 2000, representing 100.2% and 90.8% of aggregate net sales from 2001 and 2000, respectively. The increase in cost of sales was due primarily to the Group's provision for diminution in value of inventories in an amount of RMB171.2 million, as the book value of some inventories fell below their net realisable value. Raw materials costs as a percentage of aggregate net sales decreased from 77.1% in 2000 to 74.9% in 2001 and was due primarily to decreases in crude oil prices in 2001. In 2001, the weighted average price of crude oil we purchased fell by 12.9% from RMB2,077 per tonne in 2000 to RMB1,810 per tonne in 2001, reflecting decreases in crude oil price in the international markets. In 2001, we processed 4.34 million tonnes of crude oil, down from 4.40 million tonnes in 2000.

Selling expenses, administrative expenses and employee separation costs and expenses for shut down of manufacturing assets decreased by 18% from RMB1,567.9 million in 2000 to RMB1,278.5 million in 2001. This decrease was attributable to the write-off of certain loss-making equipment and the severance payment to employees made redundant because of the write-off which were recorded in 2000. We increased the provision for impairment of receivables from RMB60.9 million in 2000 to RMB599.6 million in 2001 due to the deteriorating chemical product market in 2001. Many of our customers accumulated significant inventory, leading to liquidity problems or even bankruptcies, which significantly impacted their repayment capabilities. Accordingly, throughout the year we continuously re-evaluated all customer's financial condition and determined that such an increase in our provision for impairment of receivables was required.

Based on the above factors, our operating loss increased from RMB334.6 million in 2000 to RMB1,308.5 million in 2001.

Interest expenses decreased by 6.6% from RMB641.1 million in 2000 to RMB598.9 million in 2001, primarily due to an decrease in loans in 2001.

Taxation in 2001 was RMB0.8 million compared to a tax credit of RMB58.5 million in 2000 which was primarily attributable to the recognition of deferred tax asset in connection with the tax loss incurred during that year. The Group did not have such deferred tax asset for 2001.

Net loss in 2001 was RMB1,817.4 million, an increase of RMB981.4 million from RMB836.0 million in 2000. This was due primarily to a decrease of turnover and an increase in our cost of sales and increase in provision for accounts receivable.

LIQUIDITY AND CAPITAL RESOURCES

We depend upon cash flows from operations, bank loans and equity financing to satisfy our ongoing liquidity and capital needs. During the year ended December 31, 2001, our cash position decreased by RMB192.0 million compared to a decrease of RMB17.8 million in 2000. This decrease was primarily due to an increase of cash outflow from financing activities as a result that the Group largely increased its repayment of loans in 2001.

During 2001, net cash inflow from operating activities increased to RMB1,772.5 million from RMB545.5 million in 2000. This increase was mainly because the increase in provision for doubtful debts and decrease in account receivables and inventories more than offset the increase in loss before taxation and decrease in loss on disposal of property, plant and equipment.

Net cash outflow from investing activities decreased from RMB1,397.0 million in 2000 to RMB867.2 million in 2001. The decrease was primarily due to less capital expenditures in 2001.

Net cash outflow from financing activities in 2001 was RMB1,097.3 million, compared to a net cash inflow from financing activities of RMB1,924.7 million in 2000, primarily due to net repayment of RMB1,096.9 million borrowings in 2001 compared with net borrowings of RMB1,453.1 million in 2000. Most of the borrowings we repaid in 2001 were long-term bank loans with high interest rate. We received proceeds of RMB485.5 million in a domestic share issuance in 2000. We did not issue any new shares in 2001.

As at December 31, 2001, our current assets were RMB2,633.6 million and current liabilities were RMB4,695.5 million. The reason we had a larger amount of current liabilities than current assets was primarily because of the decrease of current assets resulting from provision for doubtful debts and provision for diminution in value of inventories. As at December 31, 2001, we had a negative working capital of RMB2,061.9 million, compared with a positive working capital of RMB1,302.8 million as at December 31, 2000. We review our working capital and liquidity position on a regular basis and have always been able to satisfy our short term obligations through the refinancing of indebtedness and other measures. China Petroleum Finance Company Limited, a subsidiary of CNPC, our ultimate shareholder, provides us with a loan facility up to RMB5 billion which will expire on December 31, 2003. As a result, we believe that we have more than sufficient resources to meet our foreseeable working capital needs. Our gearing ratio was 66% as at December 31, 2001, and 56% as at December 31, 2000 (gearing ratio is calculated at the ratio between long term debt and the sum of equity and long term debt).

As at December 31, 2001, borrowings were RMB9,527.0 million, a decrease of RMB1,096.9 million as compared with December 31, 2000, among which short-term borrowings were RMB3,541.5 million representing an increase of RMB497.7 million as compared with December 31, 2000, and long-term borrowings were RMB5,985.6 million representing a decrease of RMB1,594.5 million as compared with December 31, 2000. These changes reflected the Group's adjustment of loan structure to borrow short-term loans with lower interest rate to repay some long-term loans with higher interest rate.

As at December 31, 2001, the weighted average interest rate of the Group's borrowings range from 5.04% to 6.58%. Fixed-rate borrowings represent 57.5% of the total borrowings. As at December 31, 2001, the maturity of 6.3% of the long-term borrowings was within one year, the maturity of 29.8% of the long-term borrowings was between one year and two years, the maturity of 38.6% of the long-term borrowings was between two and five years and the maturity of 25.3% of the Group's long-term borrowings was above five years.

The Group does not have seasonal demands for capital. The terms and conditions of our existing bank loans do not restrict our ability to pay dividends on our shares.

As at December 31, 2001, all the short-term borrowings of the Group are denominated in Renminbi. Among the long-term borrowings, foreign currency-denominated loans were in an amount of RMB2,535 million which needs to be repaid in the relevant foreign currency, among which there was a loan of RMB1,366 million from JCGC Group Companies. The foreign currencies for denomination include United States Dollar, Japanese Yen and Deutsche Mark. The Group also has foreign exchange risk in making payment related to import of raw materials and machinery, in which it needs to convert Renminbi into the applicable foreign currency. In addition, dividends for H shares are payable in foreign currency. We believe fluctuations in foreign currency exchange rates will have a significant impact on us. In 2001, the Group had a net foreign exchange gain of RMB49.5 million.

Our ability to obtain external financing in the future and the cost of such financing are subject to a variety of uncertainties, including:

– obtaining PRC government approvals required to access domestic or international financing or to undertake any project involving significant capital investment, which, depending on the circumstances, may include one or more approvals from the State Development and Planning Commission, the State Administration of Foreign Exchange, the State Economic and Trade Commission and the China Securities Regulatory Commission;

– our future results of operations, financial condition and cash flows;

– the cost of financing and the condition of financial markets; and

– the potential changes in monetary policy of the PRC government with respect to bank interest rates and lending practices.

We are not aware of any off-balance sheet type arrangements such as special purpose entities that require separate disclosure in the MD&A.
The Group's cash and cash equivalents are denominated in Renminbi. The Group did not engage in any hedging activities relating to foreign exchange, interest rates or other risks in 2001. The Group does not plan to exercise its Ethylene Project Option before it expires on December 31, 2002.

CAPITAL EXPENDITURE

In 2001, the Group completed technological upgrades of aromatic abstraction and 300,000 t/a ethylene facilities and continued to carry out technological upgrades of the styrene, catalytic cracking and synthetic ammonia facilities. The Group's overall capital expenditures in 2001 were approximately RMB866.9 million.

The Group anticipates its capital expenditure for 2002 to be approximately RMB400 million, which will be spent on the upgrades of styrene, catalytic cracking and synthetic ammonia facilities. The capital for these expenditures is expected to be financed by the Group's operating income and loans.

SIGNIFICANT INVESTMENT

The Group did not make any significant investment in the year ended December 31, 2001.

MATERIAL ACQUISITIONS AND DISPOSALS

The Group did not make any material acquisition or disposals of subsidiaries and associated companies in the year ended December 31, 2001.

EMPLOYEES

As of December 31, 2001, the number of employees of the Group was 22,374. The employee's remuneration for the year ended December 31, 2001 was RMB449.6 million.

CHARGES ON ASSETS

The Group did not have charges on its principal assets as of December 31, 2001.

CONTINGENT LIABILITY

The Group did not have any contingent liability as of December 31, 2001.

Shi Jianxun
General Manager and Executive Director

Jilin, PRC
April 22, 2002