

establishment on November 5, 1999, and such expenses were borne by the Company in 2000), and increases of bad debt reserves and increases in transportation and storage expenses resulted from the expansion of our refined product retail network.

*Depreciation, Depletion and Amortisation.* Depreciation, depletion and amortisation increased 43.5% from RMB 23,533 million for the year ended December 31, 1999 to RMB 33,760 million for the year ended December 31, 2000. This increase was due primarily to increases in fixed assets in each of our business segments and the effect of revaluation of our assets on June 30, 1999.

*Expenses Relating to Workforce Reduction and Shut Down of Refining and Chemical Units and Facilities.* Expenses relating to our workforce reduction and shutting down of refining and chemical units and facilities were RMB 6,579 million for the year ended December 31, 2000. Out of such expenses, RMB 4,215 million were used for our workforce reduction, including RMB 3,180 million paid to discharged employees in 2000 and RMB 1,035 million as accrued expenses for our workforce reduction in 2001, and RMB 2,364 million relate to the write-off of certain inefficient refining and chemical units and facilities.

*Taxes Other than Income Taxes.* Taxes other than income taxes increased 28.7% from RMB 10,278 million for the year ended December 31, 1999 to RMB 13,230 million for the year ended December 31, 2000. This increase was due primarily to increases in sales income and increases in sales volume in our chemicals and natural gas segments, which caused increases in relevant taxes.

*Income From Operations.* Income from operations increased 82.9% from RMB 46,900 million for the year ended December 31, 1999 to RMB 85,759 million for the year ended December 31, 2000.

*Net Exchange Gain (Loss).* Net exchange gain increased 152.5% from a loss of RMB 2,233 million for the year ended December 31, 1999 to a gain of RMB 1,172 million for the year ended December 31, 2000. The net exchange gain was due to a depreciation of the Japanese Yen against Renminbi in connection with our Japanese Yen denominated borrowings.

*Net Interest Expense.* Net interest expense decreased 33.9% from RMB 8,264 million for the year ended December 31, 1999 to RMB 5,464 million for the year ended December 31, 2000. This decrease was due primarily to a reduction in our total borrowings as a result of the prepayment of certain loans, the replacement of higher interest rate loans with lower interest rate loans, and a decrease in the weighted average effective interest rate of our total borrowings.

*Income Before Income Taxes.* Income before income taxes increased 124.6% from RMB 36,531 million for the year ended December 31, 1999 to RMB 82,051 million for the year ended December 31, 2000.

*Income Taxes.* Income taxes increased 187.0% from RMB 9,403 million for the year ended December 31, 1999 to RMB 26,985 million for the year ended December 31, 2000 due

primarily to an increase in income before income taxes. Such increase in our income tax was partially offset by our consolidated tax reporting status, which was not available to us prior to the incorporation of the Company.

*Net Income.* Net income increased 104.6% from RMB 27,001 million for the year ended September 30, 1999 to RMB 55,231 million for the year ended December 31, 2000.

## **Exploration and Production**

*Sales and Other Operating Revenue.* Sales and other operating revenue increased 55.1% from RMB 110,190 million in the year ended December 31, 1999 to RMB 170,928 million in the year ended December 31, 2000. This increase was due primarily to a 61.3% increase in our average realised selling price of crude oil (excluding condensate) from RMB 139.7 per barrel in the year ended December 31, 1999 to RMB 225.3 per barrel in the year ended December 31, 2000.

Intersegment sales increased 61.6% from RMB 75,047 million in the year ended December 31, 1999 to RMB 121,265 million in the year ended December 31, 2000. This increase was due primarily to an increase in the average realised selling price of crude oil sold to our other business segments.

*Operating Expenses.* Operating expenses increased 27.8% from RMB 59,295 million in the year ended December 31, 1999 to RMB 75,784 million in the year ended December 31, 2000. This increase was due primarily to an increase of RMB 8,341 million in depreciation, depletion and amortisation resulting from an increase in fixed assets and the effect of revaluation of our assets on June 30, 1999, an increase of RMB 2,694 million in expenses relating to workforce reduction and an increase of RMB 2,025 million in salary and certain benefit expenses.

*Income From Operations.* Income from operations increased 86.9% from RMB 50,895 million in the year ended December 31, 1999 to RMB 95,143 million in the year ended December 31, 2000.

## **Refining and Marketing**

*Sales and Other Operating Revenue.* Sales and other operating revenue increased 37.1% from RMB 117,562 million in the year ended December 31, 1999 to RMB 161,148 million in the year ended December 31, 2000. This increase resulted primarily from increases in the average realised prices for refined products.

Intersegment sales increased 3.3% from RMB 7,917 million in the year ended December 31, 1999 to RMB 8,176 million in the year ended December 31, 2000. This increase was due primarily to increases in the average realised prices for refined products sold to other segments.

*Operating Expenses.* Operating expenses increased 43.9% from RMB 118,049 million in

the year ended December 31, 1999 to RMB 169,890 million in the year ended December 31, 2000. This increase was due primarily to increases in purchases, services and other expenses, selling, general and administrative expenses, employee compensation costs and expenses relating to our workforce reduction and shutting down of inefficient refining units and facilities, which incurred RMB 1.9 billion. Purchases, services and other expenses increased by RMB 44,758 million primarily as a result of an increase in the prices of crude oil purchased by us and an increase in the volume of crude oil we processed in 2000. Selling, general and administrative expenses increased by 2,010 million as a result of an increase in selling expenses related to the establishment of additional sales branches and an increase in bad debt reserves. Employee compensation costs increased by RMB 1,938 million primarily as a result of an increase in salary and certain benefit expenses.

*Income (loss) From Operations.* Loss from operations increased 1,695.1% from a loss of RMB 487 million in the year ended December 31, 1999 to a loss of RMB 8,742 million in the year ended December 31, 2000. This increase was due primarily to a significant increase in international crude oil prices in 2000, while the retail median prices for gasoline and diesel set by the State Development Planning Commission did not reflect the international gasoline and diesel prices until July 2000 and an increase in expenses relating to workforce reduction and shutting down of inefficient refining units.

## **Chemicals**

*Sales and Other Operating Revenue.* Sales and other operating revenue increased 31.3% from RMB 25,417 million in the year ended December 31, 1999 to RMB 33,364 million in the year ended December 31, 2000. This increase was due primarily to increases in sales volume as well as increases in the prices of our principal chemical products. Because the PRC government intensified its anti-smuggling efforts, the effects of smuggling on our overall sales of chemical products diminished in 2000.

*Operating Expenses.* Operating expenses increased 22.8% from RMB 27,120 million in the year ended December 31, 1999 to RMB 33,293 million in the year ended December 31, 2000. This increase resulted primarily from an increase of RMB 4,589 million in purchases, services and other expenses and an increase of RMB 1,011 million in depreciation, depletion and amortisation, partially offset by a decrease of RMB 1,908 in other costs.

*Income From Operations.* Income from operations increased 104.1% from a loss of RMB 1,704 million in the year ended December 31, 1999 to a gain of RMB 70 million in the year ended December 31, 2000.

## **Natural Gas**

*Sales and Other Operating Revenue.* Sales and other operating revenue increased 19.8%