from RMB 5,977 million in the year ended December 31, 1999 to RMB 7,163 million in the year ended December 31, 2000. This increase was due primarily to an increase in our overall sales volume and an increase in our sales volume to customers not subject to the guidance supply plan.

Operating Expenses. Operating expenses increased 11.8% from RMB 6,392 million in the year ended December 31, 1999 to RMB 7,149 million in the year ended December 31, 2000. This increase was due primarily to an increase of RMB 502 million in purchases, services and other expenses as a result of increased sales volume and an increase of RMB 121 million in depreciation, depletion and amortisation.

Income From Operations. Income from operations increased 103.4% from a loss of RMB 415 million in the year ended December 31, 1999 to a gain of RMB 14 million in the year ended December 31, 2000.

Liquidity and Capital Resources

In 2000, the Group's primary sources of funding were cash provided by operating activities, short-term and long-term borrowings, cash and cash equivalents, and cash proceeds from the issue of new shares. The Group's funds were primarily for capital expenditures, repayment of short-term and long-term borrowings and distributions to CNPC.

In accordance with the restructuring agreement entered into between us and CNPC in connection with the restructuring of the CNPC group, we distributed RMB 2,640 million to CNPC in June 2000 in respect of our net income during the period from October 1, 1999 to November 4, 1999. We do not believe that this distribution will have a material impact on our liquidity or our ability to fund planned capital expenditures. This distribution was made in respect of a period prior to our formation and was therefore not determined in accordance with our dividend policy.

In the year ended December 31, 2000, we reduced our workforce by 38,400 employees and incurred expenses of RMB 4,215 million in connection with such reduction, including RMB 3,180 million paid to the discharged employees in 2000 and RMB 1,035 million as accrued expenses for our workforce reduction in 2001. We have no further obligation for these employees. We plan to continue to reduce an additional 13,900 employees in 2001. In addition, we also incurred RMB 2,364 million in expsnses in connection with shutting down of several inefficient refining and chemical units and facillties. We do not believe that the expenses associated with our workforce reduction and shutting of inefficient refining and chemical units and facilities would have a material adverse impact on our financial condition or results of operations.

We finance a significant portion of our business operations with short-term borrowings, including short-term debt obtained from the PRC State-owned banks. As of December 31, 2000, short-term debt comprised approximately 12% of our capital employed as compared to approximately 20% as of December 31, 1999. Our ability to obtain adequate financing to satisfy our capital expenditure and debt servicing requirements may be limited by our financial condition and results of operations and the liquidity of international and domestic capital markets. Any failure by us to achieve timely rollover, extension or refinancing of our short-term liabilities may result in our inability to meet our obligations in connection with debt servicing, accounts payable and/or other liabilities when they become due and payable. In addition, prior to accessing international capital markets, we must obtain approval from various PRC government authorities. In general, we must obtain PRC government approval for any project involving significant capital investment for our refining and marketing, chemicals and natural gas segments.

We plan to fund the capital and related expenditures described in this annual report principally through cash provided by operating activities, short-term and long-term debt and cash and cash equivalents. Net cash provided by operating activities in the year ended December 31 of 2000 was RMB 104,169 million. As of December 31, 2000, we had cash and cash equivalents of RMB 18,060 million. While each of the projects described in this annual report for which significant capital expenditures will be required is important to our future development, we do not believe that the failure to implement any one of these projects would have a material adverse impact on our financial condition or results of operations. If the price of crude oil undergoes a steep decline in the future, it is likely that we would delay or reduce the scale of the capital expenditures for our exploration and development segment.

In our management's opinion, our working capital is sufficient for our present requirements.

We currently do not have any outstanding options, warrants or other rights for any persons to require us to issue any common stock at a price below its market value. We do not currently intend to issue any such rights or to otherwise issue any common stock for a price below its market value.

The table below sets forth our cash flows for each of the three years ended December 31, 1999 and 2000 and our cash equivalents at the end of each period.

	Year ended December 31,	
	1999	**2000**
	(RMB millions)	**(RMB millions)**
Net cash provided by operating activities	54,053	104,169
Net cash used for investing activities	(40,418)*	(60,401)
Net cash provided by (used for) financing activities	(10,896)*	(43,556)
Cash and cash equivalents at the end of period	17,848	18,060

Note:

*Includes capital expenditures for assets retained by CNPC and contributions from CNPC for assets retained by CNPC of RMB 111 million in 1999.