

MANAGEMENT'S DISCUSSION AND ANALYSIS

THE FOLLOWING DISCUSSION AND ANALYSIS SHOULD BE READ IN CONJUNCTION WITH THE COMPANY'S AUDITED ACCOUNTS AND THE ACCOMPANYING NOTES ON PAGES 111 TO 143. WHERE APPLICABLE, THE FINANCIAL INFORMATION PRESENTED IN THIS SECTION ARE DERIVED FROM THE COMPANY'S AUDITED ACCOUNTS THAT HAVE BEEN PREPARED IN ACCORDANCE WITH THE INTERNATIONAL ACCOUNTING STANDARDS. IN ADDITION, THE AUDITED ACCOUNTS OF THE COMPANY FOR THE YEARS PRESENTED INCLUDE THE ACCOUNTS AND RESULTS OF OPERATIONS OF SINOPEC NATIONAL STAR.

1. CONSOLIDATED RESULTS OF OPERATIONS

The Company's turnover, operating profit and profit attributable to shareholders in 2001 declined 6.4%, 23.1% and 18.4%, respectively, from 2000 to RMB 304.4 billion, RMB 27.3 billion and RMB 16 billion, respectively. The decline was largely due to the Company's lower average realized prices of crude oil, refined products and chemical products in 2001, which were affected by the global economic downturn. These lower realized prices were the major causes of the Company's depressed profit margins in its exploration and production segment, marketing and distribution segment and chemical segment. The following table sets out the major revenue and expense items from the consolidated profit and loss account of the Company for the years indicated and the respective percentage rate of change from 2000 to 2001.

1.1 Turnover and other operating revenues

Turnover and other operating revenues was down by 13 billion, or 3.9%, from RMB 331.5 billion in 2000 to RMB 318.5 billion in 2001. Turnover decreased by 20.9 billion, or 6.4%, from RMB 325.3 billion in 2000 to RMB 304.4 billion in 2001 primarily as a result of the fall of the Company's average realized prices of crude oil, refined products and chemical products. The decrease in turnover was partially offset by an increase of RMB 7.9 billion, or 127.4%, in the Company's other operating revenues, which increased from RMB 6.2 billion in 2000 to RMB 14.1 billion in 2001 primarily because other operating revenues in 2000 were reported net of the related expenses whereas in 2001 other operating revenues are reported on a gross basis and the related expenses are reported separately in operating expenses. The other operating

revenues primarily consist of sales revenue generated by the Company in selling of certain ancillary products and raw materials such as steel, cement and wood to Sinopec Group Company and third parties. Had the Company reported the 2000 other operating revenues on a gross basis, the year to year comparison of the change in other operating revenues would not be significant.

Sales of crude oil and natural gas

The Company produces crude oil principally to supply our refining and chemical operations. Natural gas and a relatively small portion of the Company's crude oil production are sold to the refineries owned by Sinopec Group Company and third party customers. In 2001, the Company's revenues from the sales of crude oil and natural gas were RMB 11.1 billion, down RMB 1.2 billion from 2000, and accounted for 3.5% of the Company's turnover and other operating revenues. The decline was largely due to the lower average realized crude oil price, which was down 12% from RMB 1,427 per tonne in 2000 to RMB 1,256 per tonne in 2001.

Sales of petroleum products

Both the refining and the marketing and distribution segments of the Company make external sales of refined products, which consist primarily of gasoline, diesel, kerosene and jet fuel and other refined products. In 2001, revenues from sales of refined products by those two segments were RMB 230.1 billion, down 5.1% compared with RMB 242.5 billion in 2000, and accounted for 72.2% of the Company's turnover and other operating revenues. Revenues from sales of gasoline and diesel in 2001 were RMB 164.4 billion, down 5.6% compared with RMB 174.1 billion in 2000, and accounted for 71.4% of the Company's revenues from the sales of refined products. Sales of gasoline decreased by 7.4% from RMB 65.2 billion in 2000 to RMB 60.4 billion in 2001. Sales of diesel decreased by 4.5% from RMB 108.9 billion in 2000 to RMB 104 billion in 2001. The decline of sales of gasoline and diesel was largely due to the lower average realized prices of gasoline and diesel in 2001.

	Year ended 31 December 2001 (RMB billions)	2000	Percentage Change from 2000 to 2001 (%)
Turnover and other operating revenues			
Turnover	304.4	325.3	(6.4)
Other operating revenues	14.1	6.2	127.4
Total turnover and other operating revenues	318.5	331.5	(3.9)
Operating expenses			
Purchased crude oil, products and operating supplies and expenses	(220.3)	(226.5)	(2.7)
Selling, general and administrative expenses	(17.1)	(19.5)	(12.3)
Depreciation, depletion and amortisation	(22.4)	(20.8)	7.7
Exploration expenses (including dry holes)	(3.8)	(3.0)	26.7
Personnel expenses	(12.9)	(13.3)	(3.0)
Employee reduction expenses	(2.6)	—	
Taxes other than income tax	(11.9)	(12.2)	(2.5)
Other operating expenses, net	(0.2)	(0.7)	(71.4)
Total operation expenses	(291.2)	(296.0)	(1.6)
Operating profit	27.3	35.5	(23.1)
Finance costs, net	(3.2)	(5.0)	(36.0)
Investment income	0.5	0.5	
Profit from ordinary activities before taxation	24.6	31.0	(20.6)
Income tax	(8.0)	(9.6)	(16.7)
Profit from ordinary activities after taxation	16.6	21.4	(22.4)
Minority interests	(0.6)	(1.8)	(66.7)
Profit attributable to shareholders	16.0	19.6	(18.4)

Sales of chemicals

The Company's revenues from sales of chemical products in 2001 were RMB 48.9 billion, down 13% compared to RMB 56.2 billion in 2000. The decline was largely due to the continual slump in the prices of chemical products in 2001, which was in part caused by the continued depression of the global chemical products market and the fairly steep decline of the international crude oil prices in 2001. While the sales volumes of synthetic resins, synthetic rubbers, synthetic fibers, monomers and polymers for synthetic fibers, slightly increased compared to those in 2000, the average realized prices of these products declined by 12%, 11%, 15% and 27.5%, respectively, from those in 2000.

1.2 Operating expenses

The Company's operating expenses in 2001 were RMB 291.2 billion, down RMB 4.8 billion, or 1.6%, from 2000.

Purchased crude oil, products and operating supplies and expenses

The Company's purchased crude oil, products and operating supplies and expenses in 2001 were RMB 220.3 billion, down 2.7% compared with RMB 226.5 billion in 2000, and accounted for 75.7% of the Company's total operating expenses. Amongst the purchased crude oil, products and operating supplies and expenses, purchased crude oil expenses were RMB 116 billion, down 17.8% compared with RMB 141.2 billion in 2000, which decline was largely due to :

- The volume of purchased crude oil decreased as more of the Company's crude oil requirement was satisfied by the Company's own production. The Company processed a total of 101.04 million tonnes of crude oil in 2001, down 3.7% compared with 104.88 million tonnes in 2000. Of the total amount of crude oil processed, 31.27 million tonnes, or 31%, were supplied by the Company's exploration and production segment, up 13.7% compared with 27.5 million tonnes in 2000, and 69.77

million tonnes, or 69%, were purchased from external sources, down 9.8% compared with 77.38 million tonnes in 2000. In 2001, the Company's purchased crude oil includes 48.98 million tonnes of imports, 14.09 million tonnes from PetroChina Limited and 6.7 million tonnes from CNOOC Limited; and

- The average realized price that the Company expensed in 2001 declined as the international crude oil prices fell. The average realized crude oil price that the Company expensed in 2001 decreased by 8.9% from RMB 1,825 per tonne in 2000 to RMB 1,663 per tonne in 2001.

Amongst the purchased crude oil, products and operating supplies and expenses, expenses other than purchased crude oil were RMB104.3 billion in 2001, up 22% compared with RMB85.3 billion in 2000, and accounted for 35.8% of the Company's total operating expenses. The increase was largely due to:

- The Company's other operating revenues in 2000 were reported net of associated operating expenses whereas in 2001 other operating revenues are reported on a gross basis and the related operating expenses are reported separately in operating expenses; and
- The Company's purchased diesel and gasoline expenses increased due to larger amount purchased in 2001.

1.3 Selling, general and administrative expenses

The Company's selling, general and administrative expenses in 2001 were RMB 17.1 billion, down 12.3% compared with RMB 19.5 billion in 2000, which decline was largely due to the Company's implementation of cost reduction measures and strengthened administration on accounts receivables.

1.4 Depreciation, depletion and amortisation

The Company's depreciation, depletion and amortisation in 2001 were RMB 22.4 billion, up 7.7% compared with RMB 20.8 billion in 2000, which increase was largely due to the commencement of operation of

newly developed or acquired properties, plants and equipment, including oil and gas properties.

1.5 Exploration expenses

The Company's exploration expenses in 2001 were RMB 3.8 billion, up 26.7% compared with RMB 3 billion in 2000. The increase was largely a result of the Company's implementation of its strategy to continue expanding its resources, which led to the increased exploration expenditure.

1.6 Personnel expenses

The Company's personnel expenses in 2001 were RMB 12.9, down 3% compared with RMB 13.3 billion in 2000, which decline was largely due to the Company's employee reduction programme.

1.7 Employee reduction expenses

In accordance with the Company's employee reduction plan, the Company recorded employee reduction expenses of RMB 2.6 billion in 2001 in respect of the voluntary termination and the transfer to Sinopec Group Company totalling approximately 68,000 employees.

1.8 Taxes other than income tax

Taxes other than income tax incurred by the Company, which primarily are the consumption tax, were RMB 11.9 billion in 2001, down 2.5% compared with RMB 12.2 billion in 2000. The decline was largely due to the reduction in sales volume of gasoline and diesel produced by the Company, resulting in lower consumption tax in 2001.

1.9 Operating profit

The Company's operating profit in 2001 was RMB 27.3 billion, down 23.1% compared with RMB 35.5 billion in 2000. The decline was largely due to the fact that the decrease in the Company's turnover and other operating revenues exceeded the decrease in the Company's operating expenses.

1.10 Net finance cost

The Company's net finance cost in 2001 was RMB 3.2 billion, down 36% compared with RMB 5 billion in 2000. The decrease was largely due to :

- Lower interest rates in 2001 of a number of foreign currency loans;
- Less long- and short-term debt partly as a result of the Company's enhanced centralisation of fund management; and
- Increase in interest income from the proceeds from the public offering in 2001 after deduction of the offering expenses.

1.11 Profit from ordinary activities before taxation

The Company's profit from ordinary activities before taxation in 2001 was RMB 24.6 billion, down 20.6% compared with

RMB 31 billion in 2000. The decline was a result of the lower operating profit, and was partially offset by the decrease of net finance cost.

1.12 Income tax

The Company's income tax in 2001 was RMB 8 billion, down 16.7% compared with RMB 9.6 billion in 2000 as a result of the lower operating profit.

1.13 Profit attributable to shareholders

The profit attributable to the Company's shareholders in 2001 was RMB 16 billion, down 18.4% compared with RMB 19.6 billion in 2000.

a corporate and others segment. Unless otherwise indicated, inter-segment transactions have not been eliminated from the financial data discussed in this section and the operating revenue data for each of the business segments discussed in this section include other operating revenues of each segment.

The following table shows the operating revenues by each segment, the contribution of external sales and inter-segment sales as a percentage of operating revenues before elimination of inter-segment sales, and the contribution of external sales as a percentage of consolidated operating revenues (i.e., after elimination of inter-segment sales) for the periods indicated.

2. DISCUSSION OF SEGMENT OPERATIONS

The Company divides its operations into four principal business segments, namely, exploration and production, refining, marketing and distribution and chemicals, and

	Year ended 31 December		As a Percentage of Consolidated Operating Revenues before Elimination of Inter-segment Sales		As a Percentage of Consolidated Operating Revenues after Elimination of Inter-segment Sales	
	2001	2000	Year ended 31 December		Year ended 31 December	
	RMB billions	RMB billions	2001	2000	2001	2000
			%	%	%	%
Exploration and Production						
External sales ⁽¹⁾	17.3	13.7	3	3	5	4
Inter-segment sales	43.3	46.2	8	8	—	—
Total operating revenues	60.6	59.9	11	11	5	4
Refining						
External sales ⁽¹⁾	52.3	70.9	10	13	16	21
Inter-segment sales	156.8	162.2	29	29	—	—
Total operating revenues	209.1	233.1	39	42	16	21
Marketing and Distribution						
External sales ⁽¹⁾	180.8	175.0	34	31	57	53
Inter-segment sales	2.5	0.6	0	0	—	—
Total operating revenues	183.3	175.6	34	31	57	53
Chemicals						
External sales ⁽¹⁾	53.3	57.5	10	10	17	17
Inter-segment sales	5.6	3.4	1	1	—	—
Total operating revenues	58.9	60.9	11	11	17	17
Corporate and others						
External sales ⁽¹⁾	14.8	14.5	3	3	5	5
Inter-segment sales	8.9	11.5	2	2	—	—
Total operating revenues	23.7	26.0	5	5	5	5
Total operating revenue before elimination of Inter-segment sales	535.6	555.5	100	100	—	—
Elimination of Inter-segment sales	(217.1)	(224.0)	41	40	—	—
Consolidated operating revenues	318.5	331.5	59	60	100	100

Note: (1) Including other operating revenues.

The following table shows the operating revenues, operating expenses and operating profit by segment before elimination of inter-segment transactions for the periods indicated and the percentage rate of change from 2000 to 2001.

	Year ended 31 December		Percentage change
	2001	2000	from 2000 to 2001
	RMB billions	RMB billions	(%)
Exploration and production			
Operating revenues	60.6	59.9	1.2
Operating expenses	(37.4)	(34.5)	8.4
Total operating profit	23.2	25.4	(8.7)
Refining			
Operating revenues	209.1	233.1	(10.3)
Operating expenses	(207.0)	(231.7)	(10.7)
Total operating profit	2.1	1.4	50.0
Marketing and distribution			
Operating revenues	183.3	175.6	4.4
Operating expenses	(180.9)	(169.2)	6.9
Total operating profit	2.4	6.4	(62.5)
Chemicals			
Operating revenues	58.9	60.9	(3.3)
Operating expenses	(59.6)	(58.5)	2.0
Total operating profit	(0.7)	2.4	(129.2)
Corporate and others			
Operating revenues	23.7	26.0	(8.8)
Operating expenses	(23.4)	(26.1)	(10.3)
Total operating profit	0.3	(0.1)	400.0

2.1 Exploration and Production Segment

The exploration and production segment consists of the activities related to exploring for, developing, producing and selling of crude oil and natural gas.

Operating revenues for the exploration and production segment in 2001 were RMB 60.6 billion, up 1.2% compared with RMB 59.9 billion in 2000. Despite the lower average realized crude oil price, operating revenues increased in 2001 largely due to :

- Increased sales volumes of crude oil and natural gas in 2001; and
- Other operating revenues in 2000 were reported net of associated operating expenses, whereas in 2001 other operating revenues are reported on a gross basis and the related operating expenses are reported separately in operating expenses. Had the Company reported the 2000 other operating revenue on a gross basis, the year to year comparison of the change in other operating revenue would not be significant.

The Company sold 36.01 million tonnes of crude oil in 2001 (inclusive of 2.46 million tonnes sold by Sinopec National Star), up 2.6% compared with 35.1 million tonnes sold in 2000 (inclusive of 2.04 million tonnes sold by Sinopec National Star). The Company also sold 3.084 billion cubic meters of natural gas in 2001 (inclusive of 1.5 billion cubic meters sold by Sinopec National Star), up 12% compared with 2.76 billion cubic meters in 2000 (inclusive of 1.3 billion cubic meters sold by Sinopec National Star). Increase in the sales volumes of crude oil and natural gas were largely due to the increase in the Company's production of crude oil and natural gas.

The Company's average realized price of crude oil in 2001 was RMB 1,373 per tonne, down 14% compared with RMB 1,598 per tonne in 2000. Decline in the average realized crude oil price reflected the downward trend of the international crude oil prices in 2001.

The Company's average realized price of natural gas in 2001 was RMB 561 per thousand cubic meters, slightly decreased by 2% from RMB 571 per thousand cubic meters in 2000.

Operating expenses for the exploration and production segment in 2001 were RMB 37.4 billion, up 8.4% compared with RMB 34.5 billion in 2000. The increase was largely because:

- The Company implemented its strategy of expanding resources and increased exploration and production expenditures, causing the exploration expenses (including dry holes) to increase by 26.7% from RMB 3 billion in 2000 to RMB 3.8 billion in 2001; and
- Depreciation, depletion and amortisation expenses increased by 18.5% from RMB 6.6 billion in 2000 to RMB 8.1 billion in 2001, as the Company added more oil and gas properties in 2001 as a result of its various capital expenditure programmes.
- The purchase expense in relation to the other operating revenues increased in 2001 as such expenses and the other operating revenues were separately reported.

In addition, compared with 2000, as a result of the Company's implementation of measures such as reduction of power and fuel costs, enhanced efficiency in water injection and reduction of labour costs, the cash operating costs of crude oil and natural gas production decreased by 1% from US\$ 6.21 per barrel in 2000 to US\$ 6.15 per barrel.

Operating profit for the exploration and production segment in 2001 was RMB 23.2 billion, down 8.7% compared with RMB 25.4 billion in 2000.

2.2 Refining Segment

The activities of the refining segment consist of purchasing crude oil from the Company's exploration and production segment and from third parties, processing crude oil into refined products, selling refined products to the Company's marketing and distribution segment and to domestic and overseas customers. To operate more efficiently as an integrated

company with distinct refining and marketing and distribution segments, substantially all the refining segment's sales of gasoline, diesel, kerosene and jet fuel, other than for exports, are made to the marketing and distribution segment in 2001, and the other refined products are sold to domestic and overseas customers.

Operating revenues of the refining segment in 2001 were RMB 209.1 billion, down 10.3% compared with RMB 233.1 billion in 2000. The decline was largely due to the Company's reduction in the refining throughput as the market demand slowed down in 2001, and apart from the slight increase in the sales volume of diesel and chemical feedstocks due to adjustment of the output ratio between diesel and gasoline, sales volumes of gasoline and other refined products all decreased. In addition, under the impact of the falling prices of crude oil and refined oil products in the international market, and particularly the irregular lower-than-crude gasoline prices in Singapore from June to August 2001, the realized prices of refined products decreased in 2001. Sales of gasoline, diesel, chemical feedstocks in 2001 accounted for approximately 81% of the operating revenues of the refining segment and amounted RMB 170 billion, down 8.3% compared with RMB 185.3 billion in 2000.

- In 2001, the refining segment sold 18.72 million tonnes of gasoline at an average realized price of RMB 2,387 per tonne, revenue from sales of gasoline was RMB 44.7 billion, representing approximately 21% of total operating revenues of the refining segment. Whereas in 2000, the refining segment sold 19.76 million tonnes of gasoline at an average realized price of RMB 2,581 per tonne, revenue from sales of gasoline was RMB 51 billion, representing approximately 22% of the total operating revenues of the refining segment.
- In 2001, the refining segment sold 38.08 million tonnes of diesel at an average realized price of RMB 2,200 per tonne, revenue from sales of diesel was RMB 83.8 billion, representing approximately

40% of the total operating revenues of the refining segment. Whereas in 2000, the refining segment sold 37.38 million tonnes of diesel at an average realized price of RMB 2,426 per tonne, revenue from sales of diesel was RMB 90.7 billion, representing approximately 39% of the total operating revenues of the refining segment.

- In 2001, the refining segment sold 21.25 million tonnes of chemical feedstocks at an average realized price of RMB 1,957 per tonne, revenue from sales of chemical feedstocks was RMB 41.6 billion, representing approximately 20% of the total operating revenues of the refining segment. Whereas in 2000, the refining segment sold 20.59 million tonnes of chemical feedstocks at an average realized price of RMB 2,118 per tonne, revenue from sales of chemical feedstocks was RMB 43.6 billion, representing approximately 19% of the total operating revenues of the refining segment.

Operating expenses of the refining segment in 2001 were RMB 207.0 billion, down 10.7% compared with RMB 231.7 billion in 2000. The decline was largely due to the decrease in the purchase expenses of crude oil, feedstocks, catalysts and other ancillary materials and a lower cash operating cost.

In 2001, the refining segment purchased a total of 101.04 million tonnes of crude oil; the average purchase cost of crude oil was RMB 1,618 per tonne, and the total cost of crude oil was RMB 163.5 billion, representing 79% of the total operating expenses of the refining segment. Whereas in 2000, the refining segment purchased 104.88 million tonnes of crude oil; the average purchase cost of crude oil was RMB 1,793 per tonne, and total cost of crude oil was RMB 188 billion, representing 81% of the total operating expenses of the refining segment.

In 2001, the Company's refining margin (defined as sales revenue less crude oil expenses, feedstock expenses and taxes other than income tax; divided by the volume of crude oil and feedstocks

processed) was US\$ 3.57 per barrel slightly declined when compared 2000. Prior to 17 October 2001, prices of domestic refined products in the PRC were determined and announced on a monthly basis with reference to the FOB prices of similar refined products in the Singapore market. Due to the excess refining capacity in Asia, prices of gasoline on the Singapore market from June to August 2001 were lower than crude oil prices, which depressed the Company's refining margin. After 17 October 2001, domestic prices of gasoline and diesel have been benchmarked against three international markets instead, namely, Singapore, Rotterdam and New York. The new pricing scheme has a positive impact on the Company's refining margin. After 11 September 2001, global demands for refined products have been adversely affected to different extents, and despite improvements in November and December 2001, the Company's refining margin did not improve in 2001 compared with 2000.

The Company's cash operating cost (defined as the segment's operating expenses less the sum of purchased crude oil and feedstocks expenses, depreciation and amortisation, taxes other than income tax and other operating expenses and adjustments, divided by the volume of crude oil and feedstocks processed) in 2001 was US\$2.07 per barrel, down US\$ 0.07 per barrel compared with US\$ 2.14 per barrel in 2000, which decrease was largely due to the implementation of the Company's cost reduction measures.

Operating profit of the Company's refining segment in 2001 was RMB 2.1 billion, up 50% compared with RMB 1.4 billion in 2000. The increase was largely due to the reduction in the Company's cash operating cost and the reduction of the inventory related unrealized profit from inter-segment sales as a result of lower inventory of refined products that were sold to marketing and distribution segment at the end of 2001 compared to the beginning of 2001.

2.3 Marketing and Distribution Segment

The marketing and distribution segment consists of operations related to purchasing refined products from the refining segment and third parties, selling and distributing such refined products through wholesale to large bulk customers and special customers such as the military and the railroads and retail sales through the Company's retail distribution network, and providing refined products sales related services.

Operating revenues of the marketing and distribution segment in 2001 were RMB 183.3 billion, up 4.4% compared with RMB 175.6 billion in 2000. The increase was largely due to :

- Sales volumes of gasoline, diesel and kerosene including jet fuel increased by approximately 3%, 9% and 396% from 2000, to 20.27 million tonnes, 42.55 million tonnes and 3.75 million tonnes, respectively;
- Sales of gasoline, diesel and kerosene including jet fuel to special customers have been redirected from the Company's refining segment to the marketing and distribution segment since the beginning 2001; and
- Retail sales of gasoline and diesel as a percentage of the marketing and distribution segment's total sales revenues further increased and the percentage of wholesale in the total sales revenues further decreased. Revenue from wholesale of gasoline and diesel in 2001 accounted for approximately 53% of the operating revenues of the marketing and distribution segment, compared with 61% in 2000. Revenue from retail sales of gasoline and diesel in 2001 accounted for approximately 40% of the operating revenues of the marketing and distribution segment, compared with 33% in 2000. The increase in the respective proportion of retail sales volume and retail sales revenue of gasoline and diesel was largely due to the continued expansion of the Company's retail distribution network in 2001 with more petrol stations brought into service. As at the end of

2001, the Company operated 24,062 petrol stations, representing 3,803 more petrol station than 20,259 petrol stations as at the end of 2000.

In 2001, sales revenue of gasoline was RMB 55.7 billion, down 4% compared with RMB 57.8 billion in 2000. In particular:

- Wholesale volume (including direct sales to special customers) in 2001 was approximately 9.44 million tonnes, down 19% compared with 11.68 million tonnes in 2000. The average realized wholesale price was RMB 2,536 per tonne, down 12% compared with RMB 2,867 per tonne in 2000; and
- Retail sales volume increased to approximately 10.84 million tonnes in 2001, up 37% compared with 7.92 million tonnes in 2000. The average realized retail price was RMB 2,935 per tonne, down 4.5% compared with RMB 3,073 per tonne in 2000.

In 2001, sales revenue of diesel was RMB 103.8 billion, similar to RMB 103.9 billion in 2000. In particular:

- Wholesale volume (including direct sales to special customers) was approximately 26.73 million tonnes, down 3% compared with 27.51 million tonnes in 2000. The average realized wholesale price was RMB 2,352 per tonne, down 9% compared with RMB 2,587 per tonne in 2000; and
- Retail sales volume increased to approximately 15.82 million tonnes in 2001, up 37% compared with 11.55 million tonnes in 2000. The average realized retail price was RMB 2,591 per tonne, down 8% compared with RMB 2,830 per tonne in 2000.

Sales revenue of kerosene including jet fuel in 2001 increased to approximately RMB 10.3 billion, representing an increase of approximately 390% compared with RMB 2.1 billion in 2000. The increase was largely because the direct sales to special customers of gasoline, diesel and kerosene including jet fuel have been redirected from the refining segment to the

marketing and distribution segment since the beginning of 2001.

Operating expenses of the marketing and distribution segment in 2001 increased to RMB 180.9 billion, up approximately 7% compared with RMB 169.2 billion in 2000. The purchase expenses of gasoline and diesel in 2001 accounted for approximately 83% of the operating expenses of the marketing and distribution segment. While the average realized prices expensed for gasoline and diesel in 2001 were down 1% and 4% from 2000, respectively, to RMB 2,579 per tonne and RMB 2,303 per tonne, respectively, the purchased volumes of gasoline and diesel were up 3% and 9%, respectively, from 2000 to 2,027 tonnes and 4,255 tonnes, respectively.

The marketing and distribution segment's cash operating cost (defined as operating expenses less the purchased products expenses, taxes other than income tax and depreciation and amortisation, divided by sales volume) in 2001 was RMB 163 per tonne, down 9.9% compared with RMB 181 per tonne in 2000. The decrease was partly because, while sales volumes increased as the direct sales of refined products to special customers have been redirected from the refining segment to the marketing and distribution segment since the beginning of 2001, cash operating cost did not increase correspondingly. The decrease was also due to the Company's

effective implementation of cost saving measures.

Operating profit of the marketing and distribution segment in 2001 was RMB 2.4 billion, representing a reduction of RMB 4 billion from RMB 6.4 billion in 2000.

2.4 Chemicals Segment

The chemicals segment consists of producing, marketing and distributing petrochemical and inorganic chemical products.

Operating revenues of the chemicals segment in 2001 were RMB 58.9 billion, down 3.3% compared with RMB 60.9 billion in 2000. The decline was largely due to the lower average realized prices of chemical products other than chemical fertilizers in 2001 as the global economy slowed down and chemical products prices fell on the international market. The decline in prices was partially offset by the increase in sales volumes of most chemical products other than synthetic fibers and chemical fertilizers. Sales revenues from the Company's six major chemical products (i.e., intermediate petrochemicals, synthetic resins, synthetic fibers, synthetic fiber monomers and polymers, chemical fertilizers) amounted to RMB 49.7 billion, down 9% compared with RMB 53.9 billion in 2000, and accounted for 84% of the operating revenues of the chemicals

segment. The table below sets forth the sales volumes and the average realized prices of each major chemical product of the Company for the periods indicated and the respective rate of change from 2000 to 2001.

Other operating revenues were RMB 4.4 billion, representing an increase of RMB 3.1 billion compared with RMB 1.3 billion in 2000. The increase was largely because the other operating revenues in 2000 were reported net of certain associated operating expenses whereas in 2001 other operating revenues are reported on a gross basis and the related operating expenses are reported separately in operating expenses.

Operating expenses of the chemicals segment in 2001 were RMB 59.6 billion, up 2% compared with RMB 58.5 billion in 2000. The increase was largely due to:

- As sales volumes of most chemical products other than chemical fertilizers and synthetic fibers increased considerably in 2001, the associated expenses in ancillary materials, fuel and power increased; and
- The purchase expense in relation to the other operating revenues increased in 2001 as such expenses and the other operating revenues were separately reported.

	Sale Volume		Rate of	Average Realized		Rate of
	(in million tonnes)		Change in	Prices (RMB/tonne)		Change in
	2001	2000	2001 from 2000 (%)	2001	2000	2001 from 2000 (%)
Intermediate petrochemicals	4.829	3.046	58.5	2,384.3	3,543.0	(32.7)
Synthetic resins	2.671	2.596	2.9	5,550.3	6,289.4	(11.8)
Synthetic rubbers	0.415	0.293	41.6	6,175.6	6,942.7	(11.1)
Synthetic fibers	1.084	1.085	(0.1)	8,512.4	9,969.7	(14.6)
Synthetic fiber monomers and polymers	1.699	1.425	19.2	5,220.6	7,199.6	(27.5)
Chemical fertilizers	2.729	3.793	(28.1)	995.9	974.7	2.2

The chemical segment had an operating loss of RMB 700 million in 2001, representing a reduction of RMB 3.1 billion compared with RMB 2.4 billion in 2000. The operating loss was a combined result of the decline in operating revenues and the increase in operating expenses.

2.5 Corporate and Others Segment

The corporate and others segment includes import and export activities of the Company's trading subsidiaries and the research and development activities of the Company.

Operating revenues from the corporate and others segment in 2001 were RMB 23.7 billion, down 8.8% compared with RMB 26 billion in 2000. Operating expenses of the segment were RMB 23.4 billion, down 10.3% compared with RMB 26.1 billion in 2000. Decrease in the operating revenues and the operating expenses was largely

due to the decrease of crude oil trading by the Company's trading subsidiaries (including Sinopec (Hong Kong) Company Limited and Unipecc Limited).

Operating profit from the corporate and others segment was RMB 300 million, up RMB 400 million compared with the operating loss of approximately RMB 100 million in 2000.

3. LIQUIDITY AND CAPITAL RESOURCES

The Company's primary sources of funding have been cash provided by operating activities, short-and long-term borrowings, and primary uses of funds have been for working capital, capital expenditures and repayment of short-and long-term borrowings.

3.1 Assets, Liabilities and Shareholders' Equity

The table below sets forth the Company's assets, liabilities and shareholders' equity as at 31 December 2001 and 2000 and the amount of change from 2000 to 2001.

Unit: RMB millions

	2001	2000	Amount Changes
Current assets	109,795	136,173	(26,378)
Non-current assets	256,914	218,569	38,345
Total assets	366,709	354,742	11,967
Current liabilities	124,711	125,153	(442)
Non-current liabilities	70,788	73,225	(2,437)
Total liabilities	195,499	198,378	(2,879)
Minority interests	23,541	23,210	331
Net assets	147,669	133,154	14,515
Shareholders' funds			
Share capital	86,702	83,902	2,800
Reserves	60,967	49,252	11,715
	147,669	133,154	14,515

As at 31 December 2001, the Company's total assets were RMB 366.7 billion, total liabilities were RMB 195.5 billion, minority interests were RMB 23.5 billion, and shareholders' equity were RMB 147.7 billion.

- Total assets were RMB 366.7 billion as at 31 December 2001, representing an increase of RMB 12 billion compared with RMB 354.7 billion as at 31 December 2000. Current assets were RMB 109.8 billion as at 31 December 2001, representing a decrease of RMB 26.4 billion from 31 December 2000; the decrease was primarily due to the Company's enhanced administration on

inventory and debt repayment and implementation of centralised settlement, resulting in a decrease in accounts receivable and inventory by RMB 6.3 billion from 31 December 2000. In addition, in 2001, the Company repaid certain borrowings and carried out various capital expenditure programmes and enhanced the centralised management of funds, and as a result, time deposits at various financial institutions reduced by RMB 20 billion from 31 December 2000. Non-current assets were RMB 256.9 billion as at 31 December 2001, representing an increase of RMB 38.3 billion from 31 December 2000.

- Total liabilities amounted to RMB 195.5 billion as at 31 December 2001, representing a decrease of RMB 2.9 billion from 31 December 2000. Current liabilities were RMB 124.7 billion as at 31 December 2001, representing a decrease of RMB 0.4 billion from 31 December 2000. Non-current liabilities were RMB 70.8 billion as at 31 December 2001, representing a decrease of RMB 2.4 billion from 31 December 2000 as a result of the reduction in long-term borrowings.
- Shareholders' funds amounted to RMB 147.7 billion as at 31 December 2001, representing an increase of RMB 14.5 billion from 31 December 2000. Share capital increased by RMB 2.8 billion in 2001 as a result of Company's issuance of 2.8 billion A shares in the PRC. Reserves amounted to RMB 61 billion, representing an increase of RMB 11.6

billion from 31 December 2000. The increase is due to excess paid-in capital over par value (net of issuing expenses) of RMB 8.8 billion, an increase of RMB 16 billion of the net profit in 2001, less RMB 6.7 billion of dividends distributed in 2000 and payment of RMB 6.446 billion for the acquisition of Singapore National Star.

3.2 Cash Flow in 2001

Cash and cash equivalents in 2001 increased by RMB 1.409 billion, and after taking into consideration the impact of exchange rate changes of RMB 7 million, the net increase in 2001 was RMB 1.402 billion, that is, from RMB 19.621 billion on 31 December 2000 to RMB 21.023 billion on 31 December 2001. The table below sets forth the major items in the consolidated cash flow statements for 2001 and 2000 and the amount and the rate of change from 2000 to 2001.

Principal items In Cash-flow Statement (in RMB billions)	2001	2000	Increase/ (decrease)	Changes (%)
Net cash generated from operating activities	55.279	29.180	26.099	89.44
Net cash generated from investment activities	(38.483)	(64.319)	25.836	(40.17)
Net cash generated from financing activities	(15.387)	33.003	(48.390)	(146.62)
Net increase/(decrease) of cash and cash equivalents	1.409	(2.136)	3.545	(165.96)

3.2.1 Net cash generated from operating activities

The Company's net cash generated from operating activities in 2001 was RMB 55.279 billion.

The cash inflow from operating activities primarily consists of:

- Cash inflow of RMB 47.097 billion representing the Company's profit from ordinary activities before taxation of RMB 24.667 billion and depreciation, depletion and amortisation of RMB 22.43 billion;
- Cash inflow of RMB 4.319 billion representing the decrease in inventory as a result of enhanced inventory administration;
- Cash inflow of RMB 1.99 billion representing the decrease in accounts

receivables as a result of the Company's strengthened debt collection and centralized settlement on trade accounts receivable;

- Cash inflow of RMB 0.718 billion representing the decrease in prepaid expenses and other current assets;
- Cash inflow of RMB 14.819 billion representing the increase in bills payable.

Cash outflow from operating activities primarily consist of :

- Cash outflow of RMB 2.761 billion representing the decrease in trade accounts payable;
- Cash outflow of RMB 4.972 billion representing the decrease in accrued expenses and other payables; and
- Cash outflow of RMB 6.326 billion representing income tax paid.

3.2.2 Cash flow from investment activities

Net cash used in investment activities in 2001 was RMB 38.483 billion, consisting primarily of :

- Cash inflow of RMB 20.029 billion representing the maturity of time deposits less the increase in time deposits; and
- Cash outflow of RMB 59.31 billion representing capital expenditure and purchase of investments.

3.2.3 Cash flow from financing activities

Net cash used in financing activities in 2001 was RMB 15.387 billion, consisting primarily of :

- Cash inflow of RMB 11.648 billion representing the proceeds from the public offering of A Shares in 2001;

- Cash outflow of RMB 13.482 billion representing repayments of bank and other loans net of the proceeds from bank and other loans;

- Cash outflow of RMB 6.712 billion representing the dividends paid; and

- Cash outflow of RMB 6.446 billion representing cash and cash equivalents distributed to Sinopec Group Company as consideration for acquisition of Sinopec National Star.

3.3 Contingent Liabilities

As at 31 December 2001, the Company provided guarantees of approximately RMB 0.9 billion in respect of banking facilities granted to associates, joint ventures and third parties. The table below sets forth the major guarantees given by the Company.

Borrower	Amount of Guarantee (in million RMB)
Fujian Petroleum and Chemical Co.	240
Jindi Petrochemical Co.	235
Zhejiang Petroleum Storage & Transportation Co.	110

In February 2002, Sinopec Corp. made guarantees of RMB 6,999 million given to banks in respect of banking facilities granted to a jointly controlled entity.

Pursuant to the relevant agreements with Sinopec Group Company, the Company leased land, building and gas stations (on operating leases) and other equipment from Sinopec Group Company, the longest term under these leases is 50 years and the shortest term under these leases is 20 years. Rental obligations under these leases after 2002 were approximately RMB 98.6 billion.

As at 31 December 2001, the Company had a capital commitment of RMB 39.84 billion.

4. CAPITAL EXPENDITURE

The Company's capital expenditures in 2001 were RMB 58.829 billion. As a result of the Company's capital expenditure programmes, the Company expanded its resources,

strengthened its market position, enhanced its market competitiveness, and laid down a more solid foundation for its future development. In particular, capital expenditures for the exploration segment were RMB 20.276 billion, including capital expenditures of RMB 2.7 billion by Sinopec National Star, and as a result of the capital expenditures, the Company increased crude oil production and significantly increased the production of natural gas. In some of the oil fields with better prospects, a number of high-yield oil and gas wells and areas with sizeable reserves have been discovered. Despite the decline of crude oil prices in 2001 over 2000, the Company managed to increase its proved reserves and has achieved a positive balance between reserves and production in five consecutive years. Capital expenditures for the refining segment were RMB 8.992 billion. Fourteen facilities commenced operation during 2001, thereby increased the hydrogenation refining capacity and the processing capacity for sour crude oil. In addition, the acquisition of Huang Dao depots

is beneficial to the optimization of the deployment of crude oil resources and the reduction of CIF-factory cost of crude oil. Capital expenditures for the chemicals segment were RMB 11.947 billion. Eighteen facilities commenced operation during 2001, adding production capacities of 210,000 tonnes of ethylene, 200,000 tonnes of synthetic resins, 60,000 tonnes of synthetic fiber feedstocks and polymers, 155,000 tonnes of synthetic fibers. Capital expenditures for the marketing and distribution segment were RMB 17.256 billion, including RMB 2.96 billion in respect of the acquisitions of petrol stations that were contracted in 2000 but were delivered and booked as fixed assets in 2001. Other capital expenditures for the marketing and distribution segment were mainly used for the acquisition or building of 4,090 petrol stations, and renovation of 920 petrol stations, acquisition, constructing and renovation of refined products distribution terminals, that increased storage capacity of 494,000 cubic meters; as a result the Company's leading position in its principal markets was further strengthened, and its brand name recognition and customer loyalty was further enhanced.

The Company's capital expenditure plan for 2002 is set out on page 32 in the section of "Business Review and Prospects — Business Prospects — Production operations — Disciplining investments."

5. RESEARCH AND DEVELOPMENT AND ENVIRONMENTAL EXPENSES

Research and development expenses are expensed in the period in which they are incurred. The Company's R&D expenses in 2001 were RMB1.3 billion, down RMB0.4 billion compared with RMB1.7 billion in 2000.

Environmental expenditures primarily consist of the normal routine pollutant discharge fees paid by the Company. In 2001, the Company paid normal routine pollutant discharge fees of approximately RMB 221 million, down RMB 84 million compared with RMB 305 million in 2000.

6. DISCUSSION OF FINANCIAL STATEMENTS PREPARED UNDER THE PRC ACCOUNTING RULES AND REGULATIONS

Other than the differences in the classifications of certain items in the financial statements assertions and the accounting treatment of the items described on page 144, there are no material differences between the Company's financial statements prepared

under the PRC Accounting Rules and Regulations and International Accounting Standards.

The table below sets forth the Company's and each of its segments' income from principal operations, the Company's cost of sales, tax and surcharges and profit from principal operations for the periods indicated.

	For the year ended 31 December	
	2001	2000
	(in RMB millions)	(in RMB millions)
Income from principal operations		
Exploration and production segment	54,427	56,059
Refining segment	206,279	230,025
Marketing and distribution segment	183,070	175,297
Chemicals segment	54,571	59,667
Corporate and others segment	23,075	25,872
Elimination of inter-segment sales	(217,075)	(223,988)
Consolidated income from principal operations	304,347	322,932
Cost of sales, sales tax and surcharges		
Exploration and production segment	27,738	26,391
Refining segment	199,272	222,186
Marketing and distribution segment	167,786	157,743
Chemicals segment	50,580	51,491
Corporate and others segment	22,343	24,919
Elimination of inter-segment cost of sales	(219,721)	(221,395)
Consolidated cost of sales, sales tax and surcharges	247,998	261,335
Profit from principal operations		
Exploration and production segment	28,765	27,155
Refining segment	7,577	7,759
Marketing and distaibution segment	15,284	17,554
Chemicals segment	3,992	8,176
Corporate and others segment	731	953
Consolidated profit from principal operations	56,349	61,597

The table below sets forth certain financial information prepared under the PRC Accounting Rules and Regulations for the periods indicated and the rate of change from 2000 to 2001.

Unit: RMB millions

	For the years ended 31 December		Rate of Change (%)
	2001	2000	
Total assets	360,294	340,918	5.7
Total long-term liabilities	67,807	68,246	(0.6)
Total shareholders' funds	139,039	120,793	15.1
Profit from principal operations	56,349	61,597	(8.5)
Net profit	14,018	16,154	(13.2)

Analysis of changes

Total assets: As at 31 December 2001, the Company's total assets were RMB 360.294 billion, which include RMB 7.333 billion of assets of Sinopec National Star that the Company acquired. Total assets increased by RMB 19.376 billion, or 5.7%, compared with RMB 340.918 billion. In 2001, the Company increased investments in fixed assets resulting in an increase of RMB 38.028 billion in fixed assets. Other assets increased by RMB 6.208 billion in 2001. The increase in the fixed assets is reflected in the increased capital expenditure in the exploration and production; increased hydrogenation refining capacity and sour crude oil processing capacity; increased chemicals production capacity as a result of commencement of operations of 18 facilities; and a further strengthened refined products distribution network as a result of the acquisition and building of 4,090 petrol stations. Total current assets decreased by RMB 24.86 billion in 2001 due in part to the Company's strengthened administration of accounts receivables and inventory control and the significant decrease in time deposits at financial institutions.

Long-term liabilities: As at 31 December 2001, the Company's total long-term liabilities were RMB 67.807 billion, down RMB 0.439 billion, or 0.6%, compared with RMB 68.246 billion as at 31 December 2000. The decrease was largely due to the redemption of RMB 1.27 billion convertible bonds by the Company's subsidiary Sinopec Zhenhai Refining and Chemical Corporation;

Long-term loans decreased by RMB 0.403 billion in 2001, primarily because the current portion of long-term loans that is due in one year increased, which resulted in a decrease of RMB 3.286 billion in long-term loans. Such decrease was partially offset by the increase of RMB 2.331 billion long-term loans due to the acquisition of Sinoper National Star;

As at 31 December 2000, the Company's housing revolving fund was RMB 0.862 billion. Since the welfare housing policy ceased in 2001, the Company's long-term liabilities increased by the same amount; and

In addition, other long-term payables increased by RMB 0.372 billion in 2001, primarily representing the increase in provision for future dismantlement of oil and gas properties, the costs arising from environmental restoration and specific R&D projects.

Shareholders' fund: As at 31 December 2001, shareholders' fund of the Company was RMB 139.039 billion, up RMB 18.246 billion, or 15.1%, compared with RMB 120.793 billion as at 31 December 2000. The increase was largely due to (i) the proceeds of RMB 11.648 billion from the offering of 2.8 billion of the Company's A shares, less offering expenses of RMB 0.168 billion; (ii) the realisation of RMB 14.018 billion of net profit in 2001; and (iii) the dividend distribution of RMB 6.936 billion proposed by the Company's board of directors for fiscal 2001 to be approved by the shareholders at the Company's annual shareholders' meeting.

Profit from principal operations: profit from principal operations was RMB 56.349 billion in 2001, down RMB 5.248 billion or 8.5%, compared with RMB 61.597 billion in 2000. The decrease was primarily because the Company's products prices declined faster than the decline in the cost of materials and feedstocks, which is largely caused by the decline in the Company's realised sale prices of crude oil, refined products and chemicals.

Net profit: net profit was RMB 14.018 billion in 2001, down RMB 2.136 billion, or 13.2%, compared with RMB 16.154 billion in 2000. The decrease was primarily due to the decline of profit from principal operations.

7. SIGNIFICANT DIFFERENCES BETWEEN IAS AND US GAAP

Significant differences between IAS and US GAAP that affect the Company's accounting policies are set out in Section (D) on pages 145 to 147.