

MANAGEMENT'S DISCUSSION AND ANALYSIS

THE FINANCIAL DATA SET OUT IN THIS SECTION ARE UNAUDITED AND IN COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARD 34 "INTERIM FINANCIAL REPORTING".

CONSOLIDATED RESULTS OF OPERATIONS

The following table sets out the main income and expense items from the consolidated profit and loss account of the Company for the relevant periods.

TURNOVER AND OTHER OPERATING REVENUES

The Company's turnover and other operating revenues in the first half of 2001 was RMB 164.3 billion, up 10% over the same period in 2000.

Sales of crude oil and natural gas

During the first half of 2001, the Company's turnover of crude oil and natural gas was RMB 3.7 billion, down 2.6% from the same period in 2000, largely due to the fact that the Company increased internal supply capacity of crude oil, while external sales of crude oil in the first half of 2001 was down 2.2% from the same period last year to 2.22 million tonnes.

Sales of refined oil products

During the first half of 2001, both the Company's refining and marketing and distribution segments made external sales of oil products (mainly including gasoline, diesel, kerosene and jet fuel and other refined oil products.) In the first half of 2001, income from the external sales of oil products by those two segments was RMB 120.6 billion, accounting for 75.9% of the Company's total turnover. Sales of gasoline reached RMB 34.3 billion, up 23.5% compared

	Six-month periods ended 30 June		Change between first half, 2001 and same period in 2000
	2001 RMB billions	2000 RMB billions	
Turnover and other operating revenues	164.3	149.4	10.0%
Of which: Turnover	158.9	147.8	7.5%
Other operating revenues	5.4	1.6	237.5%
Operating expenses	(148.4)	(134.8)	10.1%
Of which: Purchased crude oil, products and operating supplies and expenses	(115.2)	(105.3)	9.4%
Selling, general and administrative expenses	(8.3)	(8.4)	(1.2%)
Depreciation, depletion and amortisation	(10.0)	(9.6)	4.2%
Exploration expenses (including dry holes)	(1.7)	(1.1)	54.5%
Personnel expenses	(5.7)	(5.1)	11.8%
Employee reduction expenses	(1.3)	—	—
Taxes other than income tax	(5.9)	(5.6)	5.4%
Operating profit	15.9	14.6	8.9%
Net Finance costs	(2.0)	(2.8)	(28.6%)
Investment income	0.2	0.1	100.0%
Profit from ordinary activities before taxation	14.1	11.9	18.5%
Taxation	(3.9)	(3.5)	11.4%
Profit from ordinary activities after taxation	10.2	8.4	21.4%
Minority interests	(0.6)	(0.9)	(33.3%)
Profit attributable to shareholders	9.6	7.5	28.0%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

to the same period in the year 2000. Sales of diesel in the first half of 2001 reached RMB 54.5 billion, up 16% compared to the same period in the year 2000. The increase in sales of gasoline and diesel was largely because of the rise in sales volume and price of these products and, in particular, due to the increased retail volume of the two products.

Sales of chemicals

The Company's revenues from external sales of chemical products in the first half of 2001 were RMB 26.1 billion, down 6.2% from the same period in 2000, largely due to the weak global market for chemical products which led to lower prices in the first half of 2001 than in the same period of the previous year. The prices for the synthetic resin, synthetic fiber, monomers/polymers for synthetic fiber and fertilizers were down 2%, 7%, 11% and 7% respectively.

Other operating revenues

The Company's other operating revenues during the first half of 2001 were RMB 5.4 billion, up 237.5% compared to RMB 1.6 billion in the first half of 2000, largely due to the increase in income from connected transactions.

OPERATING EXPENSES

The Company's total operating expenses in the first half of 2001 were RMB 148.4 billion, up 10.2% compared to RMB 134.7 billion in the first half of 2000.

Purchased crude oil, products and operating supplies and expenses

The total of the Company's purchases of crude oil, products and operating supplies and expenses for the first half of 2001 was RMB 115.2 billion, accounting for 77.6% of the total operating expenses, up 9.4% compared with RMB 105.3 billion in the first half of 2000. The purchase cost of crude oil was RMB 63.6 billion, about the same as the figure of RMB 63.3 billion for the first half of last year. A total of 36.93 million tonnes of crude oil was purchased during the first half of 2001, down 3% compared with 38 million tonnes in the first half of 2000. The average cost for crude oil was RMB 1,721 per tonne, up 3.2% from RMB 1,667 per tonne in the same period last year.

The Company's outsourcing expenses for other raw materials during the first half of 2001 were RMB 42.4 billion, accounting for 28.6% of the total operating expenses and up 24.7% from RMB 34 billion in the first half of 2000. The main reasons were the additional RMB 4.6 billion for the purchase of oil feedstock, catalysts and other auxiliary materials, and RMB 4.2 billion for the purchase of chemical feedstock and refined partly products. That amount was offset partly by approximately RMB 400 million by a reduction in purchases of raw materials by the exploration and production segment.

During the first half of 2001, the Company's crude oil consumption was 51.76 million tonnes, up 1% compared with 51.24 million tonnes in the first half of 2000. Approximately 26.39 million tonnes, 50.99% of the total crude oil consumed by the Company in the first half of 2001, came from imports, which were down by 120 thousand tonnes compared with the first half of 2000. Approximately 5.72 million tonnes of crude oil, 11.05% of the Company's total consumption, came from PetroChina Company Limited, down 2.85 million tonnes compared with the first half of 2000. Approximately 3.35 million tonnes of crude oil, 6.47% of the Company's total consumption, came from CNOOC Limited, up 470 thousand tonnes compared with the first half of 2000. Approximately 14.84 million tonnes of crude, 28.7% of the Company's total consumption, was supplied by the Company's exploration and production segment, up 1.6 million tonnes compared with the first half of 2000.

Selling, general and administrative expenses

The Company's selling, general and administrative expenses in the first half of 2001 were RMB 8.3 billion, down 1.2% compared with RMB 8.4 billion in the first half of 2000, largely due to the implementation of cost-cutting measures.

Depreciation, depletion and amortisation

The Company's depreciation, depletion and amortisation in the first half of 2001 was RMB 10 billion, up 4.2% compared with RMB 9.6 billion in the same period in 2000, largely due to an increase in the Company's expenses in 2000 associated with an increase in its property, plant, equipment and oil and gas assets.

Exploration expenses

The Company's exploration expenses in the first half of 2001 were RMB 1.7 billion, up 54.5% compared with RMB 1.1 billion in the same period in 2000, largely due to the Company's increased investment in exploration activities and resources.

Personnel expenses

The Company's personnel expenses in the first half of 2001 were RMB 5.7 billion, up RMB 0.6 billion, 11.8%, compared with the first half of 2000, largely due to an increase in employee's performance bonus.

Employee reduction expenses

In accordance with Sinopec Corp.'s employee reduction plan, Sinopec Corp. recorded employee reduction expenses of RMB 1.3 billion (2000: RMB nil) during the six-month period ended 30 June 2001 in respect of the voluntary resignation of approximately 27,000 employees.

Taxes other than income tax

The taxes other than income tax incurred by the Company in the first half of 2001 were RMB 5.9 billion, up 5.4% compared with RMB 5.6 billion in the same period in 2000, largely due to the increase in sales of gasoline and diesel produced by the Company, giving rise to an increase in consumption tax.

OPERATING PROFIT

The Company's operating profit in the first half of 2001 was RMB 15.9 billion, up 8.9% compared with RMB 14.6 billion in the same period in 2000, largely due to the fact that the increase in the Company's turnover and other operating profits compared to the same period in 2000 exceeded the increase in the Company's operating expenses.

NET FINANCE COST

The Company's net finance costs in the first half of 2001 were RMB 2 billion, down 28.6% compared with RMB 2.8 billion for the same period in 2000, largely due to the provision of non-interest bearing loans of RMB 35.6 billion by Sinopec Group Company to the Company since 30 April 2000 and the interest income from the proceeds from the initial public offering in the second half of 2000 after offsetting all relevant expenses.

PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

The Company's profit from ordinary activities before taxation in the first half of 2001 was RMB 14.1 billion, up 18.5% compared with RMB 11.9 billion for the same period in 2000, largely due to the increase in the Company's operating profit and the reduction in net finance costs.

INCOME TAX

The Company's income tax in the first half of 2001 was RMB 3.9 billion, up 11.4% compared with RMB 3.5 billion for the same period in 2000.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to the Company's shareholders in the first half of 2001 was RMB 9.6 billion, up 28.0% compared with RMB 7.5 billion for the same period in 2000.