

The Board of Directors hereby presents the report of the Directors and the audited financial statements for the year ended 31st December, 2000.

## PRINCIPAL ACTIVITIES

The Company is principally engaged in the production and sale of gasoline, diesel, kerosene, intermediate petrochemical products, asphalt, heavy fuel oil, urea and other petrochemical products.

The geographical breakdown of the Company's turnover in 2000 is as follows:

	Percentage to turnover
Domestic	90.37%
Other countries and regions	8.58%
Total	RMB 21,690 million

## SUBSIDIARIES AND ASSOCIATED COMPANIES

Details of the subsidiaries and associated companies of the Company are set out in notes 6 and 7 to the financial statements.

## RESULTS AND DIVIDEND

The Company's results for the year ended 31st December, 2000 and its financial position as at that date are set out on pages 24 to 34 of this Annual Report. The Company's profit after taxation for the year 2000 was RMB 421 million (or RMB 442 million according to PRC accounting standards), 25.25 per cent less than that of 1999. An interim dividend of RMB 0.015 per share had been paid on 13th October, 2000. The Board has recommended the payment of a final dividend of RMB 0.035 per share in respect of the year ended 31st December, 2000. The proposed dividend distribution has been included in the financial statements.

## RESERVES

Details of movements of the Company's reserves during the year are set out in the Consolidated Statements of Changes in Shareholders' Equity.

## FIXED ASSETS

Details of movements of the Company's fixed assets during the year are set out in note 4 to the financial statements.

## RELATED PARTY TRANSACTIONS

Related party transactions of the Company in the year were conducted on normal commercial terms and in the ordinary course of business. The auditors of the Company have audited these transactions. Details are set out in note 39 to the financial statements. The independent non-executive directors of the Company have confirmed the related party transactions were in accordance with the requirements of The Stock Exchange of Hong Kong Limited.

## MAJOR CUSTOMERS AND SUPPLIERS

Sales to the five largest customers of the Company represented 63.62 per cent of the Company's sales in 2000, with sales to the largest customer accounted for 45.83 per cent of the sales in 2000. Purchase from the five largest suppliers of the Company represented 88.49 per cent of the Company's total purchase in 2000, with purchase from the largest supplier accounted for 63.52 per cent of total purchase in 2000. Neither the directors nor the supervisors nor their respective associates own any beneficial interests in the said suppliers and customers.

None of the shareholders holding 5 per cent or more interest in the share capital of the Company has any beneficial interests in the said suppliers and customers with the exception of China Petroleum & Chemical Corporation, the Company's controlling shareholder, which holds 100 per cent equity interests in the largest customer of the Company, Sinopec Sales Huadong Company which accounted for 45.83 per cent of the Company's total sales; 100 per cent equity interests in the second largest customer, Sinopec (Hong Kong) Limited which accounted for 6.57 per cent of the Company's total sales; 100 per cent equity interests in the third largest customer, Sinopec Sales Zhejiang Company which accounted for 5.33 per cent of the Company's total sales; and 82.05 per cent equity interests in the fourth largest customer, Sinopec Qilu Petrochemical Company Limited which accounted for 3.22 per cent of the Company's total sales; 70 per cent equity interests in the largest supplier, China International United Petroleum & Chemicals Company Limited which accounted for 63.52 per cent of the Company's total purchase; and 100 per cent equity interests in the third largest supplier, Sinopec Pipeline Storage & Transport Company which accounted for 3.71 per cent of the Company's total purchase.

## EMOLUMENTS FOR DIRECTORS AND SUPERVISORS

The aggregate amount of emoluments paid to the Company's executive directors and supervisors for the year ended 31st December, 2000 were RMB 1,091,000 and RMB 346,000 respectively. Emoluments paid to each executive director and supervisor did not exceed RMB 180,000. Pension fund for directors, supervisors and other employees is planned as a whole, details of which are set out in notes 31A and 31B to the financial statements.

The Company's external directors, independent directors and independent supervisors received their emoluments from corporations in which they serve.

## PENSION FUND

Details of the pension fund are set out in note 33 and 41C to the financial statements. Contribution to the pension fund charged to the Company's profit and loss account for the year ended 31st December, 2000 was RMB 73.98 million.

## SUMMARY OF THE FINANCIAL INFORMATION

Results of the Company for the five financial years ended 31st December, 2000 and the consolidated balance sheets for the two years ended 31st December, 2000, which were audited in accordance with International Accounting Standards, are set out on pages 88 and 24 of this Annual Report.

## SHARE CAPITAL

As at 31st December, 2000, US\$ 44,798,000 of the US\$ 200,000,000 convertible bonds issued by the Company was converted into 123,754,468 H shares in the Company. The structure of the Company's share capital as at 31st December, 2000 was as follows:

	Number of shares	Percentage in share capital
State-owned legal person shares	1,800,000,000	71.3%
H shares	723,754,468	28.7%
Share capital	2,523,754,468	100.0%

## SHAREHOLDING OF SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2000, Sinopec held 1,800,000,000 State-owned legal person shares in the Company, representing 71.3 per cent of the issued share capital of the Company. As at the same day, ARCO Asia Pacific Investment Ltd. held 237,600,000 H shares in the Company, representing 9.4 per cent of the Company's issued share capital. ARCO Asia Pacific Investment Limited is a subsidiary of BP-AMOCO p.L.c.

Save as disclosed above, the Company was not aware of any other person who held any share capital in the Company disclosable under the Securities (Disclosure of Interests) Ordinance on the same day.

## THE BOARD OF DIRECTORS AND SUPERVISORY COMMITTEE

The annual general meeting of shareholders held on 20th June, 2000 elected members of the Board of Directors and the Supervisory Committee for a new term of office of three years. The number of external Directors of the board were increased to 8 and 4 of them were Independent Directors. The number of external Supervisors were increased to 4 and 2 of them were Independent Supervisors. The new Board of Directors and Supervisory Committee had been operated under the new rules of the Board of Directors and Supervisory Committee, the Company's management efficiency had been further enhanced.

## LOANS TO THIRD PARTY AND OVERDUE TIME DEPOSIT

The Company did not have any loan to third party or any overdue time deposit as at 31st December, 2000.

## LOCAL TAX POLICIES

Details are set out in note 34 to the financial statements.

## INVESTMENT

The progress of construction of the petroleum product pipeline invested by the Company from Zhenhai to Hangzhou has been smooth. The pipeline from Zhenhai to Xiaoshan has been in operation for the transport of product oil to Hangzhou Xiaoshan airport since November, 2000.

## USE OF PROCEED

As of 31st December, 2000, US\$97,000,000 of the US\$196,000,000 proceeds raised from the US\$200,000,000 convertible bonds issued by the Company on 19th December, 1996 had been used in the RCEP project and converted into the Company's share capital. The balance of the proceeds was placed in domestic commercial banks as short-term US dollar deposits.

## STAFF HOUSING REFORM

Details are set out in note 43 to the financial statements.

## PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S SHARES

During the year ended 31st December, 2000, neither the Company nor its subsidiaries had purchased, sold or redeemed any of the Company's shares.

## CODE OF BEST PRACTICE

During the year ended 31st December, 2000, the Company had not formed an independent audit committee. However, the Company's organizational structure has a Supervisory Committee which carries out functions similar to that of the independent audit committee, the differences being that the Company's Supervisory Committee comprises of five representatives (one of whom should be an employee of the Company) who are elected and/or removed in the general meeting of shareholders. The Supervisory Committee reports to the general meeting of shareholders instead of the Board of Directors, whereas an independent audit committee is appointed among the non-executive directors of a company.

Save as the aforesaid, the Company had been in compliance with the Code of Best Practice in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited during the year under review.

## AUDITORS

Arthur Andersen & Co., Certified Public Accountant, Hong Kong, (the "Auditor") was appointed as the Company's auditor for the year under review. The Auditor has reviewed and audited the Company's current financial statements. The Company will propose at the forthcoming annual general meeting to reappoint Arthur Andersen & Co., as the Company's auditor.

By Order of the Board

**Sun Weijun**

*Chairman*

12th April, 2001, Ningbo, the PRC