

The Board of Directors hereby presents the report of the Directors and the audited financial statements for the year ended 31st December, 2001.

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 2001 is as follows:

	Percentage to turnover
Domestic	90.90%
Other countries and regions	8.05%
Total	RMB19,828 million

SUBSIDIARIES AND ASSOCIATED COMPANIES

Details of the subsidiaries and associated companies of the Company are set out in notes 7 and 8 to the financial statements.

RESULTS AND DIVIDEND

The Company's results for the year ended 31st December, 2001 and its financial position as at that date are set out on pages 24 to 32 of this Annual Report. The Company's profit after taxation for the year 2001 was RMB464 million (or RMB508 million according to PRC accounting standards), 10.27 per cent higher than that of 2000. An interim dividend of RMB0.025 per share was paid on 12th October, 2001. The Board has recommended the payment of a final dividend of RMB0.035 per share in respect of the year ended 31st December, 2001.

RESERVES

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

FIXED ASSETS

Details of movements of the Company's fixed assets during the year are set out in note 5 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 38 to the financial statements. The independent 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 79.30 per cent of the Company's sales in 2001, with sales to the largest customer accounted for 66.85 per cent of the sales in 2001. Purchase from the five largest suppliers of the Company represented 99.31 per cent of the Company's total purchase in 2001, with purchase from the largest supplier accounted for 49.79 per cent of the total purchase in 2001. 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 Sinopec, 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 66.85 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 7.12 per cent of the Company's total sales; 84.98 per cent equity interests in the third largest customer, Sinopec Yangzi Petrochemical Company Limited which accounted for 2.46 per cent of the Company's total sales; 82.05 per cent equity interests in the fifth largest customer, Sinopec Qilu Petrochemical Company Limited which accounted for 1.30 per cent of the Company's total sales; and 70 per cent equity interests in the largest supplier, China International United Petroleum & Chemicals Company Limited which accounted for 49.79 per cent of the Company's total purchase; and 100 per cent equity interests in the fourth largest supplier, Sinopec Pipeline Storage & Transport Company which accounted for 5.70 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, 2001 were RMB880,000 and RMB360,000 respectively. Emoluments paid to each executive director and supervisor did not exceed RMB160,000. Pension fund for directors, supervisors and other employees is planned as a whole, details of which are set out in notes 31(a) and 31(b) 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 32 to the financial statements. Contribution to the pension fund charged to the Company's profit and loss account for the year ended 31st December, 2001 was RMB101.02 million.

SUMMARY OF THE FINANCIAL INFORMATION

Results of the Company for the five financial years ended 31st December, 2001 and the consolidated balance sheets for the two years ended 31st December, 2001, which were audited in accordance with International Accounting Standards, are set out on pages 24 and 92 of this Annual Report.

SHARE CAPITAL

The structure of the Company's share capital as at 31st December, 2001 was as follows:

	Number of shares in share capital	Percentage
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, 2001, 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 Limited 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 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.

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, 2001.

LOCAL TAX POLICIES

For details, please refer to note 33 of the financial statements.

REDEMPTION OF THE CONVERTIBLE BOND

The Company issued US\$200 million convertible bonds on 19th December, 1996. As of 19th December, 2001, convertible bonds in the principal amount of approximately US\$155 million were still outstanding. According to the terms and conditions of the convertible bonds, with the exception of bondholders holding US\$580,000 in principal amount of convertible bonds, all other bondholders exercised the right to have the bonds redeemed on 19th December, 2001. The Company paid a total amount of about US\$190 million principal and interest to such bondholders.

STAFF HOUSING REFORM

For details, please refer to note 42 of the financial statements.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S SHARES

During the year ended 31st December, 2001, neither the Company nor its subsidiaries had purchased, sold or redeemed any of the Company's shares.

RESIGNATION OF INDEPENDENT DIRECTOR

The Independent Non-executive Director of the Company Mr He Fei took the view that it was no longer proper for him to be the lawyer of both the Company and its holding company, Sinopec, to continue to serve as the Independent Non-executive Director of the Company, pursuant to the guidelines issued by the China Securities Regulatory Commission on independent directors. Mr He tendered his resignation to the Company on 29th January, 2002 which has been accepted by the Company. The announcement of such resignation was published in Hong Kong media on 8th February, 2002. The Board of the Company wishes to express its gratitude for Mr He's contributions to the Company in the past. After his resignation, there remains three other independent non-executive directors serving on the Board.

FIXED ASSETS DEPRECIATION METHOD

The Company took an extensive review of the expected useful lives of certain plant, machinery and equipment at the beginning of 2002 and has taken into consideration of the fixed assets depreciation method currently adopted by domestic petrochemical industry. The Company has determined to adjust the period of amortization for its fixed assets depreciation; in particular, the amortization period of the main manufacturing facilities has been adjusted from between 8 and 9 years to 14 years with effect from 1st January, 2002, in order to fairly reflect the impact of the advance in commerce and technology on the assets, as well as their normal wear and tear.

CODE OF BEST PRACTICE

During the year ended 31st December, 2001, the Company had not formed an independent audit committee. However, the Company's organizational structure has a Supervisory Committee that 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 Accountants, 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 Board of the Company wishes to express its gratitude to Arthur Andersen & Co for their diligent and conscientious working and contributions into the Company in the past years.

In accordance with Sinopec's principle of a unifying internal professional audit system, the Company will propose at the forthcoming annual general meeting to appoint KPMG, Certified Public Accountants, as the Company's auditor.

By Order of the Board

Sun Weijun

Chairman

29th March, 2002, Ningbo, the PRC