

The Board of Directors of the Company (the "Board") have the pleasure in presenting their report together with the audited accounts of the Company and the Group for the year ended 31 December 2001.

## Group Activities and Results

Based on net turnover and ethylene production, the Group is one of the largest petrochemical enterprises in the PRC. The Group is a highly integrated petrochemical complex which processes crude oil into a broad range of synthetic fibers, resins and plastics, intermediate petrochemical products and petroleum products. Based on sales volume in 2001, the Group ranked high among domestic producers in each category of major products produced by the Group. (Source: "China Petrochemical Economic Information Journal 2001") Details of the Company's principal subsidiaries are set out in the section entitled "Subsidiaries" on page 32.

The results of the Group for the year ended 31 December 2001 and the Group and the Company's financial position for the year such as assets and liabilities, bank borrowings and other loans, changes in fixed assets and reserves are set out in the financial statements on pages 57 to 100.

## Profit Appropriation

The profit appropriation plan of the Company for the year ended 31 December 2001 as proposed by the Directors is as follows:

	RMB'000
Profit after tax	144,641
Minority interests	(28,592)
Profit attributable to shareholders	116,049
Transfer to reserves	
Statutory surplus reserve	(7,160)
Statutory public welfare fund	(7,160)
Retained profits brought forward	515,997
Retained profits	617,726
Basic earnings per share	RMB 0.016

The proposed profit appropriation will be presented to shareholders for approval at the forthcoming 2001 annual general meeting.

Pursuant to the relevant regulations of the Ministry of Finance and the Company's Articles of Association, in case of any discrepancy between the profit figure obtained under the PRC Accounting Regulations and that under International Accounting Standards, the lower figure is used.

## **Dividends**

The third session of the Board held its eleventh meeting on March 29, 2002 at which the Board did not propose to distribute the final dividend for the year or to increase its share capital by transferring any amount from reserve funds.

## **Financial Summary**

A summary of the results and the total assets, liabilities and shareholders' funds of the Group for the five years ended 31 December 2001 is set out on page 3.

## **Bank Loans and Other Borrowings**

Details of bank loans and other borrowings of the Company and the Group as at 31 December 2001 are set out in notes 21 and 31 to the financial statements.

## **Interest Capitalized**

Details of the interest capitalized during the year ended 31 December 2001 are set out in note 6 to the financial statements.

## **Fixed Assets**

Movements of the fixed assets during the year ended 31 December 2001 are summarized in note 12 to the financial statements.

## Subsidiaries

As at 31 December 2000, the Company had equity interests of over 50% in the following principal subsidiaries:

Company Name	Principal Activities	Percentage of equity Held by the Company (%)	Percentage of equity Held by Subsidiary (%)	Registered Capital ('000)
Shanghai Petrochemical Investment Development Company Limited	Investment management	100	-	RMB 650,000
SPC Marketing Development Corporation	Trading in petrochemical products	100	-	RMB 25,000
China Jinshan Associated Trading Corporation	Import and export of petrochemical products and equipment	70	-	RMB 25,000
Shanghai Jinhua Industrial Company Limited	Trading in petrochemical products	-	81.46	RMB 25,500
Shanghai Jindong Petrochemical Industrial Company Limited	Trading in petrochemical products	-	60	RMB 40,000
Shanghai Jinyang Acrylic Fibre Plant	Production of acrylic fibre products	100	-	RMB 177,797
Zhejiang Jinzhe Petrochemical Associated Company Limited	Trading in petrochemical products	-	53.4	RMB 40,000
Shanghai Golden Way Petrochemical Company Limited	Production of vinyl acetate products	-	75	US\$ 3,460
Shanghai Jinchang Engineering Plastics Company Limited	Production of polypropylene compound products	-	50.84	US\$ 4,750
Shanghai Golden-Phillips Petrochemical Company Limited	Production of polyethylene products	-	60	US\$ 50,000
Zhejiang Jin Yong Acrylic Fiber Company Limited	Production of acrylic fiber products	75	-	RMB 250,000
Shanghai Petrochemical Enterprise Development Company Limited	Investment management	100	-	RMB 220,000
Shanghai Petrochemical Jianghai Textiled Yarn Plant	Production of textiled yarn products	-	100	RMB 3,000

None of the subsidiaries has issued any debt securities.

The Group's interests in joint ventures include non-controlling equity investments in various enterprises which are mainly engaged in manufacturing or trading activities related to the Group's operations. The Group's share of results attributable to these interests during the year ended 31 December 2001 is not material in relation to the profit of the Group for the said period and therefore is not equity accounted for. In addition, these interests in joint ventures include interests in non-consolidated subsidiary which do not principally affect the results or assets of the Group and, therefore, are not consolidated or equity accounted for.

The Group's interests in joint ventures include an investment of RMB 560,000,000 representing a 38.26% equity interest in Shanghai Chemical Industry Park Development Company Limited ("SCIP") and an investment of RMB 66,214,000 representing a 20% equity interest in Shanghai Secco Petrochemical Company Limited ("Secco"), both companies incorporated in the PRC. The principal activity of SCIP is the planning, development and the operation of the Chemical Industry Park in Shanghai, PRC. The interest in SCIP is not equity accounted for as it is in the initial stage of constructing the Chemical Park and has not commenced operation. At 31 December 2001, the Group had commitments of RMB 347,770,000 in respect of outstanding capital contributions to SCIP. The principal activity of Secco is the production of ethylene and other petrochemical products. The interest in Secco is not equity accounted for as it is in the initial stage of constructing the production facilities and has not commenced operation. At 31 December 2001, the Group had commitments of RMB 1,430,176,000 in respect of outstanding capital contributions to Secco.

## **Reserves**

Details of the movements in reserves during the year ended 31 December 2001 are set out in note 25 to the financial statements.

## **Statutory Public Welfare Fund**

Details in relation to the nature, application and movements of the Statutory Public Welfare fund and the basis of its calculation, including the percentage and the profit figure used for calculating the amounts, are set out in note 25 to the financial statements.

## **Donations**

During the year ended 31 December 2001, the Company made donations for charitable purposes amounting to approximately RMB 1,425,000.

## **Employees' Retirement Schemes**

Details of the Company's Employees' Retirement Schemes are set out in note 28 to the financial statements.

## **Staff Quarters**

Pursuant to the directive "Cai Qi (2000) No. 295" and "Cai Kuai (2001) No.5" issued by the Ministry of Finance, the housing reform policy ceased in 2000. The Company did not dispose of any staff dormitories during the year under the housing reform policy. The debit balance of Housing Revolving Fund at 31 December 2000 should be written-off against the undistributed profits brought forward in 2001. The shareholders' equity of the Group and the Company were accordingly reduced by RMB 316,147,000 accordingly.

## Pre-emptive Rights

According to the articles of association of the Company and the laws of the PRC, no pre-emptive right exists which will require the Company to offer new shares to its existing shareholders in proportion to their shareholding.

## Major Suppliers and Customers

The Group's top five suppliers during 2001 were China International United Petroleum & Chemicals Co.Ltd., SinoChemical International Oil Co. Ltd., PetroChina Company Ltd., China National Offshore Oil Corporation and China Petroleum & Chemical Corporation.

The total cost of purchases from these suppliers accounted for 69 % of the total cost of purchases by the Group during the year.

The Group's top five customers during 2001 were Sinopec Huadong Sales Company, Shanghai Chlor-Alkali Chemical Company Limited, China Petroleum & Chemical Corporation Shanghai Gaoqiao Branch, China International United Petroleum & Chemicals Co. Ltd. and Shanghai LPG Office. The total sales derived from these customers during the year represented for 40 % of the total annual revenue.

None of the directors (or their associates) or shareholders of the Company, to the knowledge of the Board, held any interest in these suppliers or customers, other than Sinopec Huadong Sales Company and China International United Petroleum & Chemicals Co. Ltd., which are subsidiaries of the Company's controlling shareholder, China Petroleum & Chemical Corporation.

## Share Capital Structure

Share capital structure and its change for the year ended 31 December 2001

I. Shares not in circulation	Before change	Rationed share	Bonus share	Shares Transferred		Increase	Others	Sub-total	After change
				Funds	from reserve				
1. Promoter's share									
Domestic legal person share	4,000,000,000	-	-	-	-	-	-	-	4,000,000,000
2. Legal person share	150,000,000	-	-	-	-	-	-	-	150,000,000
Sub-total	4,150,000,000	-	-	-	-	-	-	-	4,150,000,000
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<b>II. Shares in circulation</b>									
1. RMB ordinary share	720,000,000	-	-	-	-	-	-	-	720,000,000
2. Overseas listed foreign share	2,330,000,000	-	-	-	-	-	-	-	2,330,000,000
Sub-total	3,050,000,000	-	-	-	-	-	-	-	3,050,000,000
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<b>III. Shares in total</b>	7,200,000,000	-	-	-	-	-	-	-	7,200,000,000

For the year ended 31 December 2001, the share capital of the Company totaled 7.2 billion shares, which were held by 348,192 shareholders, with 344,475 of them being holders of A shares and 3,717 of them being holders of H shares.

## Purchase, Sale and Redemption of Shares

During 2001, no shares of the Company was purchased, sold or redeemed by the Company or its subsidiaries.

## Top 10 Shareholders

As at 31 December 2001, the top ten shareholders in the Company were as follows:

Rank	Name	Number of Shares Held at End of the Period	Percentage of Total Share Capital (%)	Type of Shares
1.	China Petroleum & Chemical Corporation	4,000,000,000	55.56	Promoter legal person share
2.	HKSCC Nominees Ltd.	1,840,805,401	25.57	H share
3.	Hongkong & Shanghai Banking Corporation (Nominees) Limited	354,402,000	4.92	H share
4.	Shanghai Kangli Gong Mao Company	16,730,000	0.23	Legal person share
5.	Zhejiang Province Economic Construction and Investment Company	12,000,000	0.17	Legal person share
6.	Hongkong & Shanghai Banking Corporation (Nominees) Limited	8,086,000	0.11	H share
7.	Shanghai Textile Material Trading Company	5,500,000	0.08	Legal person share
8.	Hali Fund	5,084,800	0.07	A share
9.	Shanghai Guangfa Company	5,060,000	0.07	Legal person share
10.	Hui Hok Chee	3,800,000	0.05	H share

## Legal Person Shareholders with Shareholdings of 10% or More

As at the end of 2001, China Petroleum & Chemical Corporation held 4 billion shares in the Company, representing 55.56% of the total share capital of the Company.

Authorized representative: Li Yizhong

Date of establishment: February 25, 2000

Registered capital: RMB 86.7 billion (2000:RMB 83.9 billion )

Major business: : Oil and gas operations consisting of exploring, developing and producing crude oil and natural gas; transporting crude oil, natural gas and products by pipelines; refining crude oil into finished petroleum products; and marketing crude oil, natural gas and refined petroleum products chemical operations include the manufacture and marketing of a wide range of chemicals for industrial uses.

Major products: Synthetic resin, synthetic fibre monomer and polymer, synthetic fibre, synthetic rubber, chemical fertilizer and intermediate petrochemical.

Security: The shares held are not subject to any security.

At the end of 2001, HKSCC (Nominees) Limited held 1,840,805,401 H Shares of the Company, representing 25.57% of the total share capital of the Company.

## Directors, Supervisors, Senior Management of the Company and its Staff

Name	Position	sex	Age	Term of Office	Annual Emolument and Allowances
Lu Yiping	Chairman and President	M	56	until June 2002	137,994
Xu Kaicheng	Vice Chairman	M	45	until June 2002	134,150
Rong Guangdao	Director and Vice President	M	46	until June 2002	120,432
Feng Jianping	Director and Vice President	M	48	until June 2002	122,436
Zhang Zhiliang	Director and Vice President	M	48	until June 2002	127,413
Jiang Baoxing	Director	M	57	until June 2002	123,122
Li Weichang	Director	M	48	until June 2002	122,646
* Liu Wenlong	External Director	M	61	until June 2002	-
* Zhang Baojian	External Director	M	57	until June 2002	-
* Zhang Honglin	External Director	M	59	until June 2002	-
* Huang Jian	External Director	M	60	until June 2002	-
* Wang Yongshou	External Director	M	62	until June 2002	-
* Gu Chuanxun	Independent Director	M	67	until June 2002	-
* Wang Xingyu	Independent Director	M	57	until June 2002	-
* He Fei	Independent Director	M	46	until June 2002	-
Du Chongjun	Chairman of Supervisory Committee	M	47	until June 2002	120,156
Jin Weicheng	Supervisor	M	58	until June 2002	79,806
Xia Jianying	Supervisor	F	53	until June 2002	75,194
* Zhang Jianjun	External Supervisor	F	50	until June 2002	-
* Liu Xinhan	External Supervisor	M	56	until June 2002	-
* Chen Xinyuan	External Supervisor	M	37	until June 2002	-
* Liu Xiangdong	External Supervisor	M	51	until June 2002	-
Liu Xunfeng	Vice President	M	37	until June 2002	111,088
Wu Haijun	Vice President	M	40	until June 2002	122,020
Yin Jihai	Vice President	M	44	until June 2002	89,224
Han Zhihao	Chief Financial Officer	M	52	until June 2002	119,734
Zhang Jingming	Company Secretary	M	45	until June 2002	110,958

\* Non-salaried external directors and supervisors of the Company.

## Employees

The Company has a total of 32,081 employees, of whom 19,027 are production workers, 740 are sales personnel, 4,021 are technical personnel, 520 are financial personnel, 3,348 are administration personnel, 1,854 are service personnel, 2,571 are miscellaneous personnel. 16.30 percent of the employees are university graduates or college graduates.

## Corporate Governance Structure

### (1) Current status of corporate governance in the Company

The Company has committed ongoing efforts to improve its corporate governance structure, develop a modernized enterprise system and regulate its operation and institutions strictly in accordance with the Company Law, the Securities Law and the relevant laws and regulations of China Securities Regulatory Commission (the “CSRC”). It has complied with the requirements laid down in the Corporate Governance Standards for Listed Companies (the “Standards”), a regulatory document issued by CSRC and the State Economic and Trade Commission on 7 January 2002. The Company’s corporate governance endeavours are mainly reflected in the following:

#### *1. Shareholders and shareholders’ meetings*

The Company has ensured equal status for all shareholders, especially the minority shareholders, so that they can fully exercise their rights. The Company has convened shareholders’ meeting and procured the exercise of shareholders’ voting rights in accordance with the requirements laid down in the Standard Opinion for Shareholders’ Meeting. Connected transactions of the Company have been conducted in a fair and reasonable manner and pertinent matters have been fully disclosed. The Company is currently drafting the Rules of Proceedings for Shareholders’ Meetings to further define the functions and duties of shareholders’ meetings and to procure standardised operations.

#### *2. Relationship between the controlling shareholder and the listed company*

The relationship between the controlling shareholder and the Company is basically in compliance with the relevant provisions, and the controlling shareholder has not sought to bypass the shareholders’ meeting to interfere directly or indirectly with the Company’s decision-making process and operating activities. The Company is independent from the controlling shareholder in terms of staff, assets, finance, institution and business. The Board of Directors, the Supervisory Committee and other internal departments have been operating independently.

#### *3. Directors and the Board of Directors*

The Directors of the Company are elected in accordance with the procedures for appointing directors as stipulated in the Company’s Articles of Association (the “Articles”). The Company has complied with the provisions of laws and regulations regarding the size and composition of the Board of Directors. The Board of Directors has developed the “Rules of Proceedings for Board Meetings”. Each Director has diligently studied the relevant laws and regulations to gain insights into the rights, obligations and duties required of a director of a listed company. An Audit and Remuneration Management Committee has been set up under the Board of Directors to work independently to provide scientific analyses on which the Board’s decisions shall be based.

#### *4. Supervisors and the Supervisory Committee*

The Company has complied with the requirements of laws and regulations regarding of the size and composition of its Supervisory Committee. The Supervisory Committee has developed the “Rules of Proceedings for the Supervisory Committee”. Each Supervisor has diligently carried out their duties and has, with a view to accountability to shareholders, exercised supervision over the Company’s financial activities and the performance of the Company’s Directors, General Manager and other senior management to ensure their conduct was in compliance with the law and regulations.



### *5. Performance appraisal and motivation regulation system*

The Company is working to develop a fair and open system of performance appraisal benchmark and motivation regulation for directors, supervisors and senior management.

### *6. Stakeholders*

The Company has respected and protected the lawful interests of its bankers, creditors, employees, customers and other stakeholders.

### *7. Information disclosure and operational transparency*

The Company has formulated a detailed "Guideline for the Duties of the Board Secretary" and has designated the Board Secretary and the Securities Affairs Representative to be in charge of information disclosure, reception of visiting shareholders and other advisory duties. The Company has disclosed relevant information on a truthful, complete and timely manner in accordance with the relevant regulations and endeavoured to ensure equal access to information for all investors. The Board Secretary and the Securities Affairs Representative are accountable to the Board of Directors, which has rendered active support to their work.

## **(2) Performance of duties by the Company's independent directors**

The Company's independent directors have attended the shareholders' Annual General Meeting 2000, the Extraordinary General Meeting and Board meetings and have discussed and reviewed the 2000 Annual Report, the 2001 Interim Report, the profit distribution plan and connected transactions in association with the Company. They have leveraged on their professional experience and expertise to furnish opinions and have diligently performed their duties as independent directors.

## **(3) Plans for improving the Company's corporate governance structure**

While the Company has gone a long way towards building and improving a corporate governance structure aimed at safeguarding the interests of all shareholders, there remain tasks to be accomplished in order to fully comply with the Standards. Plans to procure improvements in our corporate governance structure are as follows:

1. Complete as soon as practicable the revision of the Articles to bring them in line with the Standards;
2. Further regulate the relationship between the controlling shareholder and the Company;
3. Further improve and regulate the operations of the specialized committees under the Board of Directors;
4. Actively promote and improve the system of performance appraisal and motivation regulation for directors, supervisors and senior management.

## Directors, Supervisors and Senior Management and Their Interests in Shares and Other Securities

As at 31 December 2001, each Director, Supervisor and member of the Senior management owned the following numbers of shares in the issued capital of the Company:

Name	Position	Number of Shares Held at the beginning of the year	Number of Shares Held at the end of year	Reason for Change
Lu Yiping	Chairman and President	3,600	3,600	No change
Xu Kaicheng	Vice Chairman	3,600	3,600	No change
Rong Guangdao	Director and Vice President	3,600	3,600	No change
Feng Jianping	Director and Vice President	3,600	3,600	No change
Zhang Zhiliang	Director and Vice President	3,600	3,600	No change
Jiang Baoxing	Director	3,600	3,600	No change
Li Weichang	Director	1,000	1,000	No change
Liu Wenlong	External Director	Nil	Nil	No change
Zhang Honglin	External Director	Nil	Nil	No change
Zhang Baojian	External Director	Nil	Nil	No change
Huang Jian	External Director	Nil	Nil	No change
Wang Yongshou	External Director	3,600	3,600	No change
Gu Chuanxun	Independent Director	Nil	Nil	No change
Wang Xingyu	Independent Director	Nil	Nil	No change
He Fei	Independent Director	Nil	Nil	No change
Du Chongjun	Chairman of Supervisory Committee	1,000	1,000	No change
Jin Weicheng	Supervisor	1,000	1,000	No change
Xia Jianying	Supervisor	1,000	1,000	No change
Zhang Jianjun	External Supervisor	Nil	Nil	No change
Liu Xinghan	External Supervisor	Nil	Nil	No change
Chen Xinyuan	External Supervisor	Nil	Nil	No change
Liu Xiangdong	External Supervisor	Nil	Nil	No change
Liu Xunfeng	Vice President	1,500	1,500	No change
Wu Hajun	Vice President	1,500	1,500	No change
Yin Jihai	Vice President	Nil	Nil	No change
Han Zhihao	Chief Financial Officer	Nil	Nil	No change
Zhang Jingming	Company Secretary	Nil	Nil	No change

The shares held by the above people are A shares of the Company and represent their personal interests. Save as disclosed above, none of the Directors, Supervisors or senior management and their respective associates had any beneficial interest in or right to subscribe for any equity or debt securities of the Company or its associated corporations in 2001.

The biographical details in respect of Directors, Supervisors and senior management of the Company are set out on pages 47 to 52.

### Changes in Directors, Supervisors, Senior Management of the Company

On 25 December 2001, the tenth meeting of the third session of the Board of Directors was convened. The meeting approved that Yin Jihai be appointed as Vice President of the Company. The relevant announcement was published in Shanghai Securities Journal, Chinese Securities Journal, South China Morning Post and Hong Kong Wen Wei Po on 27 December 2001.

### Directors' Interests in Contracts

He Fei, an Independent Director, is a partner of Haiwen & Partners, the Company's legal advisor on PRC laws, which has received and will continue to receive legal fees for services rendered in connection with the Company's corporate affairs.

Save as disclosed above, none of the Directors or Supervisors of the Company had any direct or indirect beneficial interests in any contracts of significance subsisting during or at the end of 2001 to which the Company or any of its subsidiaries was a party.

No Director or Supervisors of the Company has entered into any service contract with the Company which is not terminable by the Company within one year without payment of compensation other than statutory compensation.

### Code of best practice

The Company has complied with "The Code of Best Practice" set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the year ended 31 December 2001.

### Meetings of the Board

During 2001, the Company held four Board meetings during the period under review, details of which are as follows:

1. On 13 April 2001, the seventh meeting of the third session of the Board of the Directors was convened. The meeting considered and approved the 2000 report of the Directors, the 2000 financial statements, the 2000 profit appropriation plan, the 2000 annual report, the 2000 summary of annual report, the Form 20F to be filed with the Securities and Exchange Commission of the United States of America, the resolutions proposed to be considered and approved upon at the 2000 annual general meeting, as well as the working report of the General Manager. The relevant announcement was published in the Shanghai Securities Journal, Chinese Securities Journal, South China Morning Post and Wen Wei Po on 17 April 2001.
2. On 24 August 2001, the eighth meeting of the third session of the Board of Directors was convened. The meeting considered and approved the 2001 interim report and the resolution for not paying an interim dividend for 2001. The meeting also approved in principle the joint investment between the Company, China Petroleum and Chemical Corporation and BP Chemical East China Investment Limited, to construct the 900,000 tonne ethylene plant. The relevant announcement was published in the Shanghai Securities Journal, Chinese Securities Journal, South China Morning Post and Wen Wei Po on 27 August 2001.

3. On 20 September 2001, the ninth meeting of the third session of the Board was convened. The meeting unanimously approved the establishment of an Independent Board Committee for the Company and agreed to appoint Lehman Brothers Asia Holdings Limited as the independent financial advisor of the Company's Independent Board Committee, and to appoint Shenyin Wanguo Securities Limited as the independent financial advisor of the Company's independent shareholders. The relevant announcement was published in the Shanghai Securities Journal, Chinese Securities Journal, South China Morning Post and Wen Wei Po on 21 September 2001
4. On 25 December 2001, the tenth meeting of the third session of the Board was held. The meeting approved that the Yin Jihai be appointed as Vice President of the Company. It also approved that the Remuneration Committee of the Board to be set up. The relevant announcement was published in the Shanghai Securities Journal, Chinese Securities Journal, South China Morning Post and Wen Wei Po on 27 December 2001.

## Shareholders' Meetings

### 2000 Annual General Meeting

The Company held its 2000 annual general meeting on 15 June 2001 at Binhai Theatre in Jinshan District, Shanghai, PRC. The AGM was attended by 1425 members of the Company in person or their proxies holding 5.881 billion shares, representing approximately 81.67% of the Company's total share capital, which formed the quorum of the meeting in accordance with the requirements stipulated by the Articles and the PRC Company Law.

#### The meeting approved the following six resolutions:

1. The 2000 Report of the Directors;
2. The 2000 Report of the Supervisory Committee;
3. The 2000 Audited Accounts;
4. The 2000 Dividend Distribution Plan;
5. The re-appointment of KPMG Huazhen as the Company's domestic auditors for year 2001 and KPMG as the Company's international auditors for year 2001, and to authorize the Directors to fix their remuneration;
6. The Board of Directors was authorized to make amendments to the articles of association of the Company.

Resolutions of the annual general meeting were published in Shanghai Securities Journal, Chinese Securities Journal, Hong Kong South China Morning Post and Hong Kong Wen Wei Po on 16 June 2001.

### 2001 Extraordinary General Meeting (“EGM”)

The Company held its EGM on 5 November 2001 at Shangri-La Hotel, Shenzhen, the People's Republic of China. The EGM was attended by 8 members of the Company in person or their proxies holding a total of approximately 4.53 billion shares, representing 62.92% of the Company's total share capital, which formed the quorum of the meeting in accordance with the requirements stipulated by the Articles and the PRC Company Law.

#### The following motion was passed as an ordinary resolution:

“**THAT** the Equity Joint Venture Contract dated 31 August 2001 entered into between the Company, China Petroleum & Chemical Corporation and BP Chemicals East China Investments Limited ( the “Equity Joint Venture Contract”) and the fulfillment of the Company's obligations thereunder be and is hereby generally and unconditionally approved, confirmed and ratified, and that any director of the Company be and is hereby authorized to do all acts and things and execute all documents which may in his opinion be necessary, desirable or expedient to implement and give effect to any of the matters relating to, or incidental to, the Equity Joint Venture Contract”.

The resolution of the extraordinary meeting was published in Shanghai Securities Journal, Chinese Securities Journal, Hong Kong's South China Morning Post and Wen Wei Po on 6 November 2001.

## Major Events

### 1. 2001 Profit Appropriation Plan

Net profit of the Company for the year ended 31 December 2001 amounted to RMB71,604,000 under PRC Accounting Rules and Regulations and RMB116,049,000 under International Accounting Standards (“IAS”). After two transfers, each amounting to 10% of the profit after tax, or RMB7,160,000, were made to the statutory surplus reserve and the statutory public welfare fund respectively, profit available for distribution to shareholders amounted to RMB57,284,000 (or RMB101,729,000 under IAS). Together with RMB515,997,000 (or RMB515,997,000 under IAS) brought forward from retained profits, profit available for distribution to shareholders was RMB573,281,000 (or RMB617,726,000 under IAS). The third session of the Board of Directors of the Company held its eleventh meeting on 29 March 2002 at which the Board of Director proposed not to declare a final dividend for year 2001 or to increase its share capital by transferring any amount from reserve funds.

### 2. Material Litigation

The Company was not involved in any material litigation or arbitration in 2001.

### 3. Acquisitions and sale

There was no significant acquisition or sale made by the Company in 2001.

### 4. Trust Financial Management

During 2001, no trust financial management was made by the Company.

## 5. Major Connected Transactions

- (1) The Stock Exchange of Hong Kong Limited (the "Stock Exchange") has confirmed that the conditional waivers (the "Waivers") granted to the Company exempting it from compliance with certain ongoing disclosure and shareholders' approval requirements under the Listing Rules in relation to connected transactions as described in the prospectus of the Company dated 6 July, 1993, would remain valid upon completion of the reorganization of China Petrochemical Corporation ("Sinopec"), the former substantial shareholder of the Company.

Following completion of the reorganization of Sinopec, the connected transactions which were previously carried out between the Company and Sinopec and their respective associates under the Waivers will be carried out between the Company and China Petroleum & Chemical Corporation ("Sinopec Corp"), and their respective associates. The Stock Exchange has confirmed that these connected transactions will be covered by the Waivers on the basis that there is no change in the ultimate controlling shareholder of the Company.

- (2) The Company together with China Petroleum & Chemical Corporation and BP Chemicals East China Investments Limited established a joint venture company in November 2001. The purpose of the joint venture company is to construct a 900,000 tonnes per annum petrochemical manufacturing facility. The amount of the total investment of the joint venture shall be RMB22.45 billion, and the registered capital shall be approximately RMB7.49 billion of which the Company should contribute 20%, Sinopec Corp. shall contribute 30% and BP shall contribute 50%.

Sinopec Corp. is the controlling shareholder of the Company and has beneficial interest of approximately 55.56% in the existing issued share capital of the Company. It is also the substantial shareholder of the joint venture company. Accordingly, under the Listing rules, the Company's participation in the joint venture company constitutes a connected transaction of the Company. The above joint venture project was approved by the independent shareholders at the Company's 2001 extraordinary general meeting.

## 6. Trust, Sub-contract and Leasing

During 2001, the Group did not enter into any trust, sub-contract or lease arrangements relating to its own assets or the assets of the Group.

## 7. Auditors

KPMG Huazhen and KPMG were the Company's domestic and international auditors respectively in 2001.

A resolution for the reappointment of KPMG Huazhen and KPMG as the domestic and international auditors of the Company respectively, is to be proposed at the forthcoming 2001 Annual General Meeting of the Company.

The only fees paid by the Company to KPMG and KPMG Huazhen are their audit fees as stated below:

	KPMG Huazhen (domestic)	KPMG (international)
Audit fee for 2001	US\$60,000 (unpaid)	US\$540,000 (unpaid)
Audit fee for 2000	US\$60,000 (paid)	US\$540,000 (paid)
Travelling and accommodation expenses	Borne by the firm	Borne by the firm

### 8. Material Contracts

During 2001, the Company has no material contracts or contract for which the Company did not perform its obligations.

### 9. Controlling Shareholder

China Petroleum & Chemical Corporation ("Sinopec Corp.") is the controlling shareholder of the Company. It held 4 billion shares of the Company, representing 55.56% of the total share capital of the Company. It was established on February 25, 2000. The registered capital is RMB86.7 billion (2000: RMB83.9 billion). The authorized representative is Li Yizhong.

Sinopec Corp. is the largest company in Asia and China in terms of production, distribution and marketing of gasoline, diesel, coal and most portion of other major petroleum products. Sinopec Corp. is also the largest manufacturer and distributor of petrochemical products in China and the second largest explorer, developer and producer of crude oil and natural gas in China.

### 10. Tax Rate

The charge for PRC income tax is currently calculated at the rate of 15% (2000: 15%). The Company has not received any notice from the Ministry of Finance to the effect that the 15% tax rate will not continue to be applicable to the Company in 2002.

### 11. Deposits

The Company did not have any designated deposit during 2001. As at 31 December 2001, the Company did not have any time deposit which could not be collected upon maturity.

### 12. Disclosure

Save as disclosed above, in relation to major events, or discloseable matters referred to in Article 62 of the Securities Law of the PRC, Article 60 of the Provisional Regulations on the Administration of the Issue and Trading of Shares of the PRC and Article 17 of the Implementing Rules on the Disclosure of Information by Publicly Listed Companies (Trial Implementation), there was no major event or discloseable matter of the Group during the year under review.

### 13. Shareholders' Commitment

Neither the Company nor any shareholder with a shareholding above 5% of the total shares in issue has disclosed in the designated newspapers or websites any commitments with any parties.

14. During 2001, the Board and the Directors had not been investigated, administratively punished and publicly criticized by the China Securities Regulatory Commission or publicly reprimanded by Shanghai Stock Exchange.

On behalf of the Board  
**Lu Yiping**  
*Chairman*

Shanghai, 29 March 2002