I am pleased to report the audited annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2002.

The Group made unprecedented progress and achievements in 2002. Net sales for the whole year amounted to RMB21,494 million, representing an increase of 8.41 per cent from that of last year. Profit attributable to shareholders, which rose by 109.75 per cent from that of last year to RMB973 million, has reached a historical high. The Group's total profit continued to top the domestic industry's level. Competitive edges such as scale, technology, cost, management that the Company built up for years displayed stronger support to the Company. The Company reached a new stage in terms of overall competency and profitability.

The Board of Directors recommended a final dividend of RMB0.08 per share for the year ended 31 December 2002. Together with an interim dividend of RMB0.04 per share, the total dividends would be RMB0.12 per share, representing an increase of 100 per cent from that of last year.

Chairman's Statement

China experienced continued stable economic growth in 2002. The gross domestic product (GDP) increased by 8 per cent from that of last year. In the face of increasing market liberalisation since China joined the World Trade Organisation ("WTO") a year ago and the rigorous challenge of intensifying competition, the dominant domestic oil distributors strengthened cooperation, which maintained the stability of the domestic market for petroleum products in general and created a better business environment for enterprises.

In 2002, the Company fully utilized its large-scale operation, achieving an accumulated throughput volume of feedstock (including third-party processing business) of 11,946,300 tonnes for the whole year, which represented an increase of 11.29 per cent from that of last year and ranked the first in the domestic industry. During the year, the Company seized market opportunities and resumed the third-party processing business. The throughput volume of crude oil for third-party processing business for the entire year reached 384,500 tonnes, which helped to increase capacity utilization rate and lower unit fixed cost.

Taking account of the overall benefits, the Company fully utilized its capacity and strong sour crude oil processing capability, as well as streamlined the process of crude oil purchase. The throughput volume of sour crude oil and heavy crude oil reached 8,240,500 tonnes, which rose by 19.17 per cent from that of last year, and its proportion in the total throughput volume increased by 4.56 percentage points to 68.98 per cent. Given the slight increase in international crude oil prices compared with that of last year, the Company's average processing price of crude oil during the period was RMB1,504.90 per tonne (after deducting import expenses, equivalent to US$24.32 per barrel ("$/bbl")), which was about 0.64 $/bbl lower than the average dated price of Brent crude oil during the same period and RMB60.07 per tonne (about 0.99 $/bbl) lower than RMB1,564.97 per tonne (after deducting import expenses, equivalent to 25.26 $/bbl) of that of last year.

Taking a market-oriented approach, the Company actively adjusted its product mix and upgraded its products to better satisfy market needs. Total output of all products for the whole year amounted to 10,639,800 tonnes. Output of high value-added products, including solvent oil, BTX, LPG, propylene, reached 1,094,500 tonnes, an increase of 23.66 per cent from that of last year. The sales volume of staple products, including gasoline, kerosene, diesel, accounted for 68.40 per cent of self-produced products, which rose slightly from that of last year. In particular, the ratio of the sales volume of high-grade gasoline (no. 93 up) to total sales volume of gasoline rose from 41.60 per cent of the previous year to 54.30 per cent.

Benefited from a streamlined management, the Company improved its efficiency and maintained the various economic and technical indicators at relatively satisfactory levels. The light oil yield for the whole year increased by 2.14 percentage points to 73.83 per cent year on year, while the ex-factory volume of heavy oil reduced by 177,700 tonnes from that of last year to 50,600 tonnes of the reported year. The diesel to gasoline ratio stood at 2.56. The composite commercial yield was 93.51 per cent, which was about the same level of the previous year. During the year, the Company increased its throughput volume and streamlined its production process. Due to the Company's redemption of its convertible bonds in December 2001, the Company reduced its net financing costs. In addition, the depreciation period of major production equipment has been revised, thereby reducing the cost of depreciation. All of these resulted in a lower unit complete expense for the whole year of RMB152.11 per tonne, which represented a decline of RMB5.85 per tonne year on year and remained at a leading level in the domestic industry.

The Company is committed to leveraging technological progress to advance its competitiveness. During the year, 1.8 million tpa vacuum gas oil ("VGO") hydro-desulfurisation unit, the 3 million tpa diesel hydrofining unit and the 70,000 tpa sulphur recovery unit were put into operation. As a result, the Company's processing capacity of sour crude oil and production capacity of clean products were further enhanced. In addition, a new residue processing route with "solvent deasphalting" unit as the nexus was formed, resulting in enhanced level of processing of fuel oil and light oil yield. The further integration of the refining and chemical fertilizer businesses played a significant role in bringing the chemical fertilizer business back to profitability.

Following its successful implementation of a flattened management structure in June 2002, the Company introduced an Enterprise Resource Planning ("ERP") programme in October 2002. Together these two measures helped further lower management cost and augment management efficiency, thereby creating opportunities for development.

In 2003, although some uncertainties lie in the world economic recovery, China is expected to experience continued stable economic growth. These bright economic prospects of China will continue to drive domestic consumption of petroleum products. The further-improved domestic petroleum product pricing mechanism will create a favorable external environment for the Company's production and operating activities, and as a result the Company's refining margin is likely to remain at a relatively satisfactory level. The Company will increase the total throughput volume and product output through continued expansion of third-party processing business. The planned throughput volume of crude oil (including third-party processing business) for the whole year is 12.5 million tonnes, but the Company will strive to achieve 13 million tonnes. Also, the Company will intensify improvement of internal resources to achieve efficiency and to maintain continued stable profitability.

First, to optimize production process for intensifying the integration of the refining and chemical fertilizer businesses. The Company will take full advantage of the new processing route with solvent deasphalting unit as the nexus, which is created after the new facilities commenced operation, to realize the integration of the refining and chemical fertilizer businesses, and optimize utilization of resources.

Second, to optimize product mix for further improvement in economic and technical indicators. The Company will fully capitalize on its strong intensified processing capability and organize its production activities based on a market-oriented approach. It is estimated that the production and sales volume of high value-added products, including propylene, LPG, Styrene Butadiene Styrene ("SBS")-modified asphalt, will experience relatively larger increase during the year. At the same time, the Company will fully exploit internal resources by relying on technological advance and staff's intellect, in order to achieve better economic and technical indicators.

Third, to streamline operation management for improving cost-effectiveness. The Company intends to keep the purchase cost of imported crude oil under control by grabbing at market opportunities, to increase the income contribution proportion of self-marketing products by intensifying marketability and to maintain its unit refining cash operating cost and unit complete expense at leading levels in the domestic industry by controlling costs and expenses. Simultaneously, based on the flattened management structure and ERP system, the Company will make formal announcement of the Health, Safety and Environment (HSE) management system and prepare for the incorporation of the ISO quality system in its operation, in order to improve the overall management level of the Company.

Fourth, to optimize application of investment and production for future development. The Company's capital expenditure for 2003 will exceed RMB2 billion. Upon the completion of the construction of 1 million tpa continuous catalytic reforming unit in the mid-April of the year, the Company's comprehensive processing capacity reached 16 million tpa. The completion of the chemical fertilizer fuel conversion project "replacing oil by coal as a source of energy" in the second half of the year will further promote the integration of the refining and chemical fertilizer businesses, thereby lowering the overall production and operating cost. To capture the opportunities from the recovery of the chemical industry, the Company's paraxylene ("PX") unit, which is scheduled to commence operation during the second half of 2003, and the polypropylene ("PP") project, the construction of which will be completed at the end of the year, will help the Company to further extend its product chain. The aforesaid projects will become new profit centres of the Company.

Looking into the future, an opportunity for a well-defined strategy to take effect lies before us. Following the development trend for the world oil refining industry, we will strive to establish the Company as a "world-class, high-tech, integrated" refining and chemical enterprise with international competitiveness, to achieve continued growth in returns for our shareholders.

At the Annual General Meeting for 2002, a new Board of Directors and a new Supervisory Committee will be elected and formed. On behalf of the Board, I would like to take this opportunity to extend our heartfelt thanks to shareholders for their support to the Company, and to express our sincere appreciation to the management and employees for their contribution to the Company's development.

Sun Weijun
Chairman

17 April 2003, Ningbo, the PRC