



The Board of Directors (the “Board”) hereby presents the report of the Directors and the audited financial statements for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the production and sale of petroleum products (including gasoline, diesel, kerosene, naphtha, LPG, solvent oil, fuel oil), intermediate petrochemical products, asphalt, urea and other petrochemical products.

SUBSIDIARIES AND ASSOCIATES

Details of the subsidiaries and associates are set out in notes 15 and 16 to the financial statements respectively.

RESULTS AND DIVIDEND

The Group’s results for the year ended 31 December 2002 and the Company’s and the Group’s financial position as at that date are set out on page 28 to 70 of this Annual Report. The Group’s profit attributable to shareholders for the year 2002 was RMB973 million, representing an increase of 109.75 per cent than that of 2001.

An interim dividend of RMB0.04 per share was paid on 28 October 2002 (2001: RMB0.025 per share). The Board recommended the payment of a final dividend of RMB0.08 per share in respect of the year ended 31 December 2002 (2001: RMB0.035 per share).

RESERVES

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

PROPERTY, PLANT AND EQUIPMENT

Details of movements of the Group’s property, plant and equipment during the year are set out in note 13 to the financial statements.

² The following discussion should be read with the Group’s financial statements and their notes contained in the annual report for this year.



RELATED PARTY TRANSACTIONS

Related party transactions of the Group in the year were conducted on normal commercial terms and in the ordinary course of business. The auditors of the Group have audited these transactions. Details are set out in note 32 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

The proportions of major customers and suppliers in the Group's total sales and purchase for the year are shown as follows:

	Proportion in the Group's total amount	
	Sales	Purchase
The largest customer	59%	
The aggregate amount of the five largest customers	73%	
The largest supplier		39%
The aggregate amount of the five largest suppliers		76%

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 Corp, the Company's controlling shareholder, which holds 100 per cent equity interests in the largest customer of the Group, Sinopec Sales Huadong Company, 70 per cent equity interests in the second largest customer, China International United Petroleum & Chemical Company Limited, 70.01 per cent equity interests in the third largest customer, Sinopec Beijing Yanhua Petrochemical Company Limited, 84.98 per cent equity interests in the fourth largest customer, Sinopec Yangzi Petrochemical Company Limited, and 70 per cent equity interests in the second largest supplier, China International United Petroleum & Chemicals Company Limited, 100 per cent equity interests in the third largest supplier, Sinopec Pipeline Storage & Transport Company.

EMOLUMENTS FOR DIRECTORS AND SUPERVISORS

The aggregate amount of emoluments paid to the Company's executive directors and supervisors for the year ended 31 December 2002 were RMB1,150,000 (2001: RMB881,000) and RMB448,000 (2001: RMB363,000) respectively. Emoluments paid to each executive director and supervisor did not exceed RMB190,000 (2001: RMB160,000). Pension fund for executive directors and supervisors is planned as a whole, details of which are set out in note 7 to the financial statements.

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

PENSION FUND

Details of the pension fund are set out in note 8 to the financial statements. Contribution to the pension fund charged to the Group's consolidated income statement for the year ended 31 December 2002 was RMB94,825,000.

BASIC MEDICAL INSURANCE OF EMPLOYEES

The enterprises' employee basic medical insurance is a system that enterprises must carry out according to the State regulation. In accordance with the relevant policy of the Ningbo municipal government, the Group has been participating in the employee basic medical insurance of Ningbo Municipality since 1 July 2001.

In 2002, 9 per cent of the total salaries were appropriated for the premium of the employee basic medical insurance, which was reflected in the welfare payable account. As 14 per cent of the total salaries was appropriated for the welfare payable during the period and such appropriation was reflected in the income statement, the employee basic medical insurance for 2002 need not be expensed in the income statement.

According to the relevant regulation of the Ningbo municipal government, starting from 1 January 2003, the premium of employee basic medical insurance will be appropriated from 11 per cent of the total salaries and will be first reflected in welfare payable account. It is expected that this change will not have any impact on the Group's consolidated income statement.

SUMMARY OF FIVE-YEAR FINANCIAL INFORMATION

A summary of the results and the consolidated balance sheets of the Group for the past five financial years ended 31 December 2002 is set out on page 6 of this Annual Report.

EXTERNAL INVESTMENT

The Company together with BP Global Investment Ltd establishes a joint-venture company ("JVC") for the sale of LPG. The investment amount of the JVC for the first three years is US\$25 million, with a registered capital of US\$10 million. The Company and BP Global Investment Ltd will each hold 50 per cent interest of the JVC. The establishment of the JVC has been approved by the relevant department of the State. Upon the establishment of the JVC, the Company will sell all of the LPG produced by the Company to the JVC.

SHARE CAPITAL

The structure of the Company's share capital as at 31 December 2002 was as follows:

	Number of shares	Percentage share of issued share capital
State-owned legal person shares	1,800,000,000	71.32%
H shares	723,754,468	28.68%
Total share capital	2,523,754,468	100.00%

SHAREHOLDING OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2002, Sinopec Corp held 1,800,000,000 State-owned legal person shares in the Company, representing 71.32 per cent of the issued share capital of the Company. As at the same day, ARCO Asia Pacific Investment Ltd., a subsidiary of BP p.l.c. held 237,600,000 H shares in the Company, representing 9.41 per cent of the Company's issued share capital.

China Petrochemical Corporation ("Sinopec Group Company") is the ultimate controlling shareholder of the Company, and is a State-authorized investment institution and a State-holding company. Sinopec Group Company has a 55.06 per cent equity interest in Sinopec Corp.

Save as disclosed above, the Company was not aware of any other person who held any share capital in the Company discloseable 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 31 December 2002.

LOCAL TAX POLICIES

Details are set out in note 9 to the financial statements.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S SHARES

During the year ended 31 December 2002, neither the Company nor its subsidiaries had purchased, sold or redeemed any of the Company's shares.

CHANGE IN ACCOUNTING ESTIMATES

The Company undertook a comprehensive review of the expected useful lives of certain plant, machinery and equipment at the beginning of 2002 which has taken into consideration the depreciation method currently adopted by the domestic petrochemical industry. The Company has determined to revise the depreciation period of this plant, machinery and equipment. In this connection, the depreciation period of the main manufacturing facilities has been revised from between 8 and 10 years to between 12 and 14 years with effect from 1 January 2002.

CHANGE OF SENIOR MANAGEMENT OFFICERS

At the ninth meeting of the Third Board of Directors held on 14 February 2003, Mr. Yu Yaoquan, Mr. Chen Jian, Mr. Dai Baohua and Mr. Shao Jianxiong were appointed as deputy general managers of the Company, and Mr. Zhu Zengqing was appointed as the Company's Chief Accountant. The meeting also approved the resignation from Mr. Ren Chigang and Mr. Zhang Jingbo as deputy general managers of the Company.

The seventh meeting of the Third Supervisory Committee held on 14 February 2003 approved the resignation of Mr. Yu Yaoquan as the chairman and member of the Supervisory Committee, and appointed Mr. Gu Yueguang, who was the new staff-elected supervisor, as the chairman of the Supervisory Committee. Mr. Yang Renhai resigned from the position of staff-elected supervisor on 12 February 2003.

The aforesaid changes in senior management officers were published in Hong Kong's newspapers on 17 February 2003.

CODE OF BEST PRACTICE

During the year ended 31 December 2002, 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 seven representatives (at least one of them should be a staff-elected supervisor of the Company). Shareholder-elected supervisors are elected and appointed and/or removed at the general meeting of shareholders, whereas staff-elected supervisors are elected and appointed and/or removed at the Conference of Workers' Representatives. 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 ("Arthur Andersen & Co") was appointed as the Company's auditors for the year ended 31 December 2001. Upon the expiry of the appointment, Arthur Andersen & Co ceased to be the Company's auditors. Pursuant to the approval of the Annual General Meeting held on 7 June 2002, KPMG Certified Public Accountants was formally appointed as the Company's auditors for the year ended 31 December 2002. The term is one year to the conclusion of the next Annual General Meeting.

It is desired that KPMG Certified Public Accountants will be reappointed as the Company's auditors as the term of the latter's appointment is about to expire. The resolution regarding the reappointment of KPMG Certified Public Accountants as the Company's auditors will be put forward at the upcoming Annual General Meeting.

By Order of the Board
Sun Weijun
Chairman

17 April 2003, Ningbo, the PRC