

Report of the Directors

The directors have pleasure in submitting their annual report together with the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2002.

Principal Activities

The Company acts as an investment holding company. The principal activities and other particulars of its principal subsidiaries are set out in note 15 on the financial statements.

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the financial year are set out in note 2 on the financial statements.

Major Customers and Suppliers

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	22%	
Five largest customers in aggregate	57%	
The largest supplier		16%
Five largest suppliers in aggregate		49%

China Petrochemical Corporation ("Sinopec"), a controlling shareholder holding indirectly more than 70% of the Company's share capital, had beneficial interests in one of the five largest customers which accounted for approximately 4.9% of the turnover of the Group.

Save as disclosed above, at no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

Results and Appropriations

The profit of the Group for the year ended 31 December 2002 and the state of the Company's and Group's affairs as at that date are set out in the financial statements on pages 20 to 65.

An interim dividend of HK\$1.5 cents per share (2001: HK\$1.5 cents per share) was paid on 13 September 2002. The directors now recommend the payment of a final dividend of HK\$1.5 cents per share (2001: HK\$1.5 cents per share) in respect of the year ended 31 December 2002 to the shareholders whose names appear on the Register of Members on 30 May 2003.

Report of the Directors

Transfer to Reserves

Profits attributable to shareholders, before dividends, of HK\$148,491,000 (2001: HK\$153,982,000) have been transferred to reserves.

Fixed Assets

During the year, the Group spent approximately HK\$119,000,000 on constructing storage and conveyance jetty facilities situated in the People's Republic of China (the "PRC"). The Group also acquired other assets at an aggregate cost of approximately HK\$4,000,000 for business expansion. Details of these acquisitions and other movements in fixed assets are set out in note 13 on the financial statements.

Directors

The directors during the financial year were:

Executive directors

Hong Zhi Ming, *Chairman*

Yang Shu Shan, *Deputy Chairman*

Dai Zhao Ming

Ye Zhi Jun, *Managing Director* (appointed on 28 March 2002)

Zhai Xu Dong (resigned on 28 March 2002)

Lai Yong Fu (appointed on 26 August 2002)

Zhan Hai Tao (resigned on 26 August 2002)

Non-executive directors

Guan Qing Jie

Li Yue Ling

Independent non-executive directors

Wong Po Yan

Tam Wai Chu, *Maria*

Gu Yong Jiang (resigned on 28 March 2002)

In accordance with bye-law 111 of the Company's bye-laws, Mr. Wong Po Yan will retire by rotation and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

In accordance with bye-law 115 of the Company's bye-laws, Mr. Lai Yong Fu will retire and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

Directors' Service Contracts

Each of Messrs Hong Zhi Ming and Dai Zhao Ming, executive director, has entered into a service contract with the Company for a period of three years commencing from 23 March 1998 (which is automatically renewed upon expiry for successive terms of one year), subject to termination on or after 1 May 2001 by either party giving not less than six months' prior written notice to the other party terminating at the end of the initial term of the relevant service contract or at any time thereafter. Mr Yang Shu Shan, executive director, has entered into a service contract with the Company for a period of one year commencing from 1 July 2001 renewable automatically for successive terms of one year each commencing from the day next after the expiry of the then current term of the appointment, unless terminated by not less than 6 months' notice in writing served by either party expiring at the end of the initial term of the appointment or at any time thereafter. On 28 March 2002 and 26 August 2002, Mr Ye Zhi Jun and Mr Lai Yong Fu, executive directors, have entered into a service contract with the Company for a term of one year commencing from 28 March 2002 and 26 August 2002 respectively renewable automatically for successive terms of one year each commencing from the day next after the expiry of the then current term of the appointment unless terminated by not less than six months' notice in writing served by either party expiring at the end of the initial term of the appointment or at any time thereafter.

Mr Guan Qing Jie, non-executive director, has been appointed for a term of three years commencing from 25 March 1998 which is automatically renewed upon expiry for successive terms of one year. Mr Li Yue Ling has been appointed as a non-executive director for a term of three years commencing from 18 May 2001. Mr Wong Po Yan and Ms Tam Wai Chu, Maria, independent non-executive directors, were appointed as independent non-executive directors since 25 March 1998 for a term of 3 years. Their appointments have been extended from 25 March 2001 for a further term of three years.

No directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

Directors' and Chief Executive's Interests in Shares

As at 31 December 2002, none of the directors and chief executive of the Company, nor their associates had any interest in any shares of the Company or any of its associated corporations (as defined in the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) or right to subscribe for shares of the Company or any of its associated corporations which was required to be recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance.

Share Options

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 27 May 1999 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 26 May 2009. Under the Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

Report of the Directors

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time. The number of shares in respect of which options may be granted to any individual in aggregate is not permitted to exceed 25% of the shares of the Company in issue and which may fall to be issued under the Scheme at any point in time.

Options granted must be taken up within 21 days from the date of grant upon payment of HK\$1.00. Options may be exercised at any time from the date of acceptance of the grant of the share option to the earlier of the date on which such options lapse under early termination and the 10th anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of the nominal value of the shares and 80% of the average closing price of the shares for the five business days immediately preceding the date of grant.

No options were granted under the Scheme since its inception.

Directors' Rights to Acquire Shares or Debentures

At no time during the year was the Company, any of its holding companies, subsidiaries, or fellow subsidiaries a party to any arrangement to enable the directors or chief executive of the Company or any of their spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Connected Transactions

Save as disclosed in note 31 to the financial statements, there were no transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

The Company has obtained a waiver from strict compliance with the requirements of Chapter 14 of the Listing Rules in respect of the ongoing connected transactions being the services and facilities in relation to the Huizhou Jetty, the supplies of petroleum products to the Huade Petrol Stations, the crude oil supply and sourcing, petroleum and petrochemical products trading and the third party processing of crude oil, which waiver expired on 24 June 2002 and for which the Company has applied for and was granted a new waiver for three financial years ending 31 December 2004 subject to certain waiver conditions as stipulated in paragraphs 1 to 6 of the section headed "Application for Waiver" in the circular of the Company dated 27 August 2002 (the "Circular").

The Company has also obtained a waiver on the other connected transactions from strict compliance with the relevant requirements under Chapter 14 of the Listing Rules by the Stock Exchange on 25 June 1999 for a period so long as the value of the relevant connected transaction in any financial year does not exceed 3% of the net tangible assets of the Group as at the end of that year subject to certain waiver conditions as stipulated in paragraph (D)(1) of "Conditions to waiver" in the section headed "Business – Connected Transactions" in the prospectus of the Company dated 15 June 1999.

Report of the Directors

The independent non-executive directors of the Company have confirmed that the connected transactions referred to in note 31(a) to the financial statements have been entered into in the manner as stipulated in paragraph (D)(1) of “Conditions to waiver” in the section headed “Business – Connected Transactions” in the prospectus of the Company dated 15 June 1999 and in paragraphs 1 to 6 of the section headed “Application for Waiver” in the Circular (collectively the “Waiver Conditions”). The directors of the Company are of opinion that the above connected transactions have been entered into in the manner as stipulated in the Waiver Conditions.

Substantial Shareholders

As at 31 December 2002, the register of interest in shares required to be maintained under Section 16(1) of the SDI Ordinance showed that the following shareholder had an interest of 10% or more in the issued share capital of the Company.

	Ordinary shares held	Approximate percentage of issued shares held
Sinopec Kantons International Limited	750,000,000	72.34%

Note: The entire issued share capital of Sinopec Kantons International Limited is held by China Petrochemical International Co. Ltd. (“CPIC”). The entire registered capital of CPIC is owned by China Petroleum & Chemical Corporation. The controlling interest in the registered capital of Sinopec is held by China Petrochemical Corporation.

Other than as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company’s issued share capital as at 31 December 2002.

Directors’ Interests in Contracts

No contracts of significance to which the Company, any of its holding companies, subsidiaries or fellow subsidiaries was a party, and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company’s Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Purchase, Sale or Redemption of the Company’s Listed Shares

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed shares during the year.

Report of the Directors

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Group as at 31 December 2002 are set out on notes 22 and 25 on the financial statements.

Five Year Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 66 of the annual report.

Retirement Scheme

Other than operating a Mandatory Provident Fund Scheme and payments made to the PRC state-managed retirement benefits schemes, the Group has not operated any other retirement scheme to cover the Group's employees. Particulars of the retirement scheme are set out in note 23 on the financial statements.

Compliance with the Code of Best Practice

The Company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

Audit Committee

The audit committee of the Company was set up with written terms of reference. Currently, the members of the audit committee comprise of two independent non-executive directors. The audit committee meets with Group's senior management and external auditors regularly to review the effectiveness of the internal control systems and the interim and annual reports of the Group and reports directly to the board of directors of the Company.

Auditors

KPMG were first appointed as auditors of the Company in 2002 upon the retirement of Deloitte Touche Tohmatsu.

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

By order of the board

Hong Zhi Ming

Chairman

Hong Kong, 28 April 2003