

Report of the Directors

The directors of the Company during the financial year (the "Directors") have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2003.

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 12 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	16%	
Five largest customers in aggregate	53%	
The largest supplier		15%
Five largest suppliers in aggregate		50%

China Petrochemical Corporation, a controlling shareholder of the Company 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 31.0% 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.

Financial Statements

The profit of the Group for the year ended 31 December 2003 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 19 to 57.

An interim dividend of HK\$1.5 cents per share (2002: HK\$1.5 cents per share) was paid on 7 October 2003. The Directors now recommend the payment of a final dividend of HK\$1.5 cents per share (2002: HK\$1.5 cents per share) in respect of the year ended 31 December 2003.

Share Capital

Details of the share capital of the Company during the year are set out in note 27 to the financial statements.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 28 to the financial statements.

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Transfer to Reserves

Profits attributable to shareholders, before dividends, of HK\$138,591,000 (2002: HK\$148,491,000) have been transferred to reserves.

Fixed Assets

During the year, the Group spent approximately HK\$112,000,000 on constructing storage and conveyance jetty facilities situated in the PRC. The Group also acquired other assets at an aggregate cost of approximately HK\$12,000,000 for business expansion. Details of 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*)

Lai Yong Fu

Non-executive Directors

Guan Qing Jie

Li Yue Ling

Independent non-executive Directors

Wong Po Yan

Tam Wai Chu, Maria

In accordance with Bye-law 111 of the Company's Bye-laws, Mr. Wong Po Yan and Ms. Tam Wai Chu, Maria will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Each of (i) Mr. Pan Xin Rong, Mr. Zhou Feng and Mr. Ge Han Hua and (ii) Mr. Zhu Jian Min and Mr. Yang Mo Fei (collectively the "New Directors") is appointed as executive director and non-executive director of the Company respectively on 30 March 2004. In accordance with Bye-law 115 of the Company's Bye-laws, each of them, being eligible, will be re-elected at the forthcoming annual general meeting.

Directors' Service Contracts

Neither the Directors nor the New 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.

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Interests of Directors and Chief Executive

As at 31 December 2003, none of the Directors or chief executive of the Company had any interest or short position in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Cap.571 of the Laws of Hong Kong) (“SFO”)) as recorded in the register required to be kept under section 352 of SFO or as otherwise required to be notified by the Directors and the chief executive of the Company to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies set forth in Appendix 10 to the Listing Rules.

Interest of Substantial Shareholders

Save as disclosed below, the Directors are not aware of any person (other than Directors and chief executive of the Company) who, as at 31 December 2003, had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of SFO:

Name of shareholder	Number of ordinary shares	Capacity	Percentage to the issued share capital of the Company
Sinopec Kantons International Limited	750,000,000	Beneficial	72.34%

Note: The entire issued share capital of Sinopec Kantons International Limited was held by China Petrochemical International Company Limited. The entire registered capital of China Petrochemical International Company Limited was held by China Petroleum & Chemical Corporation. The controlling interest in the registered capital of China Petroleum & Chemical Corporation was held by China Petrochemical Corporation.

Share Option Scheme

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.

As at 26 March 2004, being the date of the Report of the Directors, the total number of shares in respect of which options may be granted under the Scheme is 103,683,000, which represents 10% of the shares of the Company in issue. 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, 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.

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Directors' Right 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 32 on 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 of which the Company had 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)(i) of "Conditions to waiver" in the section headed "Business – Connected Transactions" in the prospectus of the Company dated 15 June 1999.

The independent non-executive Directors have confirmed that the connected transactions referred to in note 32(a) on the financial statements have been entered into in the manner as stipulated in paragraph (D)(i) 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 are of opinion that the above connected transactions have been entered into in the manner as stipulated in the Waiver Conditions.

Directors' Interests in Contracts

No contracts of significance to which the Company, its holding companies, subsidiaries or fellow subsidiaries was a party, and in which a Director had a material interest, either directly or indirectly, 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 applicable laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

Purchase, Sale or Redemption of the Company's Listed Securities

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

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Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Company and of the Group as at 31 December 2003 are set out in notes 22 and 26 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 58 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 is set out in note 24 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 by the Stock Exchange 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 audit committee comprises two independent non-executive Directors and reports to the board of Directors. The audit committee meets with the 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.

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 of Directors

Hong Zhi Ming

Chairman

Hong Kong, 26 March 2004