

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors is pleased to present the Company's audited financial statements for the year ended 31st December, 2001.

Principle Activities and Results

The principal activities of the Company are the production and sale of (i) resins and plastics, (ii) synthetic rubber, and (iii) basic organic chemical products.

The operating results of the Company for the year ended 31st December, 2001 and its financial position as at 31st December, 2001 are set out in the audited income statement and balance sheet prepared in accordance with IFRS.

Dividends and Proposed Profit Appropriations

The Company did not declare any interim dividends for the six months ended 30th June, 2001.

The Board of Directors resolved on 28th March, 2002 to recommend to the shareholders not to declare final dividend for the year ended 31st December, 2001. The proposed profit appropriations will be presented to shareholders for approval at the forthcoming annual general meeting to be held on 7th June, 2002.

Closure of Register of Members

In accordance with the Company's Articles of Association, the register of members of the Company will be closed for a period of 30 days before the date of the annual general meeting of shareholders (the "AGM"), which is from 8th May to 7th June, 2002 (both days inclusive), during which time no share transfer will be effected.

REPORT OF THE BOARD OF DIRECTORS

Shares and Shareholders

1. Trading of Shares

Highest traded price during the year (H Shares)	8th June, 2001	HK\$1.48
(ADS)	5th and 7th June, 2001	US\$9.00
Lowest traded price during the year (H Shares)	17th September, 2001	HK\$0.475
(ADS)	2nd September, 2001	US\$3.15
Total transaction volume for the year (H Shares)		3,973,601,380 Shares
(ADS)		1,822,253 ADSs

2. Share Capital

As at 31st December, 2001, the issued and fully paid share capital of the Company was as follows:

	Number of shares (‘000)	Percentage of total issued share capital
Domestic shares held by Parent Company of RMB 1.00 each	2,362,000	70.0
Foreign shares (in form of H shares) of RMB 1.00 each	<u>1,012,000</u>	<u>30.0</u>
Total	<u><u>3,374,000</u></u>	<u><u>100.0</u></u>

3. Purchase, sale or redemption of the Company's Listed Securities

During the year 2001, there was no purchase, sale, redemption or cancellation by the Company of any of its listed securities.

REPORT OF THE BOARD OF DIRECTORS

4. Securities and Transaction in Securities

During the reporting period, there was no convertible securities, options, warrants or similar rights issued or granted by the Company, nor was there any issue for cash of equity securities by the Company.

5. Pre-emptive Rights

Under the Articles of Association of the Company and the laws of the PRC, no pre-emptive rights exist that require the Company to offer new shares to existing shareholders in proportion to their shareholding.

6. Substantial Shareholders

As at 31st December, 2001, shareholders holding 10% or more of the Company's issued shares were as follows:

	Type of Shares	Number of shares (‘000)	Percentage of total issued share capital
New Sinopec	Domestic Shares	2,362,000	70.0
HKSCC Nominees Limited	H Shares	972,752	28.9

Other than the information stated above, the Company is not aware of any interests required to be kept by the Company in the share register pursuant to Section 16(1) of the Securities (Disclosure of Interests) Ordinance (Cap 396 of the Laws of Hong Kong) (“SDI Ordinance”) as at 31st December, 2001.

Connected Transactions

The Company entered into an Asset Sale Agreement on 20th November, 2001 for the sale of the No.1 polypropylene production unit by the Company to Yanshan Company.

Amounts and details involved in connected transactions during the year (including the transaction as mentioned above) are set out in note 19 to the financial statements.

As stated in the prospectus of the Company (the “Prospectus”) issued in June 1997 in connection with its global public offering, SEHK has granted waivers to the Company from strict compliance with the Listing Rules in respect of certain connected transactions mentioned in the Prospectus.

The independent non-executive Directors confirm that during the year under review, (i) relevant connected transactions were entered into by the Company in the ordinary and usual course of its business, either on normal commercial terms or on terms that are fair and reasonable so far as the shareholders of the Company are concerned, and either in accordance with the terms of the agreement governing each such transaction or on terms no less favorable than terms available to/from independent third parties, and (ii) the amount of each category of the connected transaction has not exceeded its relevant cap as stated in the Prospectus.

REPORT OF THE BOARD OF DIRECTORS

The auditors of the Company have reviewed the transactions described above and have advised the Directors in writing that:

- (a) the transactions described above have been approved by the Board of Directors; and
- (b) the transactions described above have been entered into in accordance with the terms of the agreements governing such transactions, or where there is no such agreement, nothing came to their attention that caused them to believe that the transactions described above were not conducted on normal commercial terms (which expression was applied by reference to transactions of a similar nature made by similar entities within the PRC).

Major Litigation or Arbitration

The Company was not involved in any material litigation or arbitration during the year under review.

Major Events

1. The largest capital investment plan of the Company, i.e. the expansion of the Company's ethylene production unit with a capacity of 710,000 tons, was completed and commenced operation in November 2001. To complete the Ethylene Project, the Company's major facilities had to be shutdown for approximately 100 days.
2. During the reporting period, according to the relevant laws and regulations as well as the industry standards of New Sinopec, the Company terminated the employment of approximately 2,320 employees by the voluntary staff redundancy plan. The compensation paid by the Company in connection with the termination of their employment was approximately RMB 246.9 million.
3. At a meeting of the Board of Directors held on 28th March, 2002, the Company appointed Mr. Dong Wenduo and Mr. Song Liqun as the Deputy General Managers of the Company.

REPORT OF THE BOARD OF DIRECTORS

Changes in Directors, Supervisors and Other Executive Officers

1. Directors

According to Article 95 of the Company's Articles of Association, a director shall serve a term of three years. According to the service contract entered into between each director and the Company, the term of employment of each of the existing Directors is three years commencing from the date of their appointment on 5th June, 2000. There was no change in Directors during the reporting period.

2. Supervisors

In accordance with Article 116 of the Company's Articles of Association, a supervisor shall serve a term of three years. According to the service contract entered into between each supervisor and the Company, the term of employment of each of the existing Supervisors is 3 years commencing from the date of their appointment on 5th June, 2000. There was no change in Supervisors during the reporting period.

3. Other executive officers

At a meeting of the Board of Directors held on 28th March, 2002, the Board of Directors appointed Mr. Dong Wenduo and Mr. Song Liqun as Deputy General Managers of the Company.

Details of the current session of the Directors and Supervisors of the Company

Name	Position	Sex	Age	Term of Office	Annual Emolument and Allowances (RMB)
*Du Guosheng	Chairman	M	45	Until June 2003	-
*Yang Qingyu	Director	M	55	Until June 2003	-
*Xu Hongxing	Director	M	43	Until June 2003	-
Zhao Qichao	Director & General Manager	M	41	Until June 2003	85,072
Qi Jiren	Director and Deputy General Manager and Chief Accountant	M	60	Until June 2003	85,059
*Wang Yuying	Director	F	55	Until June 2003	-
*Wang Yongjian	Director	M	42	Until June 2003	-
*Situ Zexiang	Director	M	58	Until June 2003	-
*Sun Bingyi	Director	M	56	Until June 2003	-
*Wang Ruihua	Director	M	54	Until June 2003	-
*Wang Caijun	Director	M	56	Until June 2003	-
*Cui Guoqi	Director	M	48	Until June 2003	-
*Li Kejun	Director	M	42	Until June 2003	-
*Rui Xingwen	Independent Director	M	75	Until June 2003	-
*ZhangYanning	Independent Director	M	75	Until June 2003	-
*Shang Bo	Chairman of Supervisor Committee	M	54	Until June 2003	-
*Tao Guiying	Supervisor	F	54	Until June 2003	-
*Wang Yihe	Supervisor	M	53	Until June 2003	-
*Wang Shulan	Supervisor	F	47	Until June 2003	-
Wang Weijun	Supervisor	M	56	Until June 2003	91,361
Yang Wancheng	Supervisor	M	56	Until June 2003	93,418
Zhang Jinlong	Supervisor	M	57	Until June 2003	72,559

REPORT OF THE BOARD OF DIRECTORS

Directors', Supervisors' and Other Executive Officers' Interests in Shares

None of the Directors, Supervisors or senior management had, as of 31st December, 2001, any interests in any securities of the Company or any associated corporation (within the meaning of the SDI Ordinance) which are required to be reported to the Company or the SEHK pursuant to section 28 of the SDI Ordinance (including interests which they have taken or are deemed to have under Section 31 or Part I of the Schedule to the SDI Ordinance) or which are required by Section 29 of the SDI Ordinance to be entered in the register referred to therein, or which are required to be reported to the Company or the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or, in the case of Supervisors, which would be required to be reported as described above if they had been Directors.

Directors' and Supervisors' Service Contracts

Each of the Directors and Supervisors has entered into a service contract with the Company.

The aggregate amount of cash remuneration paid to the Directors as a group during the year ended 31st December, 2001 was RMB154,446, as compared to RMB230,547 in 2000. The aggregate amount of non-cash remuneration (consisting solely of pension and retirement benefits) paid to the Directors in 2001 was RMB15,685, as compared to RMB19,355 in 2000.

The aggregate amount of cash remuneration paid to the Supervisors during the year ended 31st December, 2001 was RMB232,707, as compared to RMB219,899 in 2000. The aggregate amount of non-cash remuneration (consisting solely of pension and retirement benefits) paid to the Supervisors in 2001 was RMB24,631, as compared to RMB15,082 in 2000.

No other service contract exists between the Company or any of its subsidiaries and any of the Directors or Supervisors. Subject to the above, no Director or Supervisor has entered into any service contract with the Company which is not determinable by the Company without payment other than statutory compensation.

Directors' and Supervisors' Interests in Contracts

Except as disclosed above, there was no contract of significance to which the Company or its subsidiaries was a party subsisting during or at the end of the year under review in which a Director or Supervisor of the Company had a material interest.

Employees' Benefit, Retirement Scheme and Employee Housing Subsidy

As at 31st December, 2001, the Company had 10,764 employees as compared to 13,584 employees in 2000, representing a decrease of 2,820 employees. In 2001, the Company paid RMB301.9 million as the cost of employment. In addition, the Company offered its employees the opportunities for education and training based upon its development and actual performance of the employees.

The Company's employees participated in a retirement benefit plan operated by the Company, details of which are set out in note 2(p) to the financial statements.

According to the housing reform policies of the PRC government, the Company may be required to pay an additional one-time subsidy to employees who joined the Company before 31st December, 1998, and who have not been able to buy housing at preferential prices under the previous scheme or have bought housing at preferential prices but with living areas less than the standards set by the municipal government. However, as of 31st December, 2001, the Company had not completed its plan or submitted it to the municipal government for approval. Therefore, the amount of the one-time housing subsidy cannot be determined and no provision has been made in the financial statements. Furthermore, as describe in the Company's Prospectus dated 17th June, 1997, the former parent company has undertaken to bear the cost of housing subsidies for the Company's employees through the end of 1998. Therefore, the directors believe the implementation of the new government housing reform policy will not have material effect on the Company's financial position.

REPORT OF THE BOARD OF DIRECTORS

Major Suppliers and Customers

For the year ended 31st December, 2001, 65.7% of purchases (excluding the purchase of items which are of a capital nature) were attributable to the Company's largest supplier, Yanshan Company; 10.8% of purchases were attributable to the Company's five largest suppliers (excluding Yanshan Company) in aggregate.

For the year ended 31st December, 2001, the aggregate amount of sales attributable to the Company's five largest customers, excluding Yanshan Company, represented less than 9.8% of the Company's turnover. The amount of sales attributable to Yanshan Company, the Company's largest customer, represented 11.9% of the Company's turnover.

At no time during the year have the Directors and Supervisors, their associates, or any shareholders of the Company (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any interests in these major suppliers and customers.

Reserves

Changes in reserves of the Company during the year under review are set out in the statement of changes in equity.

Fixed Assets

Movements in fixed assets of the Company, during the reporting period, are set out in note 3 to the financial statements.

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Company as at 31st December, 2001 are set out in notes 9, 12 and 19(b) to the financial statements.

Interest Capitalized

Interest capitalized in the Company's property, plant and equipment during the year amounted to RMB153.7 million.

Taxation

The Company has been subject to the PRC enterprise income tax of 33% for the year ended 31st December, 2001. The Company is not aware of any government policy changes that may affect the Company's tax rate.

Details of the Company's taxation are set out in note 18 to the financial statements.

REPORT OF THE BOARD OF DIRECTORS

Auditors

A resolution for the appointment of KPMG as auditors of the Company is to be proposed at the AGM to be held on 7th June, 2002.

Compliance with the Code of Best Practice

Saved as disclosed in announcements, the Company's Directors are unaware of any circumstances which would indicate that the Company did not comply, or has not complied, with the Appendix 14 (the "Code of Best Practice") of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited ("SEHK") (the "Listing Rules").

During the reporting period, the Board of Directors has established an audit committee. The audit committee is composed of Mr. Rui Xingwen and Mr. Zhang Yanning, the independent directors, and Ms. Wang Shulan, a member of the Board of Supervisors. The audit committee is responsible for the review and supervision of the Company's financial reporting process and internal controls as set out in the Code of Best Practice. During the reporting period, the audit committee held two meetings. The audit committee, together with the management, has reviewed the accounting policies, principles and methods adopted by the Company, and has discussed about the contents of the auditing, internal controls and the accountants' report.

Impact of Recent Economic Development

The completion and commencement of operation of its ethylene facilities with 710,000 tons annual capacity will improve the scale merit and will offset the adverse effects on the Company's profits resulting from the increase in the cost. The PRC economy in 2002 should continue its current rapid growth rate which should also sustain the high growth in demand of petrochemical products. The Company believes that, through the implementation of its various effective operating and development strategies, it will ensure a satisfactory return for the shareholders.

Trust Deposits

As at 31st December, 2001, the Company did not have any trust deposits with any financial institutions in the PRC. The Company has not encountered any withdrawal difficulty with respect to its deposits.

By Order of the Board of Directors

Du Guosheng

Chairman

28th March, 2002, Beijing, the PRC