

# REPORT OF THE BOARD OF DIRECTORS

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The Board of Directors is pleased to present the Company's audited financial statements for the year ended 31 December 2002.

## **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 31 December 2002 and its financial position as at 31 December 2002 are set out in the accompanying audited financial statements prepared in accordance with IFRS.

## **Dividends and Proposed Profit Appropriations**

The Company did not declare any interim dividends for the six months ended 30 June 2002.

According to the Company's Articles of Association, the retained earnings available for distribution to shareholders of the Company is the lower of the amount determined in accordance with the PRC Accounting Rules and Regulations and the amount determined in accordance with the accounting standards adopted by the place in which the Company is listed. At 31 December 2002, the Company had accumulated losses of RMB 91,024,000, being the amount determined in accordance with the PRC Accounting Rules and Regulations. The Board has therefore decided not to declare a dividend for 2002.

The Board of Directors resolved on 11 April 2003 to recommend to the shareholders not to declare final dividends for the year ended 31 December 2002. The proposed profit appropriations will be presented to shareholders for approval at the forthcoming Annual General Meeting to be held on 27 June 2003.

According to the Articles of Association of the Company, the register of members will be temporarily closed for a period of 30 days before the date of the Annual General Meeting of shareholders, which is from 28 May 2003 to 27 June 2003 (both days inclusive), during which time no share transfer will be effected.

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## Shares and Shareholders

### 1. Trading of Shares

Highest traded price during the year	(H Shares)	23 June 2002	HK\$1.25
	(ADS)	30 April 2002	US\$7.82
Lowest traded price during the year	(H Shares)	8 October 2002	HK\$0.62
	(ADS)	27 September 2002	US\$4.25
Total transaction volume for the year	(H Shares)		2,099,326,559 Shares
	(ADS)		632,303 ADSs

### 2. Share Capital

As at 31 December 2002, 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 2002, there was no purchase, sale, redemption or cancellation of any of the Company's listed securities.

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## 4. Securities and Transaction in Securities

During the reporting period, there were no convertible securities, options, warrants or similar rights issued or granted by the Company, nor were there any issuance 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 31 December 2002, shareholders holding 10% or more of the Company's issued shares were as follows:

	Type of shares	Number of shares (‘000)	Percentage of total (%)
New Sinopec	Domestic shares	2,362,000	70.0
HKSCC Nominees Limited	H shares	978,161	29.0

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 31 December 2002.

## Connected Transactions

Amounts involved in connected transactions during the year are set out in note 25 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 conditional 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 otherwise 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.

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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 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. In order for the auditing flow and process to be in conformity with that of its parent company, the Company has decided to appoint KPMG and KPMG Huazhen as its international and domestic auditors, respectively, from 2002 onwards.
2. The following directors of the Company have ceased to act as the directors of the Company: Mr. Situ Zexiang and Mr. Li Kejun, for change of job, and Mr. Qi Jiren, executive director of the Company, for retirement, have submitted their resignations. Upon nomination at the Board Meeting dated 28 March 2002 and approval at the shareholders meeting dated 7 June 2002, Mr. Xiang Hanyin, Mr. Lu Changqin, Mr. Qiao Xianyi and Mr. Mo Zhenglin were appointed as directors of the Company, and Mr. Yang Xuefeng was appointed as independent director of the Company.
3. At the meeting of the Board of Directors held on 13 August 2002, Mr. Yang Qingyu was appointed as the Vice Chairman of the Board of the Company, Mr. Xu Hongxing as the General Manager, Mr. Zhao Qichao as the Deputy General Manager, and Mr. Guo Hong as the Chief Financial Officer of the Company.
4. The Company has decided at the Board meeting dated 11 April 2003 to appoint Mr. Zhou Quansheng as the Secretary of the Board of Directors of the Company.

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## Changes in Directors, Supervisors and Other Executive Officers

### 1. Directors

- (a) 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 appointment on 5 June 2000 and ending on 4 June 2003.
- (b) The following directors of the Company have become unsuitable to act as the directors of the Company: Mr. Situ Zexiang and Mr. Li Kejun, for change of job, and Mr. Qi Jiren, executive director of the Company, for retirement, and they have all submitted their resignations. Upon nomination at the Board Meeting dated 28 March 2002 and approval at the shareholders meeting dated 7 June 2002, Mr. Xiang Hanyin, Mr. Lu Changqin, Mr. Qiao Xianyi and Mr. Mo Zhenglin were appointed as directors of the Company, and Mr. Yang Xuefeng was appointed as independent director of the Company.

### 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 appointment on 5 June 2000 and ending on 4 June 2003. There was no change in Supervisors during the reporting period.

### 3. Other executive officers

At the meeting of the Board of Directors held on 13 August 2002, Mr. Yang Qingyu was appointed as the Vice Chairman of the Board, Mr. Xu Hongxing as the General Manager of the Company, Mr. Zhao Qichao as the Deputy General Manager of the Company, and Mr. Guo Hong as the Chief Financial Officer of the Company.

The Company has decided at the Board meeting dated 11 April 2003 to appoint Mr. Zhou Quansheng as the Secretary of the Board of Directors 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 (in RMB)
Du Guosheng	Chairman	M	46	Until June 2003	145,373
Yang Qingyu	Director and Vice Chairman	M	56	Until June 2003	142,088
Xu Hongxing	Director and General Manager	M	44	Until June 2003	140,568
Zhao Qichao	Director and Deputy General Manager	M	42	Until June 2003	119,614
*Wang Yuying	Director	F	56	Until June 2003	-
*Wang Yongjian	Director	M	43	Until June 2003	-
*Sun Bingyi	Director	M	57	Until June 2003	-
*Wang Ruihua	Director	M	55	Until June 2003	-
*Wang Caijun	Director	M	57	Until June 2003	-
*Cui Guoqi	Director	M	49	Until June 2003	-
*Lu Changqin	Director	M	56	Until June 2003	-
*Qiao Xianyi	Director	M	49	Until June 2003	-
*Mo Zhenglin	Director	M	39	Until June 2003	-
*Xiang Hanyin	Director	M	48	Until June 2003	-
*Rui Xingwen	Independent Director	M	76	Until June 2003	-
*Zhang Yanning	Independent Director	M	76	Until June 2003	-
*Yang Xuefeng	Independent Director	M	64	Until June 2003	-
*Shang Bo	Chairman of the Board of Supervisors	M	55	Until June 2003	-
*Tao Guiying	Supervisor	F	55	Until June 2003	-
*Wang Yihe	Supervisor	M	54	Until June 2003	-
*Wang Shulan	Supervisor	F	48	Until June 2003	-
*Wang Weijun	Supervisor	M	57	Until June 2003	-
Yang Wancheng	Supervisor	M	57	Until June 2003	127,494
*Zhang Jinlong	Supervisor	M	58	Until June 2003	-

\* Such person has not received any emolument or allowance from the Company.

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

None of the Directors, Supervisors or senior management had, as at 31 December 2002, any interests in any shares or debentures of the Company or any associated corporation (within the meaning of the SDI Ordinance) (or any right to subscribe for equity or debt securities of the Company) 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 pursuant to 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 31 December 2002 was RMB 519,285, compared with RMB 154,446 in 2001. The aggregate amount of non-cash remuneration (consisting solely of pension and retirement benefits) paid to the Directors, as a group in 2002, was RMB 28,358, as compared with RMB 15,685 in 2001.

The aggregate amount of cash remuneration paid to the Supervisors as a group during the year ended 31 December 2002 was RMB 116,285, compared with RMB 232,707 in 2001. The aggregate amount of non-cash remuneration (consisting solely of pension and retirement benefits) paid to the Supervisors as a group in 2002 was RMB 11,209, compared with RMB 24,631 in 2001.

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 that is not terminable 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 31 December 2002, the Company had 10,366 employees as compared with 10,764 employees in 2001, representing a decrease of 398 employees. 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 retirement benefit plan operated by the Company, details of which are set out in note 24 of the financial statements.

Under the relevant laws and regulations of the PRC, the policy for the allocation of housing as welfare benefits has ceased to apply. The Company is considering detailed measures for payment of housing subsidies through increasing wages or making lump sum payments to qualified employees. Once determined, these measures will be reflected in the financial statements of the Company of the next relevant year. As disclosed in the Company's prospectus dated 17 June 1997, the predecessor of the Company is willing to pay such a lump sum payment. For this purpose, the Company is not expecting any cash outflows. Therefore, the Directors believe the implementation of the new government housing reform policy will not have material effect on the Company's financial position.

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## Basic Medical Insurance for Employees

According to the Beijing Municipal Government Order (2001) No. 68, and in line with the arrangements of Beijing municipal labor security authority, the Company has implemented the Regulations of Beijing Municipality on Basic Medical Insurance (the "Regulation") on 1 September 2002. Prior to the implementation of such Regulation, the Company has been carrying out relevant State regulations by drawing 14% of the employees' total current wages as welfare fees to be used as the medical expenditure for the employees of the Company, whilst relevant welfare fees were set out in the labor costs of the Company for the specific current term. After the implementation of the Regulations, the medical insurance fees to be paid represented 9% of the total wages, and such amount shall be included in the 14% employee welfare fees to be drawn by the Company. As a result, there will be no impact on the income statements and the balance sheets of the Company upon implementation of the Regulation.

## Major Suppliers and Customers

For the year ended 31 December 2002, 59.5% of purchases (not including the purchase of items which are of a capital nature) were attributable to the Company's largest supplier, the Parent Company; 12.9% of purchases were attributable to the Company's five largest suppliers (excluding the Parent Company) in aggregate.

For the year ended 31 December 2002, the aggregate amount of sales attributable to the Company's five largest customers, excluding Yanshan Company, represented less than 10.9% of the Company's turnover. The amount of sales attributable to Yanshan Company, the Company's largest customer, represented 12.4% of the Company's turnover.

At no time during the year have the Directors and Supervisors, their associates, or any shareholders of the Company (whom 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 11 to the financial statements.

## Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Company as at 31 December 2002 are set out in notes 19 and 20 to the financial statements.

## Interest Capitalised

Interest capitalised in the Company's property, plant and equipment during the year amounted to RMB 25.8 million.

## Taxation

The Company has been subject to the PRC enterprise income tax of 33% for the year ended 31 December 2002. 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 7 to the financial statements.

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## **Auditors**

At the Annual General Meeting held on 7 June 2002, a resolution was passed for the appointment of KPMG and KPMG Huazhen as the Company's international and domestic auditors, respectively.

## **Compliance with the Code of Best Practice**

Save as disclosed in announcements, the Company's Directors are unaware of any circumstance which would indicate that the Company did not comply, or has not complied, with Appendix 14 (the "Code of Best Practice") of the Rules Governing the Listing of Securities on the SEHK ("Listing Rules").

During the reporting period, the Board of Directors has established an audit committee. The audit committee is composed of Mr. Rui Xingwen, Mr. Zhang Yanning and Mr. Yang Xuefeng, the independent directors. 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 auditors' report, internal controls report and the financial statements.

## **Impact of the Recent Economic Development**

In the near future, unstable factors will inevitably exist in the international economy, which might bring adverse impact on the production and operation of the Company. Nevertheless, the Company believes that the steady growth of China's economy will no doubt lead to a further increase in the demands for the products of the Company, whilst the commissioning of the ethylene facilities with 710,000 tons capacity will elaborate the scale merit of the Company. The Company believes that, through the implementation of its various effective operating and development strategies, it will ensure satisfactory return for the shareholders.

## **Trust Deposits**

As at 31 December 2002, the Company did not have any trust deposits with any financial institutions in the PRC. The Company has not encountered any withdrawal difficulty with respects to its deposits.

By Order of the Board of Directors

**Du Guosheng**

Chairman

11 April 2003, Beijing, the PRC