

# CHAIRMAN'S STATEMENT

## To all shareholders:

It is my pleasure to present to you the audited annual results of Sinopec Beijing Yanhua Petrochemical Company Limited (the "Company") for the year ended 31st December, 2001.

In 2001, demand for petrochemical products remained strong as the economy of China continued to grow at a high speed. However, the international crude oil prices and prices of petrochemical products continued to adjust downward due to a slow-down in the development of the global economy as a whole. This trend, together with the drastic increase in the import of petrochemical products from nearby Asian countries into China in 2001, exerted immense pressure on China's petrochemical industry. During the reporting period, the weighted average price of the Company's eight principal products decreased by 8.7% in 2001, as compared with the same period in 2000. In addition, in 2001 the Company's major production facilities had to be shutdown for about 100 days, which was approximately 35 days longer than the original schedule of 65 days, to complete the Ethylene Project. The shutdown, together with the unstable operation of those new units since commencement of their operation, contributed towards a reduction in the output of the Company's principal products. During the reporting period, in connection with China's accession to the World Trade Organisation ("WTO"), the Company incurred additional expenses for the termination of the employment of approximately 2,320 employees to enhance the competitive power of the Company. Such expenses, together with reduction in the Company's production, brought a certain amount of losses to the Company. Facing the difficult market situation, the Company, through its calm observation, conscientious thinking and enterprising spirit, was able to cope with the situation calmly and accomplish the following tasks, by adhering to the established development strategies of the Company:



*Mr. Du Guosheng  
Chairman of the Board  
of Directors*

- 1) Continue to implement the production capacity expansion program. In 2001, the Company accelerated the pace of its technology renovation program, overcame the difficulties in carrying out production while construction and renovation of cracking furnaces was under way and completed the Ethylene Project and other auxiliary projects, which further enhanced the competitive edge of the Company in the domestic market and laid a solid foundation for further development of the Company in the future.
- 2) Enhance management and lower costs to improve efficiency. In 2001, the Company continued to increase the usage of substitute cracking feedstock, which enabled the Company to further reduce production costs. The Company adopted stricter administrative measures with respect to the procurement of naphtha, butadiene, benzene and other materials from outside sources by tender and via the Internet to further lower the procurement costs of the Company.
- 3) Improve product mix actively in order to meet market demands. In 2001, the Company made full utilisation of its advantages in terms of quality and variety of resins and plastics and other products. By developing and manufacturing special resins and plastics with high profit margin, the Company improved the profit margin rates of its products. In 2001, the sales of this category of products amounted to 260,000 tons, accounting for 47.9% of the sales of resins and plastics.
- 4) Strengthen sales and marketing activities. In 2001, the management of the Company further improved the sales mechanism of the Company and greatly strengthened sales activities by formulating flexible marketing strategies. The manufacturing schedules were based on sales prospects and purchase orders. The sales to production ratio of principal products of the Company exceeded 100%, thus successfully accomplished the sales target.

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The audited net loss of the Company for the year ended 31st December, 2001 amounted to RMB 283.4 million (in 2000 the audited net profit was RMB 347.8 million). The amount of sales was RMB 5,954.5 million (a decrease of 23.9% from RMB 7,824.5 million in 2000). The board of directors of the Company (the "Board") has decided not to declare a dividend for 2001.

Looking forward to 2002, the formal accession of China to the WTO will not only intensify market competition, but will also exert significant pressure on the production and operation of the petrochemical industry in China. However, the Board is confident that the Company will take the opportunity of the continuous growth of China's economy and China's accession to the WTO to achieve satisfactory operating results through continuous implementation of its development strategies. These strategies include:

- 1) Further expand production capacity in order to build up the competitive advantage of the Company's products. In 2002, the Company intends to fully utilise the increased production capacity of the ethylene units and the full-capacity operation of the newly built LDPE unit and other units, in order to achieve improved economies of scale and further improve its competitive advantages.
- 2) Increase production efficiency through prudent operational planning. In 2002, the Company will endeavor to produce marketable quality products through optimisation of ethylene materials and balanced use of materials. In addition, the Company intends to improve the efficiency of its production units by extending the operating period of equipment and minimising the occurrence of unscheduled shutdowns.
- 3) Increase production of products with high added value by adopting a market orientated approach. In 2002, the Company will continue to adjust its product mix to improve and strengthen its profitability. With the commissioning of the new LDPE unit, the Company will continue to develop special-purpose materials with high market demand and high added value, the supply of which in China currently relies mainly on imports. The Company will strive to further increase the sales proportion of special-purpose materials used for producing synthetic resin.
- 4) Further strengthen and improve sales and marketing activities. In 2002, the Company will continue to strengthen its sales and marketing activities through reform of its sales mechanism. Through close cooperation between the production, research and development departments, the Company will strive to adjust its production plans in a timely manner in order to meet market changes and the different needs of different customers. Furthermore, the Company will further develop its business in the international market to increase export of products and enhance the competitiveness of the Company's products in the international market.

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Finally, I would like to extend my sincere gratitude to all the Company's staff who, when faced with the difficult circumstances in both production and operations and challenged with arduous tasks of reform and development, overcame the difficulties with realism, hard work and a keen determination to succeed. It is my belief that the Company is uniquely positioned to achieve further success in its operations and to give satisfactory return to its shareholders.

On behalf of the Board of Directors

**Du Guosheng**

Chairman

28th March, 2002, Beijing, the PRC