

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 31 December 2002.

In 2002, despite the retardation in the development of the overall world economy, the demand for petrochemicals remained strong as the economy of China continued to grow at a high speed. During the reporting period, as a result of China's accession to the World Trade Organisation ("WTO"), costs of importing petrochemicals into China have been reduced. China's accession to the WTO also have a huge impact on Chinese enterprises in terms of management mechanism. Facing the intensified market challenges, the Company, through its calm observation, conscientious thinking and the ability to seize opportunities, was able to cope with the situation serenely and to 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 2002, the Company made full use of its economies of scale after completion of the rebuilding and expansion of the Company's Ethylene Project, and established a solid foundation for the Company to establish its competitive edge in the domestic market through the high-load smooth operation, which has not only achieved the highest overall efficiency in the production all of major products over the past years, but also reduced unit costs in production. The sales volume of the eight main products of the Company has seen a growth of 81.6% as compared with that of 2001.
- 2) *Enhance management and lower costs to improve efficiency.* In 2002, the Company made full utilisation of its advantages gained in the technology renovation program in connection with the Ethylene Project, and continued to improve on the cracking feedstock, which has pushed the product yield of ethylene to the highest level in history and further reduced production costs. The Company adopted stricter administrative measures with respect to procurement of naphtha, butadiene, benzene and other materials from outside sources by integration of the supply system, 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 2002, the Company seized the opportunity to commence operation of the newly built LDPE units, and made full utilisation of its advantages in terms of quality and variety of resin, plastic and other products. By developing and manufacturing special resin and plastics with high profit margin, the Company improved the profit margin rate of its products. In 2002, the total output of the new products made of synthetic resin developed by the Company reached approximately 200,000 tons, whilst the sales of the materials used in the production of synthetic resin amounted to 538,900 tons, accounting for 56.7% of the sales of resin and plastic, with an increase of 5.2% compared with that over the same period of 2001.
- 4) *Strengthen sales and marketing activities.* In 2002, facing the challenges brought about by China's accession to the WTO, the management of the Company further improved the sales mechanism of the Company and greatly strengthened sales activities by formulating flexible marketing strategies. Products were manufactured upon purchase orders placed by customers and taking into account their sales prospects. The sales to production ratio of the principal products of the Company was maintained at a very high rate, thus successfully accomplished the sales target.

CHAIRMAN'S STATEMENT

The audited net profit of the Company for the year ended 31 December 2002 amounted to RMB 209 million (2001: audited net loss of RMB 272 million). The amount of sales was RMB 9,443 million, with an increase of 58.0% from RMB 5,975 million in 2001. 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 has accumulated losses of RMB 91 million, 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.

Looking forward to 2003, the Board believes that internationalisation will be a more common phenomenon in the domestic market of China as a result of China's accession to the WTO. The establishment and commencement of production of a number of joint venture petrochemical enterprises will not only intensify market competition, but also exert significant pressure on the production and operation of the petrochemical industry in China. Nevertheless, the Board is confident that the momentum of continuous growth of China's economy will further stimulate the increase in demand for petrochemical products. The Company will, on the basis of perfecting the reorganisation of its internal business flow, make use of the advantages gained in the completion of the technology renovation program in connection with the Ethylene Project and further improve the operating results of the Company through continuous implementation of its development strategies. These strategies include:

- 1) *Vigorously carry forward the technical improvement and technical advancement to guarantee the sustainable development of the enterprise.* In 2003, the Company intends to fully utilise the increased production capacity of the ethylene units through further eliminating the bottleneck in such ethylene units with a view to attain the business concept of "not for the largest, but for the best" and thereby guarantee the sustainable development of the Company through increasing production capacity and improving quality as well as reducing consumption of materials and energy.
- 2) *Increase production efficiency through prudent operational planning.* In 2003, the Company will arrange the shutdown and overhaul of certain units and use its best endeavor to produce marketable quality products through closely adhering to the optimisation of ethylene materials and balanced use of materials. In addition, the Company intends to improve the efficiency of its production units by improving the performance of the equipment and 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 2003, the Company will continue to adjust its product mix to improve and strengthen its profitability through its close cooperation with scientific research institutions. Based on a full market research, the Company will be able 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) *Adhere to the policy of integrating production, supply, sales and research, and improve sales and marketing activities.* In 2003, the Company will continue to strengthen its sales and marketing activities based on its former experiences. Through close cooperation between the various departments such as supply, production, sales and research, the Company will further harmonise the operations of those departments and strive to adjust its production plans in a timely manner in order to meet market changes and the different needs of different customers. The Company will also reinforce its efforts in conducting market analysis, improving its ability to meet market changes, avoiding market risks and enhancing the economic efficiency by continuing to adopt the sales strategies of "follow the market, maintain stable production-sales ratio, and obtain the maximum sales price".

CHAIRMAN'S STATEMENT



With concurrent listings on the SEHK and NYSE, the Company is subject to and is committed to meeting the most stringent disclosure requirements imposed on it. The Company has formulated internal controls policies which apply to the Company as a whole and each of its principal operating divisions. These policies are intended to comply with the new rules adopted by the Securities Exchange Commission of the United States that apply to public companies and are reviewed regularly to maintain and improve the Company's standards for internal management.

Finally, I would like to extend my sincere gratitude to all the Company's staff who, when faced with 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

11 April 2003, Beijing, PRC