



# 中國石化北京燕化石油化工股份有限公司

## SINOPEC BEIJING YANHUA PETROCHEMICAL COMPANY LIMITED

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*



INTERIM REPORT 2003

**SINOPEC BEIJING YANHUA PETROCHEMICAL COMPANY LIMITED  
INTERIM RESULTS  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2003**

**Dear Shareholders:**

The board of directors of Sinopec Beijing Yanhua Petrochemical Company Limited (the "Company") is pleased to announce the unaudited interim results for the six-month period ended 30 June 2003 (the "Reporting Period").

During the first half of 2003, the economy of the People's Republic of China (the "PRC") grew at great momentum with its gross domestic product ("GDP") for the first quarter of 2003 increased by 9.9%, which has tremendously increased the market demand and the price of domestic petrochemical products in the PRC. In the second quarter of 2003, the outbreak of the war in Iraq resulted in intense fluctuations in the price of crude oil in the international market, whilst the outburst of the Severely Acute Respiratory Syndrome ("SARS") in the PRC has again yielded adverse effect on the sale of the products. Facing these adverse elements, the management of the Company maintained a clear focus and responded in a timely and proper fashion to have the effect of these adverse elements eliminated to the furthest extent possible, and thereby largely improved the business performance of the Company during the Reporting Period, as compared with that of the previous year.

During the first half of 2003, the Company achieved total sales of RMB5,493.5 million, representing an increase of 30.0% as compared with that of the same period in the previous year. The profit from ordinary activities before taxation and the profit attributable to shareholders were RMB297.7 million and RMB192.2 million, respectively, representing an increase of 356.6% and 481.2% as compared to those of the same period in 2002.

**INTERIM FINANCIAL REPORT (UNAUDITED) PREPARED IN ACCORDANCE WITH INTERNATIONAL ACCOUNTING STANDARD (“IAS”) 34 “INTERIM FINANCIAL REPORTING” (see note 1)**

**Income statement (unaudited)**

(Amounts in thousands of Renminbi (“RMB”), except per share data)

	<i>Note</i>	<b>Six-month periods ended 30 June</b>	
		<b>2003</b>	<b>2002</b>
		<b>RMB</b>	<b>RMB</b>
Turnover		5,493,482	4,224,370
Cost of sales		<u>(4,783,443)</u>	<u>(3,821,165)</u>
Gross profit		710,039	403,205
Selling, general and administrative expenses		(315,583)	(230,008)
Other operating income		6,551	9,375
Other operating expenses		<u>(12,960)</u>	<u>(4,172)</u>
Profit from operations		388,047	178,400
Net financing costs		<u>(90,298)</u>	<u>(113,207)</u>
Profit from ordinary activities before taxation	3	297,749	65,193
Income tax expense	4	<u>(105,512)</u>	<u>(32,119)</u>
Profit attributable to shareholders		<u>192,237</u>	<u>33,074</u>
Basic earnings per share	6	<u>0.057</u>	<u>0.010</u>

The notes on pages 6 to 12 form part of this interim financial report.

**Balance sheet (unaudited)**

( Amounts in thousands of RMB )

		<u>At 30 June 2003</u>	<u>At 31 December 2002</u>
	<i>Note</i>	<b>RMB</b>	<b>RMB</b>
<b>ASSETS</b>			
Non-current assets			
Property, plant and equipment		7,533,639	7,900,990
Deferred tax assets		327,740	330,450
Total non-current assets		<u>7,861,379</u>	<u>8,231,440</u>
Current assets			
Inventories		857,739	985,119
Trade receivables	7	314,579	285,594
Bills receivable	7	115,406	232,609
Prepayments and other current assets		227,043	262,410
Cash and cash equivalents		<u>209,440</u>	<u>262,635</u>
Total current assets		<u>1,724,207</u>	<u>2,028,367</u>
Current liabilities			
Trade payables	8	64,299	150,185
Bills payable	8	100,000	130,000
Accruals and other payables		590,240	587,573
Income tax payable		40,311	-
Bank loans		1,426,409	1,776,402
Loans from parent companies and fellow subsidiaries		150,000	380,000
Total current liabilities		<u>2,371,259</u>	<u>3,024,160</u>
Net current liabilities		<u>(647,052)</u>	<u>(995,793)</u>
Total assets less current liabilities		<u>7,214,327</u>	<u>7,235,647</u>

**Balance sheet (unaudited) (Continued)**

(Amounts in thousands of RMB)

	<i>Note</i>	<u>At 30 June 2003</u>	<u>At 31 December 2002</u>
		<b>RMB</b>	<b>RMB</b>
Non-current liabilities			
Bank loans		1,719,379	1,927,543
Deferred tax liabilities		280,764	286,157
Total Non-current liabilities		<u>2,000,143</u>	<u>2,213,700</u>
Net assets		<u>5,214,184</u>	<u>5,021,947</u>
Shareholders' equity			
Share capital		3,374,000	3,374,000
Share premium		774,630	774,630
Reserves	9	7,966	12,908
Retained earnings	9	<u>1,057,588</u>	<u>860,409</u>
Total shareholders' equity		<u>5,214,184</u>	<u>5,021,947</u>

Approved and authorised for issue by the Board of Directors on 15 August 2003.

**Du Guosheng**  
Chairman

**Guo Hong**  
Chief Financial Officer

The notes on pages 6 to 12 form part of this interim financial report.

**Condensed cash flow statement (unaudited)**

(Amounts in thousands of RMB)

	Six-month periods ended 30 June	
	<b>2003</b>	<b>2002</b>
	<b>RMB</b>	<b>RMB</b>
Net cash generated from operating activities	827,407	397,981
Net cash used in investing activities	(92,445)	(391,918)
Net cash used in financing activities	(788,157)	(51,013)
Net decrease in cash and cash equivalents	(53,195)	(44,950)
Cash and cash equivalents at the beginning of the period	262,635	276,140
Cash and cash equivalents at the end of the period	209,440	231,190

**Statement of changes in equity (unaudited)**

(Amounts in thousands of RMB)

	<b>Share capital</b>	<b>Share premium</b>	<b>Reserves</b>	<b>Retained earnings</b>	<b>Total</b>
	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>
At 1 January 2003	3,374,000	774,630	12,908	860,409	5,021,947
Net profit	-	-	-	192,237	192,237
Revaluation surplus realised	-	-	(4,942)	4,942	-
At 30 June 2003	3,374,000	774,630	7,966	1,057,588	5,214,184
At 1 January 2002	3,374,000	774,630	17,098	647,120	4,812,848
Net profit	-	-	-	33,074	33,074
At 30 June 2002	3,374,000	774,630	17,098	680,194	4,845,922

## Notes on the Unaudited Interim Financial Report

### 1. Principal activities and basis of preparation

Sinopec Beijing Yanhua Petrochemical Company Limited (the "Company") was incorporated as a joint stock company with limited liability in the People's Republic of China (the "PRC") on 23 April 1997 as part of the reorganisation ("Reorganisation") of Beijing Yanshan Petrochemical Group Company ("Yanshan Company") in preparation for the listing of the Company's shares. The Company's shares and American Depository Shares ("ADSs") were listed on the Hong Kong Stock Exchange and the New York Stock Exchange respectively in June 1997.

Upon the completion of the Reorganisation, the Company became a subsidiary of Yanshan Company. On 25 February 2000, China Petrochemical Corporation ("Sinopec Group"), underwent a reorganisation, and established a subsidiary, China Petroleum and Chemical Corporation ("Sinopec"). In accordance with the reorganisation agreement, Yanshan Company, previously the Company's parent company, transferred its 70% equity interest in the Company to Sinopec.

The principal activities of the Company are the manufacturing and sale of petrochemical products in the PRC.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports", issued by the Hong Kong Society of Accountants. KPMG's independent review report to the Board of Directors is included on page 13.

The interim financial report has been prepared in accordance with the requirements of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), including compliance with IAS 34 "Interim Financial Reporting" adopted by the International Accounting Standards Board ("IASB").

The financial information relating to the financial year ended 31 December 2002 included in the interim financial report does not constitute the Company's annual accounts for that financial year but is derived from those accounts. Annual accounts for the year ended 31 December 2002 are available from the Company's registered office. The Company's independent auditors have expressed an unqualified opinion on those accounts in their report dated 11 April 2003.

The accounting policies have been consistently applied by the Company and are consistent with those adopted in the 2002 annual accounts. The 2002 annual accounts have been prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the IASB. IFRS includes International Accounting Standards and related interpretations issued and adopted by the IASB.

## 2. Segment information

	Six-month periods ended 30 June	
	<u>2003</u>	<u>2002</u>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>External sales</b>		
Resins and Plastics	2,902,849	2,509,283
Synthetic Rubber	878,229	587,923
Basic Organic Chemical Products	1,406,757	884,260
Others	305,647	242,904
Total external sales	<u>5,493,482</u>	<u>4,224,370</u>
<b>Cost of sales</b>		
Resins and Plastics	2,650,511	2,218,128
Synthetic Rubber	685,224	508,101
Basic Organic Chemical Products	1,134,862	845,641
Others	312,846	249,295
Total cost of sales	<u>4,783,443</u>	<u>3,821,165</u>
<b>Segment results</b>		
Resins and Plastics	252,338	291,155
Synthetic Rubber	193,005	79,822
Basic Organic Chemical Products	271,895	38,619
Others	(7,199)	(6,391)
Total segment results	<u>710,039</u>	<u>403,205</u>
Selling, general and administrative expenses	315,583	230,008
Net financing costs	90,298	113,207
Other operating expenses/ (income), net	6,409	(5,203)
Profit from ordinary activities before taxation	<u>297,749</u>	<u>65,193</u>

In view of the fact that Company operates mainly in the PRC, no geographical segmental information is presented.

### 3. Profit from ordinary activities before taxation

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

	<b>Six-month periods ended 30 June</b>	
	<b>2003</b>	<b>2002</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Interest expense	86,603	115,106
Less: amount capitalised	(7,131)	( 13,546)
Interest expense, net	79,472	101,560
Cost of inventories	4,783,443	3,821,165
Depreciation	450,374	405,279
Loss/ (gain) on disposal of property, plant and equipment	6,540	(3)

### 4. Income tax expense

Income tax expense in the income statement represents :

	<b>Six-month periods ended 30 June</b>	
	<b>2003</b>	<b>2002</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Provision for PRC income tax	108,195	-
Deferred taxation	(2,683)	32,119
	105,512	32,119

The provision for PRC income tax is calculated at the rate of 33% (2001: 33%) on the estimated assessable income of the period determined in accordance with relevant income tax rules and regulations of the PRC. The Company did not carry on business overseas and in Hong Kong and therefore did not incur any overseas and Hong Kong income tax.

## 5. Dividends

The Directors do not recommend the payment of an interim dividend for the Reporting Period(2002: Nil).

## 6. Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders for the period of RMB 192,237,000 (2002: RMB 33,074,000) and 3,374,000,000 (2002: 3,374,000,000) shares in issue during the Reporting Period.

Diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence during both periods.

## 7. Trade receivables and bills receivable

	<u>At 30 June 2003</u>	<u>At 31 December 2002</u>
	RMB'000	RMB'000
Trade receivables		
— Third parties	380,138	346,615
— Parent companies and fellow subsidiaries	103,592	97,941
Less: Allowance for doubtful accounts	<u>( 169,151)</u>	<u>( 158,962)</u>
Subtotal	<u>314,579</u>	<u>285,594</u>
Bills receivable		
— Third parties	107,227	198,034
— Parent companies and fellow subsidiaries	8,179	34,575
Subtotal	<u>115,406</u>	<u>232,609</u>
Total	<u><u>429,985</u></u>	<u><u>518,203</u></u>

**7. Trade receivables and bills receivable (Continued)**

The ageing analysis of trade receivables and bills receivable is as follow:

	<u>At 30 June 2003</u>	<u>At 31 December 2002</u>
	RMB'000	RMB'000
Within one year	306,760	348,863
Between one and two years	43,717	92,257
Between two and three years	32,260	61,117
Over three years	216,399	174,928
Less : Allowance for doubtful accounts	(169,151)	(158,962)
	<u>429,985</u>	<u>518,203</u>

Sales are generally on a cash term. Subject to negotiation, credit is generally only available for major customers with well-established trading records.

**8. Trade payables and bills payable**

	<u>At 30 June 2003</u>	<u>At 31 December 2002</u>
	RMB'000	RMB'000
Trade payables		
— Third parties	52,287	77,852
— Parent companies and fellow subsidiaries	12,012	72,333
Subtotal	<u>64,299</u>	<u>150,185</u>
Bills payable		
— Parent companies and fellow subsidiaries	100,000	130,000
Total	<u>164,299</u>	<u>280,185</u>

The ageing analysis of accounts payable and bills payable is as follow:

	<u>At 30 June 2003</u>	<u>At 31 December 2002</u>
	RMB'000	RMB'000
Due within three months or on demand	58,923	137,477
Due after three months and within six months	100,000	130,000
Due after six months	5,376	12,708
	<u>164,299</u>	<u>280,185</u>

## 9. Reserve movement

No transfers have been made to the statutory surplus reserve, the statutory public welfare fund nor the discretionary surplus reserve from the income statement for the period (2002: Nil).

## 10. Related party transactions

A significant portion of the transactions undertaken by the Company is with, and on terms determined by Sinopec Group and Sinopec and its affiliates.

The following is a summary of significant related party transactions with Sinopec Group and Sinopec and its affiliates:

	<u>Six-month periods ended 30 June</u>	
	<u>2003</u>	<u>2002</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Sale of goods	736,011	1,076,767
Purchase of inventories	2,894,670	1,812,854
Utilities provided to the Company	504,893	492,045
Transportation and storage services provided to the Company	-	12,520
Social services (environmental protection, employee housing, health care, education, public security and other ancillary services) provided to the Company	31,940	31,920
Construction and repair services provided to the Company	113	7,110
Interest expenses paid	1,612	2,684
Interest income received	148	78
Technological development fees received	9,650	22,300
Insurance premium paid	23,975	12,067

## 11. Capital commitments

Capital commitments primarily relate to the purchase or construction of production facilities. Capital commitments outstanding at 30 June 2003 not provided for in the accounts were as follow:

	<u>At 30 June 2003</u>	<u>At 31 December 2002</u>
	<b>RMB'000</b>	<b>RMB'000</b>
Authorised and contracted for	108,939	67,385
Authorised but not contracted for	17,322	-
	<u>126,261</u>	<u>67,385</u>

## 12. Comparative figures

Certain comparative figures have been reclassified to conform with the current Reporting Period's presentation.



## **INDEPENDENT REVIEW REPORT**

To the Board of Directors of Sinopec Beijing Yanhua Petrochemical Company Limited

### **Introduction**

We have been instructed by the company to review the interim financial report set out on pages 2 to 12.

### **Respective responsibilities of directors and auditors**

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim financial reporting" adopted by the International Accounting Standards Board. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **Review work performed**

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

### **Review conclusion**

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six-month period ended 30 June 2003.

### **KPMG**

Certified Public Accountants

China, Hong Kong, 15 August 2003

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operation Review

In the first half of 2003, the sales of the Company was RMB5,493.5 million, representing an increase of 30.0% as compared with that of the same period in the previous year. During the Reporting Period, the economy of the PRC continued to grow at great momentum despite of the occurrence of SARS in the second quarter, which had limited impact on the growth of the PRC economy. The demand for and price of petrochemical products in the domestic market remained at a comparably high level. The average price of each of the eight principal products of the Company increased by 27.8% as compared with those of the same period in the previous year.

During the first half of 2003, the Company continued to develop and manufacture specialised products to improve its product mix in order to maintain the competitiveness of the Company's products. For the same period, the percentage sales of specialised products, which in general command higher margins than generic products, to total sales of resins and plastics was 65.4%.

The following table sets out the comparative figures for the sales of the Company's principal products for the six months ended 30 June 2003 and 2002, respectively:

	For the six-month periods ended 30 June			
	2003 Sales (RMB'000)	Percentage of Company's Sales (%)	2002 Sales (RMB'000)	Percentage of Company's Sales (%)
<b>Principal Products</b>				
Resins and Plastics	2,902,849	52.8	2,509,283	59.4
Synthetic Rubber	878,229	16.0	587,923	13.9
Basic Organic				
Chemical Products	1,406,757	25.6	884,260	20.9
Others	305,647	5.6	242,904	5.8
Total	5,493,482	100.0	4,224,370	100.0

The following table shows the percentage of main business-related operating expenses in relation to the total sales of the Company:

	<b>Six-month periods ended 30 June</b>	
	<b>2003</b>	<b>2002</b>
	(%)	(%)
Sales	100.0	100.0
Less expenses:		
Raw materials	62.1	62.5
Fuel and power	11.0	13.2
Depreciation	8.2	9.6
Salary and bonus	1.8	2.1
Other production expenses	4.8	4.1
Selling, general and administrative expenses (exclusive of depreciation, salary and bonus)	5.0	4.3
Operating profit ratio	7.1	4.2

In the first half of 2003, the cost of goods sold of the Company increased from RMB3,821.2 million to RMB4,783.4 million, representing an increase of 25.2% as compared with that of the same period in 2002. This was mainly attributable to: (i) the increase in the price of cracking feedstock, which resulted in the corresponding increase in the expenses for the raw materials; (ii) increased depreciation caused by the completion and utilisation of the ethylene production unit expansion project; and (iii) increase in other production expenses as a result of the necessary shutdown and overhaul of certain units. Costs of cracking feedstock represents the largest portion of operational costs and accounted for 52.5% and 47.2% of the sales costs for 2003 and the first six months of 2002 respectively. In the first half of 2003, the costs for cracking feedstock amounted to RMB2,509.2 million, representing an increase of RMB707.1 million from RMB1,802.1 in the first half of 2002, or an increase of 39.2%. The average price of cracking feedstock in the first half of 2003 increased by 28.8% as compared to that of the same period last year.

For the Reporting Period, the Company's selling, general and administrative expenses increased from RMB230.0 million to RMB315.6 million as compared with the same period in 2002, representing an increase of 37.2%, which mainly resulted from the increase of the Company's bad debt provisions by approximately RMB31 million.

For the Reporting Period, financial expenses decreased from RMB113.2 million to RMB90.3 million as compared to that of the same period in 2002, representing a decrease of 20.2%, mainly attributable to the decrease in interest expense as a result of decrease in the long-term and short-term bank loans. Profit from ordinary activities before taxation amounted to RMB297.7 million, representing an increase of 356.6% from RMB65.2 million for the same period in 2002. The Company's net profit for the first six months of 2003 was RMB192.2 million, representing a net margin of 3.5%, as compared to the net profit of RMB33.1 million, with a net margin of 0.8%, in the same period of 2002.

## Sources of Working Capital and Other Capitals

The funding of the Company is sourced from the cashflow from its operation and bank loans, which were used mainly to cover its capital expenditure and working capital.

During the first half of 2003, the net cashflow from the Company's operations amounted to RMB827.4 million, representing an increase of RMB429.4 million as compared with that of the same period in 2002 which mainly includes (i) RMB297.7 million as profit before taxation; (ii) RMB450.4 million as total depreciation costs; and (iii) RMB127.4 million from the reduction of inventory. The increase in the cashflow from the operations helps to reduce the bank loans and reduce the interest expenditure of the Company.

The Company's short-term and long-term loans are mainly from financial institutions in the PRC. As of 30 June 2003, the Company's total outstanding loans decreased by RMB788.1 million from RMB4,083.9 million as of 31 December 2002 (RMB2,156.4 million of which is attributable to short-term loans) to RMB3,295.8 million (RMB1,576.4 million of which is attributable to short-term loans).

## Outlook for the Second Half of 2003

Over the first six months of 2003, the PRC's GDP increased by 8.2%. The economy of the PRC is expected to improve further in the second half of 2003, which will be beneficial in maintaining an increase in the demand for petrochemical products in the PRC.

The Company will fully utilise its unique position in the market in its continuing efforts to improve the efficiency of production through technical development and innovations. The Company also aims to increase the added value of the products through reasonable readjustment of the product mix on the basis of adequate market analysis and enhance the economic efficiency of the Company by strengthening marketing strategies. The Company's objective is to produce a satisfactory return to the shareholders of the Company.

**Interim Dividends**

The Company's board of directors has decided not to declare any interim dividends.

**Gearing Ratio**

In the first half of 2003, the Company's gearing ratio was 60.3% (in 2002: 73.8%). The decrease in the gearing ratio was mainly due to a decrease in both long-term and short-term debts of the Company during the Reporting Period. The gearing ratio is calculated by dividing the total of long-term and short-term bank loans by the total of the shareholders' equity.

**Contingent Liabilities**

As of 30 June 2003, the Company had no significant contingent liabilities.

**Purchase, Sale and Investment**

During the Reporting Period, there was no material purchase, sale or investment in connection with the Company's subsidiaries and associates.

**Pledges of Assets**

During the Reporting Period, there was no material pledge of assets.

**Exposure to Fluctuations in Exchange Rates and Any Related Hedges**

The Company is exposed to foreign exchange currency risk mainly as a result of its foreign currency denominated long-term debt and, to a limited extent, cash and cash equivalents denominated in foreign currencies. The Company had no foreign currency hedging activity during the Reporting Period.

**CAPITAL STRUCTURE**

The Company's capital structure as of 30 June 2003 was as follows:

Class of shares	Number of shares	Percentage of total issued share capital
Domestic shares held by Sinopec	2,362,000,000	70.0%
Foreign shares (in the form of H shares)	1,012,000,000	30.0%
Total	3,374,000,000	100.0%

**SUBSTANTIAL SHAREHOLDERS**

As of 30 June 2003, shareholders holding over 10% of the share capital of the Company were as follows:

Class of shares	Number of shares	Percentage of total issued share capital
Sinopec	2,362,000,000	70.0%
HKSCC Nominees Limited	978,320,999	29.0%

**PURCHASE, SALE AND REDEMPTION OF THE LISTED SHARES OF THE COMPANY**

The Company did not purchase, sell or redeem any of the listed shares of the Company during the Reporting Period.

**DIRECTORS' AND SUPERVISORS' INTERESTS**

As of 30 June 2003, none of the Company's directors, supervisors or chief executives, including their spouses and/or children under 18 years of age, received beneficial interest in the issued shares or any other rights to subscribe for shares in the Company.

**UNIFORM INCOME TAX RATE AND LOCAL TAXATION BENEFITS**

The Company is subject to the PRC's income tax rate of 33%. The Company is not aware of any governmental policy changes that will potentially affect the Company's tax rate.

## TRUST DEPOSIT

As of 30 June 2003, the Company did not have any trust deposits with any financial institutions in the PRC. The Company has not encountered any withdrawal difficulties with respect to its deposits.

## EMPLOYEE HOUSING SCHEME

In accordance to 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 measures for payment of housing subsidies including increasing wages or making a lump sum payment to qualified employees. Once determined, these measures will be reflected in the accounts of the next relevant year. As disclosed in the Company's prospectus dated on 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.

## DISCLOSURE OF MAJOR EVENTS

- (1) At the Shareholders' Meeting of the Company for Year 2002 held on 27 June 2003, 12 people including Du Guosheng, Wang Yuying, Wang Yongjian, Yang Qingyu, Wang Ruihua, Xu Hongxing, Cui Guoqi, Xiang Hanyin, Yang Xuefeng, Zhang Yanning, Liu Haiyan and Zhang Haoruo comprised the third session of board of directors of the Company, amongst whom, Mr. Yang Xuefeng, Mr. Zhang Yanning, Mr. Liu Haiyan and Mr. Zhang Haoruo acted as independent non-executive directors of the Company; nine people including Shang Bo, Ren Jinxiang, Wang Guifen, Wang Shulan, Liu Changwei, Rong Guozhong, Zhang Jianjun, Geng Dianming and Zhao Shaohua comprise of the third session of the board of supervisors of the Company, among whom, Mr. Geng Dianming and Mr. Zhao Shaohua acted as the independent supervisors of the Company.
- (2) On the first meeting of the third session of the board of directors held on 27 June 2003, Mr. Du Guosheng was elected as the Chairman of the board of the Company, and Mr. Yang Qingyu was elected as the vice chairman of the board. It was resolved that, Mr. Xu Hongxing is engaged as the general manager of the Company, and Mr. Zhao Qichao the deputy general manager of the Company; Mr. Guo Hong was retained as the chief financial officer of the Company, and Mr. Zhou Quansheng the secretary of the board of the company; and it was resolved that an audit committee was established comprising of Yang Xuefeng, Zhang Yanning, Liu Haiyan and Zhang Haoruo, and Mr. Yang Xuefeng was elected as the chair person of the audit committee.
- (3) On the first meeting of the third session of the board of supervisors held on 27 June 2003, Mr. Shang Bo was elected as the chairman of the board of supervisors.

## CODE OF BEST PRACTICE

None of the Company's directors is aware of any information that would reasonably indicate that the Company is not or was not, during the Reporting Period, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

On behalf of the Board of Directors

**Du Guosheng**

Chairman

Beijing, PRC

15 August 2003

## DOCUMENTS AVAILABLE FOR INSPECTION

The full text of the Interim Report and Interim Financial Report signed by the Chairman is available for inspection at the company secretary office, No. 1 Beice, Yingfeng Erli, Yanshan, Fangshan District, Beijing, the PRC.

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