

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, 2000.

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, 2000 and its financial position as at 31st December, 2000 are set out in the audited income statements and balance sheets prepared in accordance with IAS.

Proposed Profit Appropriations

For the year ended 31st December, 2000, the appropriations of profit as reserves and dividends which were proposed by the Board of Directors are set out in note 10 and note 17 to the financial statements of this annual report, respectively.

The proposed profit appropriations will be presented to shareholders for approval at the forthcoming annual general meeting to be held on 18th June, 2001 (the "AGM").

Dividends

The Company did not declare any interim dividends for the six-month period ended 30th June, 2000.

The Board of Directors resolved on 12th April, 2001 to recommend to the shareholders that a final dividend of RMB0.04 per share be paid to all shareholders in respect of the year ended 31st December, 2000.

Shareholders whose names appear on the Register of Members at the close of business on 18th May, 2001 will qualify for the final dividends. The Register of Members will be closed from 19th May to 18th June, 2001, both days inclusive, and no transfer of the Company's shares may be effected during this period.

REPORT OF THE BOARD OF DIRECTORS

In order to qualify for the final dividends, all transfer forms must be lodged together with the relevant share certificates at the Company's share registrars, HKSCC Registrars Limited, 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong, before 4:00 p.m. on 18th May, 2001, the last trading day before the Register of Members is closed.

The proposed final dividends, totaling RMB135.0 million for the year ended 31st December, 2000, will be paid, subject to shareholders' approval at the AGM on 18th June, 2001, to qualified shareholders on or before 2nd July, 2001.

In accordance with the Articles of Association of the Company, the dividend for domestic shares will be paid in Renminbi while the dividend for H shares will be paid in Hong Kong dollars. The exchange rate (RMB1.00=HK\$0.94222) is based on the average of the closing exchange rates for Hong Kong dollars as announced by the People's Bank of China during the calendar week preceding the date on which the dividend is declared.

Shares and Shareholders

1. Trading of Shares

Highest traded price during the year	(H Shares)	18th August, 2000	HK\$1.33
	(ADS)	7th August, 2000	US\$11.88
Lowest traded price during the year	(H Shares)	5th April, 2000	HK\$0.60
	(ADS)	4th April, 2000	US\$3.938
Total transaction volume for the year	(H Shares)	3,444,893,200 Shares	
	(ADS)	5,516,910 ADSs	

2. Share Capital

As at 31st December, 2000, 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 RMB1.00 each	2,362,000	70.0
Foreign shares (in the form of H shares) of RMB1.00 each	1,012,000	30.0
Total	3,374,000	100.0

3. Purchase, Sale or Redemption of the Company's Listed Securities

During the year 2000, there was no purchase, sale, redemption or cancellation of any of the Company's 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.

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, 2000, 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	967,996	28.7

Other than the information stated above, the Company is not aware of any interests required to be kept by the Company 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, 2000.

Upon the incorporation of New Sinopec on 25th February, 2000, the domestic shares of the Company (accounting for 70% of the Company's issued share capital) were transferred from Yanshan Company to New Sinopec.

Connected Transactions

Amounts involved in connected transactions during the year are set out in note 16 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, the SEHK has granted waivers to the Company from strict compliance with the Rules Governing the Listing of Securities on the SEHK (the “Listing Rules”) in respect of certain 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.

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 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. Connected Transactions

The SEHK has reaffirmed with the Company the conditional waivers in relation to the connected transactions described in the Prospectus whereby the Company will be waived from strict compliance with the provisions of the Listing Rules with respect to continuous disclosure and shareholders' approval. Such waivers remain valid after Sinopec Group, being the former ultimate controlling shareholder of the Company, has completed its reorganization.

Upon reorganization of Sinopec Group, Yanshan Company, being the former major shareholder of the Company, and its associates as parties to transactions with the Company which are covered by the waivers shall be novated to New Sinopec and its associates, as relevant. As the ultimate controlling shareholder of the Company remains unchanged, SEHK has confirmed that such waiver will remain valid.

2. Change of the Company Name

As resolved at the annual general meeting of the Company for the year ended 31st December, 1999, the name of the Company has been changed to 中國石化北京燕化石油化工有限公司 (Sinopec Beijing Yanhua Petrochemical Company Limited). This change was approved by the relevant PRC government authority on 8th December, 2000.

3. Controlling Shareholder

New Sinopec was incorporated on 25th February, 2000 as a result of the reorganization of Sinopec Group, which is the ultimate controlling shareholder of the Company. As part of such reorganization, Yanshan Company, the former controlling shareholder of the Company, has transferred to New Sinopec 2,362,000,000 Domestic Shares it held in the Company, representing 70% of the total outstanding share capital of the Company. Hence, New Sinopec has become the controlling shareholder of the Company.

REPORT OF THE BOARD OF DIRECTORS

Changes in Directors, Supervisors and Other Executive Officers

1. Directors

At the annual general meeting of the Company in 1999, held on 5th June, 2000, Mr. Du Guosheng, Mr. Yang Qingyu, Mr. Wang Ruihua, Mr. Xu Hongxing, Mr. Wang Yongjian, Mr. Zhao Qichao, Mr. Qi Jiren, Ms. Wang Yuying, Mr. Situ Zexiang, Mr. Sun Bingyi, Mr. Wang Caijun, Mr. Cui Guoqi, Mr. Li Kejun, Mr. Rui Xingwen and Mr. Zhang Yanning were appointed to constitute the new Board of Directors of the Company. Mr. Du Guosheng was appointed the Chairman of the Company at the first meeting of the new Board of Directors.

2. Supervisors

At the annual general meeting of the Company in 1999, held on 5th June, 2000, Mr. Shang Bo, Ms. Tao Guiying, Mr. Wang Yihe, Ms. Wang Shulan, Mr. Wang Weijun, Mr. Yang Wancheng and Mr. Zhang Jinlong were appointed to constitute the new Board of Supervisors of the Company. Mr. Shang Bo was appointed the Chairman of the new Board of Supervisors of the Company at the first meeting of the new Board of Supervisors.

3. Other executive officers

At a meeting of the Board of Directors held on 12th April, 2000, the Board of Directors appointed Mr. Li Gang as a Deputy General Manager of the Company, and discharged Mr. Zheng Yukun from his duty as Deputy General Manager.

Details of the Current Directors and Supervisors of the Company

Name	Position	Sex	Age	Term of Office	Annual Emolument and Allowances
*Du Guosheng	Chairman	M	44	Until June 2003	-
*Yang Qingyu	Director	M	54	Until June 2003	-
*Wang Ruihua	Director	M	53	Until June 2003	-
*Xu Hongxing	Director	M	42	Until June 2003	-
*Wang Yongjian	Director	M	41	Until June 2003	-
Zhao Qichao	Director & General Manager	M	40	Until June 2003	80,717
Qi Jiren	Director	M	59	Until June 2003	85,975
	and Deputy General Manager and Chief Accountant				
*Wang Yuying	Director	F	54	Until June 2003	-
*Situ Zexiang	Director	M	57	Until June 2003	-
*Sun Bingyi	Director	M	55	Until June 2003	-
*Wang Caijun	Director	M	55	Until June 2003	-
*Cui Guoqi	Director	M	47	Until June 2003	-
Li Kejun	Director	M	41	Until June 2003	83,210
*Rui Xingwen	Independent Director	M	74	Until June 2003	-
*Zhang Yanning	Independent Director	M	74	Until June 2003	-
*Shang Bo	Chairman	M	53	Until June 2003	-
	of Supervisor Committee				
*Tao Guiying	Supervisor	F	53	Until June 2003	-
*Wang Yihe	Supervisor	M	52	Until June 2003	-
*Wang Shulan	Supervisor	F	46	Until June 2003	-
Wang Weijun	Supervisor	M	55	Until June 2003	83,515
Yang Wancheng	Supervisor	M	55	Until June 2003	88,147
Zhang Jinlong	Supervisor	M	56	Until June 2003	63,319

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

REPORT OF THE BOARD OF DIRECTORS

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

None of the Directors, Supervisors or senior management of the Company had, as of 31st December, 2000, any interests in any shares or debentures 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 1 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 any interests in warrants to subscribe for shares in the Company or any associated corporation (as so defined) 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, 2000 was RMB230,547, compared to RMB254,796 in 1999. The aggregate amount of non-cash remuneration (consisting solely of pension and retirement benefits) paid to Directors as a group in 2000 was RMB19,355, compared to RMB22,413 in 1999.

The aggregate amount of cash remuneration paid to the Supervisors as a group during the year ended 31st December, 2000 was RMB219,899, compared to RMB109,626 in 1999. The aggregate amount of non-cash remuneration (consisting solely of pension and retirement benefits) paid to Supervisor as a group in 2000 was RMB15,082, compared to RMB8,640 in 1999.

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, 2000, the Company had 13,584 employees as compared to 13,733 employees in 1999, representing a decrease of 149 employees.

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

The Ministry of Finance and certain provincial governments have gradually promulgated policies for the reform of housing allocation, eliminating the distribution of housing as a portion of staff benefits and, instead, providing for the offer of cash compensation to some eligible employees. The Company believes that housing subsidies constitute an essential factor for competitiveness in the Chinese labor market. In order to maintain the attractiveness of the wages and salaries offered by the Company, the Company has decided to formulate concrete housing subsidy schemes, envisaging the provision of compensation to eligible employees through wage increases and lump-sum payments. In subsequent years, once when the concrete subsidy schemes are in place, housing subsidies will be duly reflected in the Company's accounts for each year they constitute a responsibility of the Company. As detailed in the Company's Prospectus, Yanshan Company has agreed to pay all costs for the prospective implementation of the lump-sum housing subsidy schemes. Therefore, the Company expects no outward cash flow in this regard. Save as disclosed in the financial statements, there was no housing subsidy expenses during the reporting period.

REPORT OF THE BOARD OF DIRECTORS

Major Suppliers and Customers

For the year ended 31st December, 2000, 78.8% 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; 10.0% of purchases were attributable to the Company's five largest suppliers (excluding the Parent Company) in aggregate.

For the year ended 31st December, 2000, the aggregate amount of sales attributable to the Company's five largest customers, excluding Yanshan Company, represented less than 10.3% of the Company's turnover. The amount of sales attributable to Yanshan Company, the Company's largest customer, represented 16.5% of the Company's turnover.

At no time during the year have the Directors and Supervisors, their associates, or any shareholder 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 statements of changes in equity.

Property, Plant and Equipment

Movements in property, plant and equipment of the Company, during the year under review, 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, 2000 are set out in note 11 to the financial statements.

Interest Capitalised

Interest capitalised in the Company's property, plant and equipment during the year amounted to RMB49.0 million.

Taxation

For the year ended 31st December, 2000, the Company had been subject to the PRC's enterprise income tax of 33%. The Company is not aware of any government policy changes so far that may affect the Company's tax rate.

Details of the Company's taxation are set out in note 15 to the financial statements.

REPORT OF THE BOARD OF DIRECTORS

Auditors

A resolution for the reappointment of Arthur Andersen Co as auditors of the Company is to be proposed at the AGM to be held on 18th June, 2001.

Compliance with the Code of Best Practice

The Board of Directors has not established an audit committee for the review and supervision of the Company's financial reporting process and internal controls as set out in Section 14 of Appendix 14 (i.e. the Code of Best Practice) of the Listing Rules. However, a board of supervisors has been established within the organizational structure of the Company which has similar functions with an audit committee. The differences between them are that the board of supervisors is composed of seven members (among which one is a representative for the staff of the Company), that its members are selected and dismissed at the shareholders' meeting, and that it reports to the shareholders' meeting. Apart from the aforementioned, the Company's Directors are unaware of any circumstance which would indicate that the Company did not comply, or has not complied, with the Code of Best Practice during the accounting period covered by the medium term performance report.

Impact of Recent Economic Developments

The PRC economy in 2001 should continue its current rapid growth rate, which should also sustain the high growth in demand for petrochemical products. The Company believes that, through the implementation of various effective operating and development strategies, it can produce satisfactory return for the shareholders.

Trust Deposits

As at 31st December, 2000, 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.

By Order of the Board of Directors

Du Guosheng

Chairman

12th April, 2001, Beijing