

# SHENZHEN PETROCHEMICAL INDUSTRY (GROUP) CO., LTD.

## 2003 ANNUL REPORT SUMMARY

### §1. Important Notes

1.1 The Board of Directors of Shenzhen Petrochemical Industry (Group) Co., Ltd. (hereinafter referred to as the Company) individually and collectively accept responsibility for the correctness, accuracy and completeness of the contents of this report and confirm that there are no material omissions nor errors which would render any statement misleading. The summary of annual report 2003 is abstracted from the annual report; the investors are suggested to read the full text of annual report to understand more details.

1.2 No director stated that they couldn't ensure the correctness, accuracy and completeness of the contents of the Annual Report or have objection for this report.

1.3 All directors attended the Board meeting.

1.4 Huazheng Certified Public Accountants issued an Auditors' Report with unable to express opinion for the Company, to which and the Board of Directors and the Supervisory Committee made detailed explanations, the investors are suggested to read the content.

1.5 Chairman of the Board of the Company Mr. Li Nujiang and Person in Charge of Accounting Organ Mr. Wu Xianbiao hereby confirm that the Financial Report enclosed the Annual Report is true and complete.

1.6 The report is compiled in Chinese and English languages should there be difference in interpretation of the two languages, the Chinese version shall prevail.

### §2. Company Profile

#### 2.1 Basic information

Short form of the stock	*ST SPEC-A, *ST SPEC-B
Stock code	000013, 200013
Listed stock exchange	Shenzhen Stock Exchange
Registered address and office address	Registered address: SPEC Bldg., Hongli West Road, Futian District, Shenzhen Office address: 45, Wuhe Rd. S., Bantian, Buji, Longgang District, Shenzhen
Post code	518112
E-mail of the Company	spec0013@vip.sina.com

#### 2.2 Contact person and method

	<b>Secretary of the Board of Directors</b>
Name	Cai Jianping
Contact address	45, Wuhe Rd. S., Bantian, Buji, Longgang District, Shenzhen
Telephone	(86)755-84190844
Fax	(86)755-84190844
E-mail	spec0013@vip.sina.com

### §3. Summary of Accounting Data and Financial Indexes

#### 3.1 Major accounting data (Calculated according to the IAS) Unit: RMB'000

	2003	2002	Increase/decrease over last year ( % )	2001
Turnover	0	614,678	-100	727,826
Profit (Loss) before taxes	(309,773)	(482,056)	---	(2,216,603)
Profit (Loss) attributable to shareholders	(309,773)	(485,947)	---	(2,212,642)
	At the end of 2003	At the end of 2002	Increase/decrease from the end of previous year ( % )	At the end of 2001
Total assets	212,084	740,646	-71.4	1,006,653
Shareholder's equity	(2,406,774)	(2,097,001)	---	(1,645,311)
Net cash inflows from operating activities	504,821	26,989	---	4,634

#### 3.2 Major financial indexes (Calculated according to the IAS) (Unit: RMB)

	2003	2002	Increase/decrease over last year ( % )	2001
Earnings per share	(1.02)	(1.49)	---	(7.29)
Return on equity	---	---	---	---
Net cash flows per share arising from operating activities	1.66	0.09	---	0.02
	At the end of 2003	At the end of 2002	Increase or decrease from the end of previous year ( % )	At the end of 2001
Net assets per share	(7.93)	(6.93)	-	(5.42)
Net assets per share after adjustment	(7.93)	(6.96)	-	(5.52)

#### 3.3 Difference of net profit as audited by Chinese Accounting Standard (CAS) and International Accounting Standard (IAS)

Applicable                      Inapplicable

	Unit: RMB'000	
	<u>Loss attributable to shareholders</u>	<u>Net liabilities</u>
	RMB'000	RMB'000
As reported in the "A" shares consolidated audited statutory financial statements under the PRC accounting standards	(327,934)	(2,406,260)
IFRS adjustments		
Adjustment to capital reserve	454	—
Adjustment to provision for guarantees given to banks and customers/bank loans	23,423	—
Effect of non-consolidation of subsidiaries	(5,147)	—
Others	(569)	(514)
As reported after IFRS adjustments in the "B" shares financial statements	(309,773)	(2,406,774)
	=====	=====

## §4. Change in Share Capital and Particulars about Shareholders

### 4.1 Statement of change in share

	Before the change	Increase / decrease in this year (+ / -)		After the change
		Other	Subtotal	
<b>I. Unlisted shares</b>				
1. Sponsors' shares	164,546,553	0	0	164,546,553
Including: State-owned shares	164,546,553	-164,546,553	-164,546,553	0
Domestic legal person's shares		164,546,553	164,546,553	164,546,553
Foreign legal person's shares			0	0
Others			0	0
2. Raised legal person's shares	54,724,424	0	0	54,724,424
3. Inner employees' shares			0	0
4. Preference shares or others			0	0
Total unlisted shares	219,270,977	0	0	219,270,977
<b>II. Listed shares</b>				
1. RMB ordinary shares	51,324,002	0	0	51,324,002
2. Domestically listed foreign shares	32,760,000	0	0	32,760,000
3. Overseas listed foreign shares			0	0
4. Others			0	0
Total listed shares	84,084,002	0	0	84,084,002
<b>III. Total shares</b>	<b>303,354,979</b>	<b>0</b>	<b>0</b>	<b>303,354,979</b>

### 4.2 Statement of shares held by the top ten shareholders and the top ten shareholders of circulation share

Total number of shareholders at the end of report year		34,075				
Particulars about shares held by the top ten shareholders						
Full name of Shareholders	Increase / decrease in the report year (share)	Shares held at the year-end (share)	Proportion (%)	Type of shares (Circulating/Non-circulating)	Number of share pledged/frozen (share)	Nature of shareholders (State-owned shareholder/foreign shareholder)
Guangzhou Puliqi Communication Investment Co., Ltd.	164,546,553	164,546,553	54.24	Non-circulating	0	
Shenzhen Investment Holding Corporation	0	23,400,000	7.71	Non-circulating	0	State-owned shareholder
China Merchants Securities Co., Ltd.	0	19,380,532	6.39	Non-circulating	0	
Shenzhen Jingye Plastics Co., Ltd.	0	2,208,772	0.73	Non-circulating	0	
Quanzhou Fukang Investment Consultation Co., Ltd.	0	1,560,000	0.51	Non-circulating	0	
Shenzhen Orient Fortune Investment Co., Ltd.	0	1,560,000	0.51	Non-circulating	1,560,000	
China Everbright Securities Co., Ltd.	0	1,484,936	0.49	Non-circulating	1,484,936	
China Prime Investment Management Co., Ltd.	0	936,000	0.31	Non-circulating	0	
Chongqin Xinhua Trust Investment Co., Ltd.	0	780,000	0.26	Non-circulating	0	

NanHai Eastern Petrochemical Economic and Technology Development Corp.	0	780,000	0.26	Non-circulating	0	
Explanation on associated relationship among the top ten shareholders or consistent action	Among the above top ten shareholders, the Company is unknown whether there exists associated relationship or consistent action.					

#### Particulars about shares held by the top ten shareholders of circulation share

Name of shareholders (full name)	Number of circulation shares at the year-end	Type (A-share, B-share, H-share or others)
YU JIN XI	615,153	B
ZHENG RUI HONG	300,500	B
DING XIAO FENG	254,580	A
SIU MAN	243,500	B
CHENG SI YI	229,430	B
YANG QUAN KAI	210,000	B
QU KANG	199,200	B
SHI MIN QIANG	168,600	B
CHAN CHI KONG	158,950	B
GONG FENG MING	150,000	A

Explanation on associated relationship among the top ten shareholders of circulation share, the among the top ten shareholders of Company is unknown whether there exists associated relationship.

#### 4.3 Particulars about controlling shareholders and actual controller of the Company

##### 4.3.1 Particulars about change in controlling shareholders and actual controller of the Company

Applicable                      Inapplicable

Name of new controlling shareholder	Guangzhou Puliqi Communication Investment Co., Ltd.
Name of new actual controller	Guangzhou Puliqi Communication Investment Co., Ltd.
Date of change	Dec. 15, 2003
Publication date and newspaper	Securities Times and Ta Kung Pao dated Dec. 16, 2003

##### 4.3.2 Introduction of especial situation for controlling shareholder and other actual controller

###### Particulars about the controlling shareholder

1. Name: Guangzhou Puliqi Communication Investment Co., Ltd.
2. Registration address: Room F on 5/F, No. 36-38, Taojin Road, Dongshan District, Guangzhou
3. Registered capital: RMB 100 million
4. Registration number: 4401012040901
5. Type of enterprise: Limited Company
6. Business scope: computer, network, communication equipment, integrated terminal communication electron technology, sales of electron products; communication consultation and investment project using self-owned funds.
7. Date of foundation: Dec. 30, 1998
8. Name of shareholders: Wang Guofeng, Huang Wenqi

## §5. Particulars About Director, Supervisor and Senior Executives

### 5.1 Directors, supervisors and senior executives

Name	Title	Gender	Age	Office term	Shares	Shares	Reason for
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					held at the year-begin	held at the year-end	change
Xin Yu	Chairman of the Board, General Manager	Male	40	Nov. 2001 - 2004	0	0	
Ding Fuyi	Director	Male	49	Nov. 2001 - 2004	0	0	
Liu Cong	Director,	Male	43	Nov. 2001 - 2004	0	0	
Li Linsen	Director	Male	57	Nov. 2001 - 2004	6,240	6,240	
Liu Qingmin	Director	Male	41	Nov. 2001 - 2004	0	0	
Zhou Zhen	Director, Deputy General Manager	Male	40	Nov. 2001 - 2004	0	0	
Cai Jianping	Director, Secretary of the Board	Male	40	Nov. 2001 - 2004	0	0	
Li Qinwen	Chairman of the Supervisor Committee	Male	56	Nov. 2001 - 2004	0	0	
Liu Yayan	Supervisor	Female	32	Jun.. 2003 - 2004	0	0	
Wu Sheng	Supervisor	Male	38	Nov. 2001 - 2004	0	0	
Ruan Kejian	General Manager	Male	37	Dec. 2003 - 2006	0	0	

## 5.2 Particulars about directors and supervisors holding the post in Shareholding Company

Applicable                      Inapplicable

## 5.3 Particulars about the annual payment of directors, supervisors and senior executives

Unit: RMB

Total annual remuneration	RMB 862,000
Total annual remuneration of the top three directors drawing the highest payment	RMB 669,400
Total annual payment of the top three senior executives drawing the highest payment	RMB 669,400
Name of directors and supervisors receiving no payment or allowance from the Company	Director: Ding Fuyi and Liu Cong Supervisor: Li Qinwen
Range of remuneration	Number of persons
Over RMB 200,000	2
RMB 100,000 to RMB 200,000	2
Under RMB 100,000	5

## § 6. Report of the Board of Directors

### 6.1 Discussion and analysis to the whole operation in the report period

In the report period, share equity of several industrial enterprises held by the Company, were sealed up by the court due to lawsuit. The main productive enterprise Donggang Company, which belonged to Chemical Company, was sold in August 2003 to cancel the debt; the main production equipment and production and office sites of Shenzhen Plastic Company and its main affiliated company, Chemical Construction Material Company was executed by the court in the beginning of 2003 to cancel relevant debts, which led to Shenzhen Plastic Company lack of production and operating ability; Another production enterprise Chemical Material Company produced chemical material amounting to 18,810,000 code, increasing compared with the same period of last year, but the share equity of the company held by the Company was going to be auctioned.

### 6.2 Statement of main operations classified according to industries or products

Applicable                      Inapplicable

6.3 Particulars about main operations classified according to areas

Applicable                      Inapplicable

6.4 Particulars about the customers of purchase and sale

Applicable                      Inapplicable

6.5 Operation of share-holding companies (applicable to the situation where investment earnings takes over 10% of its net profit)

Applicable                      Inapplicable

6.6 Explanation on reasons of material changes in main operations and its structure

Applicable                      Inapplicable

Shenzhen Petrochemical Plastic Group Co., Ltd., Shenzhen Petrochemical Donghong Chemical Material Co., Ltd. and Shenzhen Petrochemical Fiber Co., Ltd., affiliated subsidiaries of the Company, was listed into the consolidated scope in 2002. Since Shenzhen Petrochemical Plastic Group Co., Ltd., Shenzhen Petrochemical Donghong Chemical Material Co., Ltd. and Shenzhen Petrochemical Fiber Co., Ltd. have been or would be auctioned by the court after the balance-sheet-date, the Company had no actual right over the said companies and the said companies were not listed in the consolidated scope in the year. Therefore, the Company had no main operations in the report period.

6.7 Explanation on reasons of material changes in profitability capability of main operations (gross profit ratio) than that in the last year

Applicable                      Inapplicable

In the report period, the Company had no main operations.

6.8 Analysis to reasons of material changes in operating results and profit structure compared with the previous year

Applicable                      Inapplicable

In the report period, the decrease in losses of the Company over the last year was mainly due to great decrease in management expense and decrease in predicted liabilities caused by lawsuits involved. Changes in profit structure were because that the consolidated scope took changes in the report period and the Company had no main operations.

Analysis to reasons of material changes in the whole financial position than that in the last year

Applicable                      Inapplicable

Material changes in the whole financial position of the Company in the report period over the last year was mainly because that there were material changes in the consolidated scope of the Company over the last year. Due to the changes in consolidated scope, the Company had no main operations.

6.9 Explanation on the past, current and future important effects of the material changes in production and operation environment, macro-policies and regulations on the Company's financial position and operating results

Applicable                      Inapplicable

In the report period, since the several unfavorable factors that affected the sustainable operation of the Company still existed, the Company did not gain substantial progress in the large amount of payments receivable from Shenzhen Petrochemical Corporation, the controlling shareholders, and the Company needed to take joint recovery responsibility because the Company provided guarantee for the bank loans of other enterprises and these enterprises were unable to repay the loans, the equity of main production enterprises held by the Company all has been sealed up by the court and it was possible to be forced for implementation by the court. In 2003, the equity of Shenzhen Petrochemical Donggang Chemical Fiber Co., Ltd. held by Shenzhen Petrochemical Fiber Co., Ltd., the main industrial enterprise of the Company, was sold by the court to cancel out the relevant liabilities and the main productive equipments and the productive and office location of Shenzhen Petrochemical Plastic Co., Ltd. (Hereinafter referred to as Shenzhen Plastic Company) and its subsidiaries were also implemented forcibly so as to cancel out relevant liabilities. The aforesaid problems seriously affected on the normal operating activities of the Group. The Board of Directors thought, it was impossible for the Company to improve the bad production and operation environment facing at present only depending on the its self force of the Group.

6.10 Completion of the profit estimation

Applicable                      Inapplicable

6.11 Completion of the business plan

Applicable                      Inapplicable

6.12 Application of the raised proceeds

Applicable                      Inapplicable

Particulars about the changed projects

Applicable                      Inapplicable

6.13 Application of the proceeds not raised through shares offering

Applicable                      Inapplicable

6.14 Explanation of the Board of Directors on the “Qualified Opinion” made by the Certified Public Accountants

Applicable                      Inapplicable

The explanation on issues involved in the Auditors’ Report with objection of expressing opinion provided by Moore Stephens Nanfang Minhe Certified Public Accountants of the Board of Directors were as follows :

A. About sustainable operation

Concerning the following significant problems existing in the financial status of the Company at present: A. Dated the statement date , the former principal shareholder Shenzhen Petrochemical Corp. still owed RMB 1020 million to the Company and had no further repayment plan ; B. The status that the assets can not cancel out the liabilities was serious and the loss was large; C. It was hard to recover the principal and interests of expiring liabilities; D. There existed lawsuit and guarantee issues with large amount; E. The held equity and majority fixed assets was frozen or pledged and partial entered into the procedure of auctioned or being auctioned compulsively.

The existence of the aforesaid problems has resulted in the very austere of operating environment of the Company.

The Board of Directors thought, it is the premise of reorganization plan and liabilities

reorganization of the Company to settle of payments with large amount receivable to controlling shareholders and release joint recovery responsibility undertaken by the Company in several external guarantee issues.

In Dec. 2003, Shenzhen Investment Holding Corporation transferred 100% equity of Petrochemical Group held by it as RMB 10 to the persons in charge of Petrochemical Group and its affiliated companies. Shenzhen Investment Holding Corporation and Petrochemical Group made no essential arrangement for the huge debts of petrochemical Group owed to the Company.

There was no essential development about repayment of external loan and release of joint recovery responsibility undertaken by the Company in guarantee issues.

Thus, it was necessary for the Company to seek suitable way of reorganization and measures of liabilities reorganization and gain the energetic support and cooperation of relevant departments and creditors to continue to maintain the sustainable operation of the Company and get rid of the corner facing at present.

B. About the responsibility problem undertaken by the Company about the arrearage of Shenzhen Petrochemical Corp. amounting to RMB 270 million

The Board believed: after the Shenzhen Petrochemical Corp. signed "Debt converted into Investment" agreement with the Company, Agriculture Bank of China and China Great Wall Assets Corporation in 2000, due to this reason, in fact Shenzhen Petrochemical Corp. undertook the loan of the Company amounting to RMB 270 million in Agriculture Bank of China. Thus, the direct debtor of the loan was Shenzhen Petrochemical Corp. and the Company should not undertake the direct debts amounting to RMB 270 million in Agricultural Bank of China; In addition, in spite of listed explanation in relevant agreement, the company should undertake certain law responsibility for Shenzhen Petrochemical Corp. didn't fulfilled the relevant agreements. However, there was no undefined limit in what way and what kind of responsibility the Company should take, so it's not considered as guarantee responsibility that the Company bore and it's not considered as the Company should fulfilled the obligation provided that Shenzhen Petrochemical Corp. couldn't fulfilled the obligation. Due to the uncertainty of law essence, scope, and degree of the responsibility, the Company could not determine the probable responsibility and losses incurred probably.

6.15 Business plan as of the next year of the Board of Directors (If it has)

Applicable

Inapplicable

Since there was material change in the Company's operating environment and the Company faced very much difficulties in the sustainable operation, thus, the main tasks in 2004 for the Company were as follows:

1. Continue to conduct clearing to the accounts in great amount receivable from Shenzhen Petrochemical Group, the original controlling shareholder of the Company.
2. Solve the management problems of the existing two industrial enterprises and try hard to maintain the daily operation of the Company.
3. Do the work of the Company after listing suspension.

Profit estimation of the next year (If it has)

Applicable

Inapplicable

6.16 The preplan on the profit distribution and capitalization of capital public reserve of

the Board of Directors

Since the Company incurred a loss in the year and the profit available for distribution to shareholders was in negative, thus, the Company would not distribute profits nor capitalize the capital reserve into share capital in 2003.

The said profit distribution preplan for year 2003 should be submitted to Shareholders' General Meeting of the Company for consideration and approval.

## § 7. Significant Events

### 7.1 Purchase of assets

Applicable                      Inapplicable

### 7.2 Sales of assets

Applicable                      Inapplicable

Unit: (RMB) '000

Transaction parties and the assets sold	Date of sale	Sale price	Contribution to net profit of the Company of the assets sold from the year-beginning to the date of sale	Profit or loss from sale	Related transaction or not (if yes, explain principle of pricing)
Auction of 54.51% equity of Shenzhen SPEC Donggang Chemical Fiber Co., Ltd. held by Shenzhen SPEC Chemical Fiber Co., Ltd.	Sep. 2004	30,000	0.00	0.00	No
Transfer 90.57% equity of Shenzhen Spike Biology Pharmaceuticals Co., Ltd. held by the Company to China Real Estate (Holdings) Co., Ltd.	Mar. 2003	21,591.1	0.00	49.47	No, offsetting liabilities
5% equity of Shenzhen ELCO Air-condition Co., Ltd. held by the Company to China Real Estate (Holdings) Co., Ltd.	Mar. 2003	12,096.9	0.00	14.56	No, offsetting liabilities
70% equity of Shanghai Meixing Plastic Co., Ltd. held by the Company	Apr. 2004	2,100	0.00	115.44	No, offsetting liabilities

Influence on consistence of business and stability of managers caused by the issues interfered in purchase and sale

In the report period, because the enterprises' equity and valid assets held by the Company at present were sealed up by the court, the assets sold by the Company was disposed by means of auction, realization or agreement transfer under the presiding of the court and all the proceeds were used to offset relevant liabilities. So, the sale of assets had serious influence on the Company and finally caused that the Company could not carry out normal production and operation activities.

### 7.3 Important guarantee

Applicable                      Inapplicable

Unit: (RMB) '000

Name of the Company guaranteed	Date of happening	Amount of guarantee	Guarantee type	Guarantee term	Complete Implementation or not	Guarantee for related party or not
Shenzhen NEPTUNUS Group Co., Ltd.	June 5, 2002	163,000	Joint liabilities guarantee	June 5, 2002-Aug. 7, 2003	No	No
Gintian Industrial Group Co., Ltd.	Sep. 22, 1998	117,067.6	Joint liabilities guarantee	Sep. 22, 1998-Jan. 30, 2001	No	No
China Aidi Group Co., Ltd.	Dec. 31, 2001	33,500	Joint liabilities guarantee	Dec. 31, 001-June 16, 2003	No	No

Shenzhen SZ-HK Industry Trade Import & Export Company	July 29, 1999	24,090	Joint liabilities guarantee	July 29, 1999- June 30, 2001	No	No
China Banan Group Co., Ltd.	Dec. 9, 1998	95,760.8	Joint liabilities guarantee	Dec. 9, 1998- Dec.18, 2005	No	No
Shenzhen New Dawn Industrial Co., Ltd.	Nov.25, 1996	43,953	Joint liabilities guarantee	Nov. 25, 1996- Nov. 15, 2001	No	No
Guangdong Sunrise Holdings Co., Ltd.	Dec.25, 1997	290,975.8	Joint liabilities guarantee	Dec. 25, 1997- May 6, 2002	No	No
Shenzhen Zhonghao (Group) Co., Ltd.	Feb.4, 1993	41,600	Joint liabilities guarantee	Feb. 4, 1993- Apr. 30, 1996	No	Yes
Shenzhen Petrochemical Jinxin Chemical Electronic Limited	Sep. 5, 1997	234,328.20	Joint liabilities guarantee	Sep. 5, 1997- July 13, 2001	No	Yes
Shenzhen Petrochemical Oil Warehouse Limited	Aug. 18, 2000	44,765.2	Joint liabilities guarantee	Aug. 18, 2000- Aug. 29, 2001	No	Yes
Shenzhen Petrochemical Chemical Limited	Sep. 27, 1996	82,539.3	Joint liabilities guarantee	Sep. 27, 1996- Mar. 27, 2002	No	Yes
Shenzhen Jinliyu Petroleum Limited	Apr. 13, 1998	37,537.6	Joint liabilities guarantee	Apr. 13, 1998- June 10, 2000	No	Yes
Shenzhen Petrochemical Group Limited	Dec. 10, 1999	34,715.2	Joint liabilities guarantee	Dec. 10, 1999- Apr. 1, 2002	No	Yes
Total amount of guarantee						1,596,729.4
Total balance of guarantee						1,596,729.4
Including: total balance of related guarantee						532,853.9
Total amount of guarantee the listed company provided for its share-controlling subsidiaries						163,650.7
Total amount of guarantee breaking regulations						34,715.2

#### 7.4 Related credits and liabilities current

Applicable                      Inapplicable

#### 7.5 Entrusted assets

Applicable                      Inapplicable

#### 7.6 Implementation of commitment items

Applicable                      Inapplicable

#### 7.7 Significant lawsuit and arbitration

Applicable                      Inapplicable

1.The progress of the unresolved lawsuits events disclosed in the 1<sup>st</sup> half of 2003 and before: (1) The objects involved in the lawsuits, which the Company as the debtor was indicted by the creditor and judged to lose lawsuit by the court, amounting to RMB 15 million and related interest. (2) The objects involved in the lawsuits events, which the Company as the guarantor for other companies' loan from bank was indicted by the creditor and judged to take joint repayment liability by the court, amounting to RMB 0.9 million and related interest.

2.The lawsuits occurred in the 2<sup>nd</sup> half of 2003: (1) the objects involved in the lawsuits, which the Company as the debtor was indicted by the creditor, amounting to RMB 104,710,000 and related interest including the objects involved in the lawsuit the Company was judged to lose amounting to RMB 18.39 million and relevant interest. (2) The objects involved in the lawsuits, which the Company as the guarantor for other companies' loan from bank was indicted by the creditor, converting into RMB 237.15 million and related interest including the object, which the Company was judged to take joint repayment liability for, converting into RMB 20.15 million and related interest.

Concerning the aforesaid lawsuits involved in 1 and 2 and their progress, please refer to the public notice of the Board of Directors disclosed on Securities Times and Ta Kung Pao dated July 10, 2003, Nov. 6, 2003, Dec. 26, 2003 and Dec. 31, 2003.

3. Because of the dissension of loan guarantee contract among the affiliated company of the Company, Shenzhen SPEC Chemical Fiber Co., Ltd., Shenzhen SPEC Donggang Chemical Fiber Co., Ltd. and Belgium United Bank Shenzhen Branch (the object was USD 2.1 million and related interest), Shenzhen Intermediate People's Court had a compulsive auction of 54.51% equity of Shenzhen SPEC Donggang Chemical Fiber Co., Ltd. held by Shenzhen SPEC Chemical Fiber Co., Ltd. in Aug. 2003 to commute the above debts. For its detail, please refer to the public notice on Securities Times and Ta Kung Pao dated Aug. 8, 2003.

4. Because the Company's subsidiary, Shenzhen Plastic Company, and its subsidiary, Shenzhen Plastic Chemical Construction Material Co., Ltd. could not repay the principal and interest of loan from Shenzhen Commercial Bank, the court put teeth in the land, architecture, real estate, equipment, vehicle and electrical equipment of Shenzhen Plastic Company to offset the debt of Shenzhen Plastic Company and it caused Shenzhen Plastic Company could not carry out normal production and operation activities. Please refer to the public notice on Securities Times and Ta Kung Pao dated Mar. 29, 2003.

#### 7.8 Other significant events

1. Because of the dissension of loan contract of the original controlling shareholder of the Company, Shenzhen Petrochemical Corp., the state-owned legal person shares amounting to 164,546,553 shares of the Company held by it (taking by 54.24% of the total share capital of the Company) were given public auction in Hangzhou on Oct. 16, 2003 and Guangzhou Puliqi Communications Investment Co., Ltd. obtained the aforesaid shares as RMB 0.131 per share through competitive auction. The procedure of owner change in register of the aforesaid shares has been finished in China Securities Depository and Clearing Corporation Limited Shenzhen Branch on Dec. 15, 2003. The procedures of the application of exempting offer purchase liabilities of Guangzhou Puliqi Communications Investment Co., Ltd. for CSRC is in process. Please refer to the public notices on Securities Times and Ta Kung Pao dated Sep. 11, 2003, Sep. 25, 2003, Oct. 17, 2003, Nov. 6, 2003, Nov. 25, 2003 and Dec. 17, 2003 for the details.

2. By the end of report year, the account receivables of the Company from the original control shareholder, Petrochemical Group is RMB 1.02 billion. Concerning the reason of this account receivable and the difficulty in the process of resolving, please refer to Significant Correlative Transactions in 2001 Annual Report. Furthermore, in Dec. 2003, Shenzhen Investment Holding Corporation transferred 100% equity of Petrochemical Group held by it as RMB 10 to the persons in charge of Petrochemical Group and its affiliated companies. Shenzhen Investment Holding Corporation and Petrochemical Group made no essential arrangement for the huge debts of Petrochemical Group owed to the Company, so the possibility of callback of the accounts receivables is very small.

3. The Company signed Three Parties Agreement on Transferring Loan to Investment and Share Equity with China Agricultural Bank of China Shenzhen Branch ("Agricultural Bank") and China Great Wall Assets Management Corporation Shenzhen Office ("Great Wall Corporation") in Dec.2000. Agricultural Bank agreed to transfer the loan of the Company converting into RMB 270,000,000(including RMB 3,000,000 nominal loan of one related company) to Great Wall Corporation. Since the transfer date, Agricultural Bank of China has not executed the right of the creditor again and actually relieved the loan of the Company. Meanwhile, RMB

270,000,000 credit of the Company against Petrochemical Group amounting to RMB 270,000,000 was transferred to investment income with equal amount against Petrochemical Group and the Company correspondingly offset the account receivable against Petrochemical Group amounting to RMB 267,000,000 but should take corresponding responsibility in the process of establishing the objective company relating with loan-to-investment by Petrochemical Group and Great Wall Corporation. By the end of the report period, because the objective company is not established, the agreement of loan-to-investment has not been finished execution and Great Wall Corporation has not obtained the investment stated in the aforesaid agreement. Agricultural Bank and Great Wall Corporation has put forward to release the agreement to Petrochemical Group and the Company and required to recover the credit and liabilities relationship of loan between Agricultural Bank and the Company. But according to the regulations of the above agreement and contract, Petrochemical Group is the direct debtor of the above loan totaling RMB 270 million and the nature and scope of the corresponding responsibilities that the Company should take in process of establishment of the objective company is not clear, so the corresponding responsibilities that the Company should take for the direct debtor is hard to estimate and record in account.

#### 7.9 Items after period

1. According to the suggestion of the principal shareholder of the Company, Guangzhou Puliqi Communications Investment Co., Ltd., the Board of Directors agreed to engage Huazheng Certified Public Accountant Co., Ltd. as the audit organization of the financial report 2003 (A-share) of the Company in Mar. 2004 and submit it to the next Shareholders' General Meeting for examination.
2. On Feb. 27, 2004, CSRC Shenzhen Check Bureau issued Notification of Register and Investigation (2004SJLTZ NO. 002) to the Company that decided to put on record and investigate the Company because the Company was suspected of breaking securities laws and regulations.
3. Concerning the lawsuit that Commercial Bank indicted the Company not to repay the mature loan, Shenzhen Intermediate People's Court made the civil judgement with (2001) SZFJYCZ NO. 269 and sealed up the house property in No. 401, Shangbu Industrial Zone, Futian District, Shenzhen. On Mar. 17, 2003, Shenzhen Intermediate People's Court judged that the house property was entrusted Shenzhen Land Property Exchange Center for auction and was obtained by Shenzhen Success Digit Technology Co., Ltd. as RMB 52 million through competitive auction.
4. According to the suggestion of the control shareholder of the Company, Guangzhou Puliqi Communications Investment Co., Ltd., the Company held the provisional Shareholders' General Meeting on Feb. 7, 2004 and the Shareholders' General Meeting reelected the Board of Directors and the Supervisory Committee of the Company of the Company. After reelection, the Board of Directors of the Company is composed of five people including Li Nujiang, Ruan Keshu, Du Baijun, Zhou Zhen and Cai Jianping. Li Nujiang is Chairman of the Board of the Company (legal representative); the Supervisory Committee is composed of three people including Zhuang Yuexun, Yu Huming and Liu Yayan. Zhuang Yuexun is Chairman of the Supervisory Committee.
5. About management control of two industrial enterprises of the Company
  - A. According to relevant laws, regulations and Articles of Association of the Company, the Company held the provisional Shareholders' General Meeting of the

affiliated company, Shenzhen Petrochemical Plastic Group Co., Ltd. on Mar. 24, 2004 and elected the new Board of Directors of Shenzhen Plastic Company and the Board of Directors appointed new management team. So far, the original operation team of Shenzhen Plastic Company refused to transfer work and the Company could not make effective management for Shenzhen Plastic Company.

B. According to relevant laws, regulations and Articles of Association of the Company, the Company changed three directors expedited to Shenzhen Petrochemical Donghong Chemical Fiber Material Co., Ltd. and changed the legal representative. So far, the original legal representative of Shenzhen Petrochemical Donghong Chemical Fiber Material Co., Ltd. did not transfer the business license, seal and so on to the appointed legal representative and the Company could not make effective management for Shenzhen Petrochemical Donghong Chemical Fiber Material Co., Ltd..

#### 7.10 Particulars about the performance of obligations of Independent Directors

In the report period, because two independent directors of the Company assigned the posts of director (Independent Directors) of the Company, the Company has not engaged Independent Directors again so far.

#### §8. Report of the Supervisory Committee

The Supervisory Committee gave attention to the auditors' report unable to form an opinion issued by Huazheng Certified Public Accountants and Moore Stephens Shenzhen Nanfang Minhe Certified Public Accountants. For the issues involved in the said auditors' report, the Supervisory Committee agreed with the explanation made by the Board of Directors on this.

#### §9. Financial Report

Attachment

#### § 10. Documents for Reference

1. Accounting Statements with the personal signatures and seals of legal representative, person in charge of the accounting affairs and person in charge of accounting institutions;
2. Original of Auditor's Report with the seals of Moore Stephens Nanfang Minhe Certified Public Accountants and Huazheng Certified Public Accountants;
3. Originals of all documents and manuscripts of Public Notices of the Company disclosed in public on the newspapers designated by China Securities Regulatory Commission in the report period.

**Board of Directors of  
Shenzhen Petrochemical Industry (Group) Co., Ltd.  
April 28, 2004**

CONSOLIDATED INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2003

	<u>2003</u>	<u>2002</u>
	RMB'000	RMB'000
Turnover	—	614,678
Cost of sales	—	(526,422)
	—————	—————
Gross profit	—	88,256
Other revenue	4,561	6,786
Distribution costs	—	(29,752)
Administrative expenses	(8,518)	(76,461)
Write-back of / (provision for) doubtful debts	10,777	(59,616)
Provision for compensation payment for litigation	—	(42,866)
Provision for payment for breach of contracts	—	(9,856)
Provision for economic compensation for employees	(1,714)	(36,036)
Other operating expenses	(761)	(2,161)
Write-back of / (provision for) impairment loss on fixed assets	26,567	(91,110)
Provision for impairment loss on construction in progress	—	(5,346)
Provision for impairment loss on intangible assets	—	(360)
	—————	—————
Profit /(loss) from operating activities	30,912	(258,522)
Finance costs	(68,361)	(102,359)
Share of results of associates	—	(4,047)
Provision for impairment loss on interests in non-consolidated subsidiaries	(66,230)	—
Provision for impairment loss on long term investments	—	(14,091)
Gain on disposal of long term investments and subsidiaries	496	13,974
Loss on disposal of other investments	—	(167)
Provision for guarantees given to banks	(206,590)	(116,844)
	—————	—————
Loss before taxation	(309,773)	(482,056)
Taxation	—	(4,891)
	—————	—————
Loss before minority interests	(309,773)	(486,947)
Minority interests	—	35,257
	—————	—————
Loss attributable to shareholders	(309,773)	(451,690)
	=====	=====
Loss per share		
---basic	RMB(1.02)	RMB (1.49)
---diluted	N/A	N/A

CONSOLIDATED BALANCE SHEET  
AS AT 31 DECEMBER 2003

	<u>2003</u> RMB'000	<u>2002</u> RMB'000
Non-current assets		
Fixed assets	88,004	330,487
Construction in progress	—	14,736
Intangible assets	—	10,366
Interests in non-consolidated subsidiaries	108,394	30,762
Interests in associates	(46)	2,977
Long term investments	12,172	29,766
	<u>208,524</u>	<u>419,121</u>
Current assets		
Inventories	—	88,457
Accounts receivable, other receivables and prepayments	2,075	160,591
Short term investments	—	200
Cash and bank balances	1,485	72,277
	<u>3,560</u>	<u>321,525</u>
Current liabilities		
Accounts payable and other payables	812,306	520,862
Bank and government loans due within one year	722,581	1,230,163
Tax payable	1,059	6,784
Staff bonus and welfare fund	441	1,518
Provision for guarantees given to banks	1,063,627	878,341
Provision for guarantees given to customers	18,844	18,850
Provision for compensation payment for litigation	—	42,866
Provision for payment for breach of contracts	—	9,856
Provision for economic compensation for staffs	—	35,030
	<u>2,618,858</u>	<u>2,744,270</u>
Net current liabilities	(2,615,298)	(2,422,745)
Total assets less current liabilities	<u>(2,406,774)</u>	<u>(2,003,624)</u>
Non-current liabilities		
Long term bank loans	—	3,106
Long term payables	—	7,596
Minority interests	—	82,675
Net liabilities	<u>(2,406,774)</u>	<u>(2,097,001)</u>
Equity		
Share capital	303,355	303,355
Reserves	(2,710,129)	(2,400,356)
Shareholders' deficiency	<u>(2,406,774)</u>	<u>(2,097,001)</u>