



Fu Xing-tang, *Chairman*

CHAIRMAN'S STATEMENT

Financial figures, where applicable, contained herein have been extracted from the accounts prepared in accordance with IAS

To all shareholders:

It is my pleasure to present to you the audited annual results of the Group for the year ended 31 December 2000.

In 2000, the PRC economy took a significant favorable turn with an 8.0 percent GDP growth along with the rapid growth of the global economy. The production chain ranging from petrochemical to textile also improved as a result of the strong demand. Under these circumstances, the Group, as the largest polyester manufacturer in the PRC, grasped these significant opportunities, made meticulous effort in operation and achieved outstanding results.

OPERATION RESULTS

For the year ended 31 December 2000, the Group's audited consolidated profit attributable to shareholders amounted to Rmb840,228,000 (1999: Rmb777,067,000), an increase of 8.1 percent compared with 1999. Consolidated turnover amounted to Rmb9,014,472,000 (1999: Rmb7,075,579,000), an increase of 27.4 percent compared with 1999, and basic earnings per share increased by 8.1 percent to Rmb0.210 (1999: Rmb0.194) as compared with 1999.

DIVIDENDS

The Board proposed a final cash dividend of Rmb0.09 per share for the year ended 31 December 2000. The total cash dividend proposed by the Board for the year ended 31 December 2000 was Rmb0.09 per share (1999: Rmb0.11 per share).

Sun Zhui-hong, Vice Chairwoman



Qian Heng-ge, Vice Chairman



MARKET REVIEW

In 2000, the PRC polyester industry continued to grow rapidly. Compared with 1999, the total domestic consumption of polyester fibre increased by 12.5 percent while the total domestic supply of polyester fibre increased by 14.9 percent. Meanwhile the domestic production volume of polyester fibre increased by 16.8 percent and the import volume increased by 22.3 percent. The prices of domestic polyester products remained stable at a relatively high level due to strong demand and supply.

In 2000, the prices of polyester raw materials in Asia such as purified terephthalic acid ("PTA"), mono-ethylene glycol ("MEG"), and paraxylene ("PX"), were generally higher than last year due to the increased crude oil prices. However, the prices did not closely follow the increase in crude oil prices but remained stable because polyester manufacturing capacity was still under-utilized.

Since 2000, Petrochina Company Limited, Sinopec and China National Offshore Oil Corporation Limited were listed successfully in overseas capital markets, which will facilitate their structural adjustments and improve the PRC's petroleum and petrochemical industries.

BUSINESS REVIEW

In 2000, the Group maintained stable growth in production and sales, further enhanced its internal management, reduced costs and expenses, accelerated its development of technology and products, and explored new markets. Meanwhile, the Group's technological improvement and structural adjustment projects run smoothly. The projects that have been put into operation have become the new profit-generating source. In 2000, the Group achieved consolidated profit attributable to shareholders of Rmb840,228,000, and marked the best results in the past 5 years since 1996. Yizheng Chemical Fibre Foshan Polyester Company Limited ("Foshan Polyester") and Foshan Chemical Fibre Complex Group ("Foshan Chemical") (collectively "Foshan Group") made a profit of Rmb48,973,000, while Yihua Kangqi Chemical Fibre Company Limited ("Kangqi Company") and its subsidiaries ("Kangqi Group") made a profit of Rmb13,998,000.

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PRODUCTION AND MARKETING

In 2000, the Group maintained safe and stable operations at a high utilization rate while no overhauls were scheduled. The Group emphasized on the product's quality and customer adaptability. In 2000, the Group's total production of polyester products was 1,142,636 tonnes (1999: 1,029,960 tonnes), an increase of 10.9 percent compared with 1999, of which 139,591 tonnes were for the Group's own use. The capacity utilization rate reached 102.5 percent. Faced with a market shock caused by increasing polyester production capacity, the Group continued to strengthen its communications with other domestic polyester manufacturers. The Group enhanced its management of customer relationships, and delivered more products directly to customers. The ratio of direct sales reached 75.6 percent. The Group also improved the market development of high value-added differential products. In 2000, the Group's total sales of polyester products was 1,011,504 tonnes (1999: 915,237 tonnes), an increase of 10.5 percent compared with 1999, and the ratio of sales to production reached 100.8 percent.

RESEARCH AND DEVELOPMENT

In 2000, the Group enhanced the integration of its sales, production and development, put more resources into and optimized the management of R&D. The Company operated successfully and commercially the polymer facility with an annual capacity of 100,000 tonnes through combining technology mastered by the Company and the key facilities made domestically. Having been awarded a technical certificate by one of its major international customers for bottle-grade polyester chips, the Company was also awarded a technical certificate issued by another major international customer, and became the unique domestic supplier whose bottle-grade polyester chips obtained the technical certificates issued by the two major carbonated beverage manufacturers in the world at the same time. In the meantime, the Company accelerated the development of differential products from its existing facilities. The Group developed 34 types of new polyester products and put them into market in 2000. As a result, the Group can produce 212 types of products. In 2000, the differentiation rate of polyester chips was 42.0 percent and the differentiation rate of polyester fibre reached 29.0 percent, increased by 8.1 percent and 12.1 percent respectively.

COST CONTROL

In 2000, the Group further optimized its management of the supply chain by taking decisive action to purchase timely its principal raw materials from overseas and domestic suppliers at acceptable low prices. In this way, the Group satisfied its operational requirements and increased purchase volume at lower prices. The Group fully promoted the public-bidding process to purchase other raw materials. As a result, purchasing costs were further controlled. The Group fine-tuned its specialized management in the field, adopted its own know-how timely and caused the lower manufacturing costs and higher quality of its products continuously. The Company's unit consumption of comprehensive energy decreased by 7.9 percent, and the Group's selling expenses and financial expenses decreased by 13.1 percent and 55.9 percent respectively as compared with 1999.

INTERNAL MANAGEMENT

In 2000, the Group carried out "Management Year" activities and revised a total of 105 rules and regulations to streamline and enhance its management system. At the same time, the Group intensified the supervision functions of departments such as finance, audit and supervision, and further enhanced its internal supervision mechanisms. The Group also enhanced specialized

management in every aspect, and reached remarkable heights. In 2000, the Company obtained the title "National Advanced Enterprise" issued by China National Facility Management Association for facility management and the title "Advanced Enterprise" issued by Sinopec for production safety management. The Group speed up its information system program, finished integrating with Sinopec's financial and accounting information systems, and integrated its raw material e-procurement and petrochemical sales e-commerce platforms. The Group also started on-line product sales and raw material purchases.

PROJECT CONSTRUCTION

In 2000, the Group's planned technological development projects and structural adjustment expansion projects run smoothly. The total capital expenditure amounted to Rmb438,608,000. The project to relocate the SSP facility with an annual capacity of 40,000 tonnes from Foshan Polyester to the Company was completed in November 2000. The project to build a domestically manufactured polymer facility with an annual capacity of 100,000 tonnes was completed in December 2000. The project to build a PTA facility with an annual capacity of 450,000 tonnes, the DTY project with an annual capacity of 50,000 tonnes and the direct-melt-spinning polyester filament project with an annual capacity of 60,000 tonnes are running as scheduled.

HUMAN RESOURCES

The Company implemented its "fewer employees, higher efficiency" program during the year and resulted in 107 employees being transferred to other positions. As of 31 December 2000, the Group had 17,840 registered employees, among whom 15,465 belonged to the Company, and 2,375 belonged to the Foshan Group. 1,159 people retired.

The Group has 41 employees with a masters' or higher degrees, 1,343 employees with bachelor or higher degrees, 2,886 employees with tertiary or higher education backgrounds, and 10,384 employees with senior high school or higher education backgrounds.

The Group has 11,298 employees engaged in production, 120 employees in marketing and sales, 1,321 engineers and technicians, 185 financial personnel and 1,907 employees in administration.

The Group encourages its staff and employees to improve themselves through on-the-job training by planning and arranging the training of employees in a systematic way. It also provides training for employees who have transferred to different jobs or to those who are waiting for new posts. The Group focuses on establishing a proper mechanism for attracting, training, and utilizing talent in order to adapt itself to the requirements of a knowledge-based economy.

PROSPECTS

Looking to the future, taking into full consideration of the increased challenges from large foreign companies and the increased demand from downstream industries, such as textiles, after the PRC's entry into World Trade Organization ("WTO"), the Group has set the following development strategies which will also in line with the overall development strategy of Sinopec. The Group, oriented by market demand, will insist on improving its structural adjustments in the course of development to maintain healthy and sustainable development. The Group will continue to focus on polyester as its main business and increase in scale by making the polyester business more effective and efficient. In the next five years, the Group plans to increase PTA capacity by 500,000

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tonnes per annum to minimize polymer manufacturing costs through upstream integration, and to increase its self-sufficiency in raw material supply. Meanwhile, the Group plans to increase polymer capacity by 500,000 tonnes per annum and increase the capacity for polymer processing products by 500,000 tonnes per annum. In this way, the Group can produce high-value-added polyester products through downstream integration. The project plans will be considered in a systematic way, optimized dynamically and put into market timely according to the market situation.

In 2001, the PRC Government will continue its active fiscal policy and stable monetary policy, focus its efforts on boosting the income of peasants, stimulate the domestic demand, develop the PRC's Western region and regulate the market to keep the rapid economic growth. The textile industry will continue to speed up its structural adjustments and industrial upgrades so as to maintain a solid growth. It is expected that the economic growth will stimulate the demand for high quality polyester products.

In 2001, the PRC's domestic supply of polyester products is expected to increase rapidly. The polyester product prices are expected to fluctuate as demand and supply grow simultaneously and competition grows fiercer.

In 2001, the price of polyester raw materials such as PX, PTA, MEG are expected to maintain stable due to the increased supply, under-utilisation of polyester production capacity, and fluctuation of crude oil prices in the region.

Since 1 January 2001, the import tariff rate in the PRC for both PTA and MEG have been reduced by 2 percent to 14 percent and 12 percent, respectively. Meanwhile, the domestic import tariff rate for polyester staple fibre has been reduced by 1 percent to 17 percent.

In 2001, in light of the new competitive environment, the Group will focus on innovation in both management and R&D, developing human and information resources. Meanwhile, the Group will continue to improve structural adjustments to promote sustainable and healthy development. Oriented by market, the Group will increase its production volume and sales volume, further decrease its costs and expenses, accelerate development in differential products to further add value to products. At the same time, the Group will also focus on its project construction to create its new profit-generating sources. In this way, the Group will maximize its profits.

The following will be priorities in 2001:

1. Improve marketing and sales

In 2001, in light of the rapid growth in the domestic polyester production capacity, the Group will enhance its distribution network to stabilize its product prices and market share. The Group will further optimize its customer structure, establish strategic allies with the downstream customers to stabilize market share and explore new markets. The Group will enhance its management in product agencies and distribution to further coordinate sales and product distribution. The Group understands the extreme importance of sales service from a strategic viewpoint, and will coordinate all relative departments to make real improvement in this area. The Group will put more efforts into increasing the sales volume of differential products and explore new product promotion. At the same time, the Group will take action to develop its international market. In 2001, the planned sales volume of polyester products is 1,092,000 tonnes.

2. Increase and stabilize production

In 2001, the Group will improve its management in safety and environmental protection. The Group will conduct stricter quality controls, optimize its production process, improve its production rate, and increase the capacity utilization rate. The Group will realize its goal of overhauling its chemical facilities every two years and overhauling its polyester facilities every three years. The Group will ensure that facilities run safely and smoothly, the utilization rate remains high, and its quality remains assured. In 2001, the planned production volume of polyester products is 1,265,000 tonnes, of which 180,000 tonnes are planned for its own use.

3. Further reduce costs and expenses

In 2001, the Group will enhance its management over suppliers and its demand of raw materials. It will try to purchase raw materials at lower prices by anticipating the right purchase moments and supply rhythms. Meanwhile, the Group will continue its public-bidding program, and optimize its storage structure to further reduce its purchasing costs. The Group will reinforce its budget management and continue to enhance every aspects of its field management to further reduce consumption of material and energy as well as lower the manufacturing costs of its principal products. The Group will tightly control its expenditure. The Group will continue to implement its "fewer employees, higher efficiency" policy to further reduce labor costs. The Group will further integrate its working capital and accelerate liquidity of payments for its products to reduce its interest expenses.

4. Accelerate innovation in R&D and development of new products

In 2001, the Group will fully take its technological advantage to enhance its products' profitability. The Group will continue to optimize its mechanisms for its scientific and technological development through further reinforcing the integration of its R&D, production, marketing, and sales services. The Group will put more financial and human resources into R&D. Driven by market demand, the Group will accelerate its development of differential polyester fibre product groups with advanced technology and higher added value, and increase the production volume of differential polyester chips. The Group will focus on development of seven new polyester fibre products such as 3.33 dtex hairy polyester fibre and hot-filling and air-blocking polyester chips. In 2001, the Group plans to realize a differential rate of 29.0 percent in its polyester fibre at the situation of larger output volume. The Group will establish strategic partnership with the downstream customers and cooperate in R&D. The Group will improve its product and technological developments which are expected to be applied for future and perfect its own core technology, know-how, and supplementary technology in the fields such as PTA, polyester, bottle-grade polyester chips and polyester fibre.

5. Accelerate management innovation

In 2001, the Group will initiate and implement management concepts, mechanisms and methods that fit the requirements of a knowledge-based economy and the actual conditions of the enterprise. The Group will try to establish a proper mechanism for encouraging its employees to learn new knowledge and to innovate. In this way, the Group will optimize resource allocation and reduce costs and expenses. The Group will improve its management in safety and environmental protection by accelerating applications of the ISO14000 standard

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and HSE management system. The Group will fine-tune its field management by combining value accounting with various management measures in the field. The Group will continue to implement its information systems program of computerized management in several key application areas such as marketing, purchasing, financial accounting and administration. The Group will also launch its ERP. In order to further develop human resources, the Group will reform its pay policies and incentive programs, streamline its organization rationally and establish an incentive mechanism that would encourage employees to innovate and attract talented professionals.

6. Focus on structural adjustment and development projects

The second structural adjustment stage projects, including the DTY project with an annual capacity of 50,000 tonnes and the direct-melt-spinning polyester filament project with an annual capacity of 60,000 tonnes will be completed during April to August and in the middle of 2001 respectively. The project to build the SSP facility with an annual capacity of 100,000 tonnes will be completed by the end of 2001. The Group will try to make them new profit-generating sources in 2001. Meanwhile, the project to build a PTA facility with an annual capacity of 450,000 tonnes in the Chemical Plant will be launched in April 2001 and initial preparations for other projects is to begin soon.

Looking forward to the new century, the PRC petrochemical industry and textile industry will speed up their structural adjustments and industrial upgrades to enhance their competitiveness. The PRC polyester industry will continue to grow rapidly and market competition will become increasingly fierce.

As the largest manufacturer in the PRC polyester industry, the Group is certain that, as a subsidiary of Sinopec and by relying on its own advantages and development strategy, it will increase its competitive advantages supported by rational integration, interactive supplementation and balanced structure and provide shareholders with satisfactory return.

Finally, I would like to express my gratitude to the Group's employees who have been working at their full effort over the past year, in addition to all the people who have given their support to the Group.

By Order of the Board

Fu Xing-tang

Chairman

13 April 2001, Nanjing