

# CHAIRMAN'S STATEMENT

## To all shareholders:

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

In 2000, demand for petrochemicals remained strong as the economy of China continued to grow at a high speed. Prices of petrochemicals in Asia and China maintained its rising momentum due to the global increase in crude oil prices. The weighted average price of the eight principal products of the Company increased by 24.5% in 2000 compared to that in 1999. The eight principal products are LDPE, polypropylene, HDPE, polyester chips, polystyrene, cis-polybutadiene rubber, phenol and acetone. However, the increase in profit attributable to higher product prices was partially offset by the 49.4% increase in the price of cracking feedstock, being the main feedstock used by the Company, compared with that in 1999 due to the increase in crude oil prices, and decrease in production caused by a one-month shutdown of the Company's facilities for a maintenance overhaul due to the ethylene facility expansion through technology renovation. The management of the Company timely gripped market opportunities, continued with the Company's established development strategies, and achieved satisfactory operating results.



*Mr. Du Guosheng  
Chairman of the Board  
of Directors*

- 1) *Continue to implement the production capacity expansion program.* In 2000, the Company accelerated the pace of its technology renovation program and completed the planned technology improvement and capacity expansion projects, including construction of two new cracking furnaces each with an annual capacity of 100,000 tons and renovation of two existing cracking furnaces each with a capacity of 60,000 tons, all being launched into operation through one successful commissioning action, which will lay a solid foundation for due completion of the Ethylene Project.
- 2) *Enhance management and lower costs to improve efficiency.* In 2000, the Company continued to increase the usage of relatively less expensive substitute cracking feedstock, which enabled the Company to further reduce production costs. By adopting more strict managing measures and using E-commerce services available, the Company further lowered the purchase costs for PTA, benzene, and other materials.
- 3) *Improve product mix in order to meet market demands.* In 2000, the Company made full utilization of its advantages in terms of quality and variety of resin, plastic and other products. By developing and manufacturing special resin and plastic products with high profit margin, the Company improved the profit margin rate of its products. In 2000, the sales of this category of products amounted to 426,000 tons, representing an increase of 34,000 tons against 1999 and accounting for 57.9% of the sales of resin and plastic.
- 4) *Strengthen sales and marketing activities.* In 2000, by reforming the sales mechanism of the Company, the management greatly strengthened the sales activities. The manufacturing of many products were based on sales prospects and purchase orders. The direct sales rate of the principal products increased significantly, successfully accomplishing the sales assignment.

Audited net profit of the Company for the year ended 31st December, 2000 amounted to RMB347.8 million, an increase of 0.4% from RMB346.4 million in 1999. Total sales were RMB7,824.5 million, an increase of 21.2% from RMB6,454.7 million in 1999. For the year 2000, the Company's Board of Directors has proposed a final dividend of RMB0.04 per share (approximately HK\$0.0377), equivalent to RMB2.00 per ADS (approximately US\$0.242).

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The Company estimates that the costs it will incur in 2001 will decrease to a certain extent, as crude oil prices are likely to be lower in 2001 than in 2000, and as a result, the price of light industrial oil, the major feedstock to be consumed by the Company, will be lower compared with 2000. In 2001, efficient production hours will be significantly reduced due to a scheduled fifty-five-day shutdown of the Company's facilities in conjunction with the Ethylene Project. However, the Board is confident that, by continuing to implement the following development strategies, the Company will be able to achieve satisfactory operating results. These strategies include:

- 1) *Further expand production capacity in order to build up the competitive advantage of the Company's products.* In 2001, completion of the Ethylene Project, completion and commissioning of the new LDPE unit, and the full-capacity operation of the three polypropylene units will bring into full play the economies of scale enjoyed by the Company and further improve its competitive advantages.
- 2) *Increase production efficiency through improved operational planning.* In 2001, the Company will endeavor to produce quality products with good market prospects through optimizing its resources mix and reasonable use of materials. In addition, efficient utilization of the production units will be improved through optimization of the scheduled progress in their breakdown and technological renovation.
- 3) *Adjust product mix in order to produce more high value added products.* In 2001, the Company will continue adjusting its product structure and improving its product mix in order to improve and strengthen its profitability. The Company will continue to develop new resin products with the commissioning of the new LDPE unit and strive to further increase the production ratio of the specialty synthetic resin materials.
- 4) *Strengthen and improve sales and marketing activities.* In 2001, the Company will continue strengthening its sales and marketing activities. Through close cooperation between its production and research and development departments, the Company will try to develop new markets, better control accounts receivable and further strengthen the quality of service for the Company's products. The Company will strengthen its direct sales and supplies to customers and establish more efficient sales network taking advantage of E-commerce services available. Furthermore, efforts will be made to develop international markets to increase exports of products and enhance the competitiveness of the products of the Company on the international market.

Finally, I would like to extend my sincere gratitude to all staff of the Company, whose diligence and dedicated efforts have permitted the Company to achieve satisfactory operating results in last year. It is my firm conviction that the Company is uniquely positioned to achieve further success in its operations and to fulfill its commitment to maximize shareholders' value.

On behalf of the Board of Directors

**Du Guosheng**

Chairman

12th April, 2001, Beijing, PRC