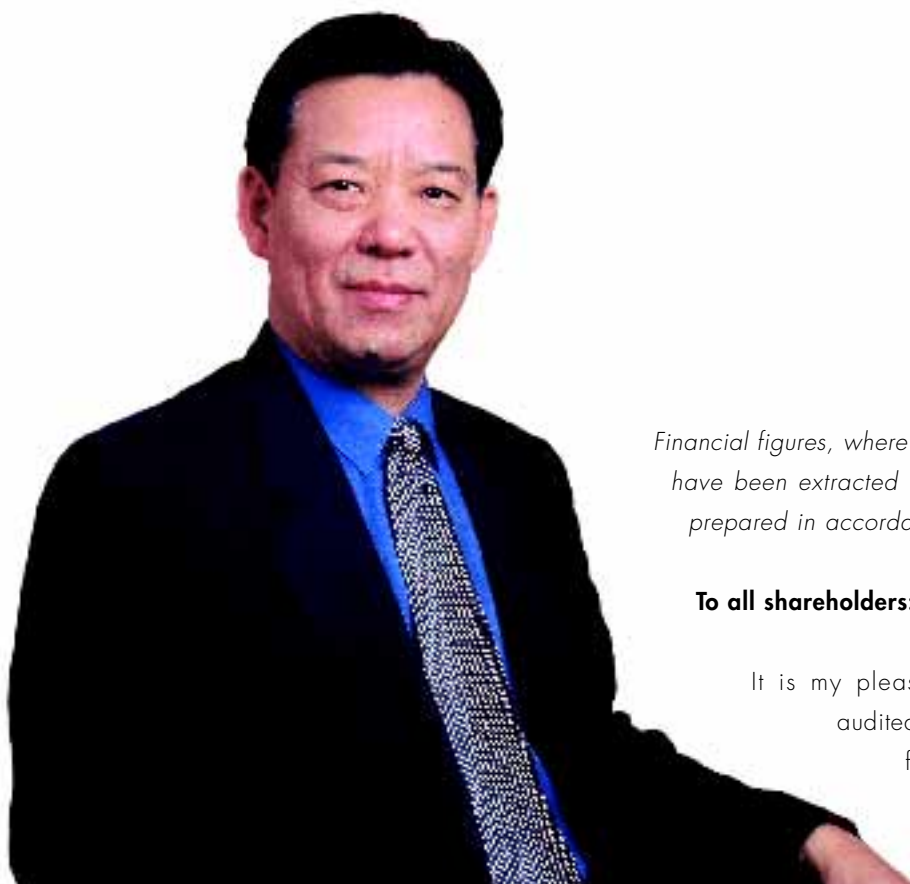


Chairman's Statement

ANNUAL REPORT 2001



Financial figures, where applicable, contained herein have been extracted from the financial statements 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 2001.

Fu Xing-tang, *Chairman*

In 2001, the PRC economy achieved a GDP growth of 7.3 per cent. However, due to the global economic downturn and the impact of the 9.11 Incident in the United States, the demand for the petrochemical and textile products remained sluggish. The growth rate of export volume of the PRC textile products decreased substantially. Under this adverse market condition, the Group, as the largest polyester manufacturer in the PRC, strove to develop its business operation, and outperformed its competitors with positive operation results.

Operation Results

For the year ended 31 December 2001, the Group reported a consolidated turnover of Rmb7,808,658,000, which represented a decrease of 13.4 per cent as compared with that of Rmb9,014,472,000 for last year. Consolidated profit attributable to shareholders decreased by 79.7 per cent to Rmb170,789,000 as compared with that of Rmb840,228,000 for last year, and basic earnings per share decreased by 79.7 per cent to Rmb0.043 as compared with that of Rmb0.210 for last year.



Sun Zhi-hong, Vice Chairwoman



Qian Heng-ge, Vice Chairman

Dividends

The Board proposed a final cash dividend of Rmb0.02 per share for the year ended 31 December 2001. The total cash dividend proposed by the Board for the year ended 31 December 2001 was Rmb0.02 per share (2000: Rmb0.09 per share).

Market Review

In 2001, although there was an imbalance demand and supply of polyester product in the domestic market, total domestic consumption of polyester fibre increased by 17.9 per cent as compared with last year. Meanwhile, domestic polyester production capacity continued to grow rapidly. The total production capacity almost reached 8,000,000 tonnes. Total domestic supply of polyester fibre increased by 17.1 per cent as compared with last year, of which, the domestic production volume increased by 22.5 per cent and the import volume decreased by 21.4 per cent. The prices of domestic polyester products continued to decline during the year. The average price of polyester product (excluding Value Added Tax ("VAT")) of the Group decreased by 21.9%. Some domestic polyester manufacturers recorded losses, which gave rise to the gradual differentiation of domestic polyester industry.

In 2001, prices of polyester raw materials such as PTA, mono-ethylene glycol ("MEG"), and paraxylene ("PX") in Asian region, decreased at different extent, due to the decline in crude oil price and the under-utilisation of polyester manufacturing capacity. The average purchase price of principal out-sourced raw materials of the Group decreased by 13.0%.

Business Review

In 2001, under the severe market condition, the Group continued to explore new market, utilise its production capacity efficiently, further lowered costs, speeded up the product development and technology innovation process. With these combined efforts, the Group maintained stable growth in both production and sales. Both production and sales volume hit record high, which partly offset the negative impact from the lowered product prices. Furthermore, in recent years, the Group's technological improvement and structural adjustment projects have contributed to the results of the Group. As a result, the Group achieved consolidated profit attributable to

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shareholders of Rmb170,789,000 in 2001, which is considered to be above the industry average. Of which, Yizheng Chemical Fibre Foshan Polyester Company Limited ("**Foshan Polyester**") and Foshan Chemical Fibre Complex ("**Foshan Chemical**") (collectively "**Foshan Group**") sustained a loss of Rmb43,421,000, while Yihua Kangqi Chemical Fibre Company Limited ("**Kangqi Company**") and its subsidiaries ("**Kangqi Group**") made a profit of Rmb6,630,000.

Production and Marketing

In 2001, given the continued recession in both domestic and foreign polyester markets, the Group, with emphasis on the market, enhanced the organisation and coordination of its operation and put great efforts to match production with sales requirements while arranging overhauls for its main production units. The Group achieved coordinations among production, raw materials, marketing and new products development on a timely basis according to the market situation through optimising the operation schemes to increase production volume and turnover, which enabled the Group to develop steadily. The Group maintained steady production in 2001, and the products' quality have been improved. The Group's total production volume of polyester products amounted to 1,248,584 tonnes (2000: 1,142,636 tonnes), an increase of 9.3 per cent as compared with last year, of which, 148,212 tonnes was for the Group's in-house consumption. The capacity utilisation rate reached 101.1 per cent. The Group adjusted its marketing strategy on a timely basis according to the changes in the polyester market. The Group expanded direct sales to customers, strengthened its sales service network and enhanced its technical services in order to consolidate the core market. The ratio of direct sales reached 75.6 per cent. The Group also continued to strengthen its association and coordination with other domestic polyester manufacturers, and cooperated with government department for conducting special investigations on anti-dumping. The Group's total sales of polyester products amounted to 1,116,090 tonnes in 2001 (2000: 1,011,504 tonnes), an increase of 10.3 per cent as compared with last year. The ratio of sales to production reached 100.9 per cent.

Cost Control

In 2001, the Group closely followed the market changes and purchased raw materials at lower prices by strengthening the coordination and balance of procurement channels both at home and abroad, and comparing prices with quantity and price limits. As a result, the Group achieved substantial saving in purchasing costs as compared with last year. The Group continued to strengthen its specialised management in field, safety and environment protection, and maintained high quality of products at low manufacturing costs. The unit manufacturing cost for principal products of the Group decreased by 9.9 per cent, the unit comprehensive energy consumption decreased by 5.1 per cent as compared with last year and the consumption of raw materials further decreased as compared with last year. The Group also continued its austerity programs and implemented overall budget management in order to further reduce costs. The Group further centralised and utilised its working capital efficiently to reduce financial expenses. The Group's administrative expenses and financial expenses decreased by 53.0 per cent and 49.3 per cent respectively as compared with last year. The Group's selling expenses increased by 23.1 per cent as affected by the enhanced customer services and the increased sales volume.

R&D

In 2001, the Group further improved its R&D system, strengthened integration in market and product research, marketing and customer services. This enhanced the product research and technology development framework. A total of 37 kinds of new polyester products were developed and launched to the market in 2001, such as color yarn for automobile decoration fabric and bright sewing thread. The Group also improved the production and quality of fine denier stable fibre and fine denier porous filament, both are major product series. Seven R&D teams made progresses in their works. The domestic-made polymer facility with an annual capacity of 100,000 tonnes reached its pre-set standard within its first year of production, and the technical authentication thereon was given by Sinopec. The Group preliminarily finished the formula for bottle-grade polyester chips with the Group's own intellectual property right. The bottle-grade polyester chip laboratory for technological research started services in November 2001. The Company started to construct three research projects: the multi-functional fibre project with an annual capacity of 7,500 tonnes, the sea island filament yarn project with an annual capacity of 750 tonnes and the weaving and dyeing project. In 2001, the differentiation rate of polyester fibre reached 34.7 per cent, 5.7 percentage point more than that of last year. The total production volume of differentiation polyester chips amounted to 171,000 tonnes and the differentiation rate of it was 35.1 per cent. The investment on R&D accounted for 3.4 per cent of turnover.

Internal Management

In 2001, the Group further deepened its internal reform. The Company changed its policy of on-site workforce from "three turns in five shifts" to "three turns in four shifts", resulting in the reduction of 970 frontline workers. The Group actively advanced the reform on labor, personnel and salary system. The Group agreed and suspended labor contracts with approximately 1,170 employees, and arranged 200 transferred employees and 111 laid-off employees to new projects. The Group implemented the salary policy reform, adopted a special salary system on trial. The mechanism of getting for position through competition and normalising the laying-off has been preliminarily established. The construction of Enterprise Resources Planning ("ERP") was progressed steadily. The Company improved the materials supply system according to the modern logistics requirements. The quality system of the Company and Foshan Polyester received certifications for an upgraded version of ISO9001(2000) standards in 2001.

Capital Expenditure

In 2001, the Group's project construction was progressed smoothly. The total capital expenditure amounted to Rmb1,424,202,000. The direct-melt-spinning polyester filament project with an annual capacity of 75,000 tonnes was completed and commenced production in September 2001. The installation of 30 machines for Draw-twisted Yarn ("DTY") project with an annual capacity of 50,000 tonnes was completed. The SSP project with an annual capacity of 100,000 tonnes was completely installed. The Company got an approval to construct the staple fibre project with an annual capacity of 90,000 tonnes. The PTA project with an annual capacity of 450,000 tonnes was progressed on schedule.

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Human Resources

At 31 December 2001, the Group had 16,348 registered employees, among whom 14,889 belonged to the Company and 1,459 belonged to the Foshan Group. 1,343 people were retired.

The Group has 46 employees with masters' or higher degrees, 1,314 employees with bachelor or higher degrees, 2,762 employees with tertiary or higher education backgrounds, 10,023 employees with senior high school or higher educational backgrounds.

The Group has 11,611 employees engaged in production, 180 employees in marketing and sales, 1,235 engineers and technicians engaged in R&D or in the product research centre of the Company, 203 finance personnel and 1,824 employees in administration.

The Group encourages its employees to adopt life-long learning. The Group endeavors to run a learning-oriented enterprise, so that all employees are engaged in continued education. The Group plans and arranges employees' training in a systematic way. The Group also focuses on establishing a stimulating mechanism to cultivate, retain and make good use of talented staff, so as to adapt to the requirements of the knowledge-based economy.

Prospects

Since the beginning of March 2002, the global economy has been recovering slowly. The operation environment for the global petrochemical industry has also improved to certain extent. The PRC government will continue to increase the domestic demand, implement positive fiscal policy and stabilise monetary policy with a view to stimulate citizens' investment and consumption, increase export and improve the living standards. It is estimated that PRC's economic growth will reach approximately 7 per cent in 2002. On 21 February 2002, the People's Bank of China lowered the interest rate of Renminbi loans and deposits, with an annual interest rate of loan lowered by 0.5 per cent. After PRC's entry into World Trade Organisation ("**WTO**") the textile industry will speed up its structural reform and technological innovation. With the gradual lifting of international quota limits on textile products, the PRC textile industry should expand their market share in the world market. The PRC's entry into WTO helps to improve domestic market environment. The steady economic growth, especially the global economic resurgence, and the development of downstream polyester industries will provide room for the growth of demand for polyester products.

Meanwhile, due to the reduction in import tariff and market access, overseas polyester, textile and garment manufacturers will shift their production and increase their export to the PRC market. The PRC will further be developed into a global manufacturing and consumption centre in the polyester industry. At the same time, new pattern of competition in the domestic polyester market will arise. Competition between domestic polyester manufacturers in the fields of quality, types of product, cost, service will become more intense. Since 1 January 2002, the PRC import tariffs on polyester chip, polyester staple fibre and polyester filament have been lowered to 12.8 per cent, 10.6 per cent and 14 per cent respectively.

In 2002, the PRC government will continue to regulate domestic polyester market, such as anti-dumping, revise quality standards, sanitation, epidemic prevention and environmental protection.

In 2002, the momentum of the rapid production capacity growth of PRC polyester industry will abate after last year's long-term sluggish. Competition will be rational in domestic polyester market. In March, the prices of domestic polyester products rebounded a little. It is expected that the operation environment for polyester industry will improve gradually.

During the first quarter of this year, the prices of polyester raw materials such as PX, PTA and MEG indicated a rising trend, and it is estimated that their prices will rise with the boom of the petrochemical industry this year. Since 1 January 2002, the PRC import tariffs for PTA, MEG and PX have been lowered to 12.8 per cent, 8.8 per cent and 5 per cent respectively.

In 2002, the Group will adapt itself to the new competition environment. The Group will adhere to market-oriented operation, advance structural adjustment, speed up the reform on management system and mechanism, fasten technical advancement and management innovation, so as to expand its market share, lower its cost, raise the technological and economic level and further upgrade its core competitiveness and sustainable profitability. In 2002, the planned production volume of polyester products is 1,376,600 tonnes, of which, the planned in-house consumption volume is 268,800 tonnes. The planned sales volume of polyester products is 1,107,800 tonnes. The ratio of sales to production will reach 100 per cent. The Group plans to develop 35 new products such as bright elimination fibre and many types of functional fibre. The Group plans to realise a differential rate above 36 per cent in its polyester fibre with its larger production volume. Investment on technological research will account for 3.6 per cent of its turnover.

The following will be set as priorities in 2002:

1. Further enhance marketing to expand the market share

In 2002, in light of the new challenges of the polyester markets, the Group will make great efforts in marketing to expand the market share and increase customer satisfaction and loyalty. First, the Group will proceed with the specialised restructuring by product-oriented operation, establish a bottle-grade chip segment and a polyester filament segment, which will operate combining sale, services, production and R&D to raise the Company's market suitability. Second, the Group will strengthen the customer

relationship management. The sales network will be further improved. Integrated product supply warehouses will be set up along coast, Yangzi river and Yellow river. The Group will promote internet sales and logistics transportation, so as to capture market share and customer at low cost and in quick pace. Third, the Group will provide its customers with a high quality before, during and after-sales service as well as a comprehensive service for technology and commerce. Fourth, the Group will strengthen its communications and coordination with other domestic polyester manufacturers and regulate the market supply and stabilise the product prices to develop the market jointly. Fifth, the Group will take actions in developing its own international market, setting up an overseas agent and expanding exports.

2. Technology innovation and new product development

In 2002, the Group will concentrate on market share and profit. The Group focus on quality, product types, cost, profit and substitute of import. It will further develop differential polyester products to meet the market needs, raise the differential rate, add value to its products, set differential product strategy and persistent innovation of products as motive of the Group's development to promote technological innovation and increase core competitiveness. The Group plans to expand the production of stable fibre products and increase the production capacity. Since the Group's standard is set as the state's standard on bottle-grade polyester chip technology, the Group will take this opportunity to upgrade its technology on bottle-grade polyester chip. The Group will also put great efforts on the research and development of non-fibre polyester products. At the same time, the seven R&D teams will continue to develop core technologies of polyester and some related technologies in order to increase the production capacity, technology advancement and provide room for long-term development of the Company.

3. Increase and stabilise production and economic operation

In 2002, the Group will further implement safety, environmental protection and quality control management. It will fully utilise its existing production capacity, technology, human resources, its advantages on stable quality and low cost resulting from the large-scale production and optimise the operation. In order to keep up with international standard, advanced equipment such as the On-line Tensor will fully be installed on new facilities to ensure the stability in products' quality. The Group will fully implement the ISO14000 environment management system authentication, push ahead with the construction of the HSE management system and clean production, and adopt 6σ management to increase and stabilise production.

4. Strive to lower the cost and expenses

In 2002, the Group will centralise management and finance authority, enhance the sense of cost and profit-oriented operation, tighten the budget, adjust the types of product and operations with low operational margins in order to expand the Group's profit margin. The Group will strengthen its working capital operation to minimise interest expenditure. Monthly budgets, weekly reviews and daily follow-up will continue to be carried out to ensure that production and operation are under control throughout the whole process. The Group will strengthen its procurement planning management and purchase raw

materials at low costs. Meanwhile, the Group will review the purchase price continuously and use public-bidding system to further reduce its purchasing price. The consumption quota and inventory quota system will be further enhanced to optimise the inventory structure and speed up the capital turnover. The Group will continue to enhance every aspects of its field management, further reduce consumption of raw materials and energy in order to lower manufacturing costs.

5. Focus on the construction of structural adjustment projects and plan subsequent projects for the "Tenth Five-Year Plan"

The SSP project with an annual capacity of 100,000 tonnes was completed on 22 February 2002. The DTY project with an annual capacity of 50,000 tonnes was completed in the end of March 2002. The multi-functional fibre project with an annual capacity of 7,500 tonnes was completed in the end of March 2002, the sea island filament yarn project with an annual capacity of 750 tonnes and the weaving and dyeing project will be completed in May 2002 respectively. The PTA project with an annual capacity of 450,000 tonnes will be installed by the end of this year and commence operation in the first quarter of 2003. The Company has finished the public bidding procedures of imported equipment for the approved staple fibre project with an annual capacity of 90,000 tonnes, which formed part of the Company's Phase IV projects. It is expected to be completed in the mid of next year. Meanwhile, the Group will commence subsequent structural adjustment projects for the "Tenth Five-Year Plan" at appropriate time. The Group will adhere to low costs strategy and seek to raise the technical level of its facilities and expand their production capacity with appropriate investment. The Group strive to fully accomplish the goal of three "50" by the end of the "Tenth Five-Year Plan" period.

6. Accelerate management innovation

In 2002, the Group will reform its economic responsibility assessment system and pay policy, and continue to promote its innovations on product, technology, management and system in order to further improve its stimulating mechanism. Based on the successful experience of famous international enterprises, the Group will first reform its pay policies in R&D and marketing department to be in accordance with labor market. The Group will promote its human resources strategy and establish an incentive mechanism that encourages staff innovation, establishes loyalty and arouses their creativity. The Group will continue to implement "fewer employees, higher efficiency" policies to further reduce labor costs. The Company will accelerate the construction of its ERP system, and fasten the Company management's information development and modernisation. The Group will cultivate a corporate culture that promotes "Competition, Dedication and Honesty", and enhances the construction of its corporate governance structure.

Chairman's Statement

Looking forward to the future, the Group is confident to meet the competition both from domestic and overseas competitors after the PRC's entry into WTO. Being the largest polyester manufacturer in the PRC, the Group is certain that, as a subsidiary of Sinopec and by relying on its own advantages, the Group will continue to carry out its three "50" objects. The Group will continue to set cost strategy and differentiation strategy as its core development strategies, continue to promote technological innovation and management innovation, increase its core competitiveness through connotation development so as to raise the Group's position in the polyester industry and bring better returns to its shareholders.

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, as well as all the people who have given their support to the Group.

By order of the Board

Fu Xing-tang

Chairman

29 March 2002, Nanjing