



Fu Xing-tang, Chairman

Financial figures, where applicable, contained herein have been extracted from the financial statements prepared in accordance with IFRS.

To all shareholders:

It is my pleasure to present to you the audited annual results of the Group for the year ended 31 December 2002, consolidated turnover increased by 2.6 per cent to Rmb8,009,669,000 (2001: Rmb7,808,658,000), consolidated profit attributable to shareholders decreased by 15.5 per cent to Rmb144,321,000 (2001: Rmb170,789,000), and basic earnings per share decreased by 15.5 per cent to Rmb0.036 (2001: Rmb0.043).

The Board proposed a final cash dividend of Rmb0.015 per share for the year ended 31 December 2002. The total cash dividend proposed by the Board for the year ended 31 December 2002 was Rmb0.015 per share (2001: Rmb0.02 cash dividend per share).

In 2002, the global economy gradually recovered and the global petrochemical industry was in the middle of recovery. The PRC Government implemented measures to increase the domestic demand to maintain a high economic growth. After the PRC's entry into the World Trade Organization ("WTO"), the export growth of the PRC textile products and clothes increased rapidly, which in turn significantly increased demands for domestic polyester products. Since there was still a serious oversupply of polyester production capacity in the domestic market, the average price of polyester products declined as compared with last year, while the average prices of the purchased principal polyester raw materials, such as PTA, paraxylene ("PX") and mono-ethylene glycol ("MEG"), remained unchanged as compared with last year, which further compressed the margins of the enterprises.

In 2002, facing such severe market competition and difficulties in operational management, the Group continued its initiatives in exploring markets, expanding its operations and lowering costs to increase its profit margins. The Group achieved a good operating result under the difficult condition. The Group closely followed the market trends, maintained a balance between production and sales and sold at the optimal prices. Great efforts were made to bring its existing advantages of economies of scale so as to increase output and further lower unit cost. Specific cost reduction measures, such as lowering energy and material consumption, tightening expenses control, increasing investment income, were taken to increase efficiency and effectiveness in order to offset the negative effects brought by an unfavourable market. The Company continued to carry out internal reform and structural adjustments, and the Enterprise Resources System ("ERP") project was successfully implemented and commenced operation.



Sun Zhi-hong, Vice Chairwoman



Qian Heng-ge, Vice Chairman

In accordance with the new corporate governance requirements for listed companies issued by the domestic and overseas regulatory bodies and the Articles of Associations of the Company, the Company elected the new Board, and the Rules of Proceedings for Shareholders' General Meetings was also passed on 20 December 2002. Two new independent directors were elected to the new Board and the total number of independent directors increased from two to four. The functions of the Board and its subordinating special committees were further strengthened, which will therefore enhance the Board's role in the Company's strategic decision making.

In 2003, there will be operational opportunities as well as challenges for the Group. The global economy will gradually recover from difficulties, and it is expected the resurgence for the global petrochemical industry to continue. However, because of the tense political situation in some regions, the global economy shall encounter an increasing number of uncertainties. Sharp fluctuations of oil prices are likely to take place, which will, on the one hand, increase operating risks for the petrochemical industry as it will push up the raw materials costs, but on the other hand it also can create more business opportunities. In the PRC, people of all sectors are working hard to establish a well-off society in an all-round way, and all enterprises are trying their best to follow a new road of industrialization. Rapid development is observed all over the country. The PRC Government will continue to implement an active financial and monetary policy, and will continue to stimulate domestic demands and encourage exports, with a targeted annual GDP growth of 7 per cent. All these will provide ample room for the development of polyester industry. The PRC Government will continue to take measures to further amend and regulate domestic polyester market. It levied anti-dumping tariff on the imported polyester products from Korea. Starting from 1 January 2003, a compulsory quality standard for bottle grade chips is enforced, which will help to improve the environment of healthy competition. To honor the promises that China made at her entry into the WTO, tariffs on imported raw materials and polyester products will be further lowered this year, which will not only increase the pressure from overseas exports to the PRC, but will also make it easier for domestic polyester manufacturers to import raw materials. In addition, greater effects are expected as a result of the Company's efforts in internal reform and structural adjustments in recent years. Particularly, the PTA project with an annual capacity of 450,000 tonnes is in operation in April 2003, and the staple fibre project with an annual capacity of 90,000 tonnes will be in operation in June 2003, which will help the Group to further lower its costs and increase its operating growth.

Since the end of 2002, prices of polyester raw materials continued to increase mainly as a result of the upsurge in global oil prices and the limited raw materials supply situation at certain stages, and increasing product prices. The overall prices of polyester products and raw materials are expected to increase in 2003, and possibly to fluctuate sharply. Due to the imbalance between supply and demand, competitions between domestic polyester manufacturers in terms of quality, product types and cost will become more intense, and the operating situation shall remain relatively difficult.



In response to the difficult operating situation in 2003, the Group will make great efforts to raise efficiency and maximize profits through implementing the low cost strategy and the high value added strategy. Major measures include: (1) Explore markets and expand operations. The Group will keep a very low level of stock reserves, maintain a balance between production and sales and sell at the optimal prices. The Group will identify and grasp business opportunities in making purchase of raw materials so as to reduce the purchase cost. (2) Further reduce costs and expenses. The Group will maintain a stabilized and safe production and take active measures to fully utilize the production capacity. Focus shall be placed on making full use of economies of scale, increasing output, improving quality and lowering unit cost. Overall budget management shall be tightened to further lower costs and expenses. (3) Strengthen new product and technological development. The Group will take active measures to increase its products' added value, increase product differentiation, increase the profit contribution from the specialised products, and build up Yizheng brand name. (4) The PTA project with an annual capacity of 450,000 tonnes, the staple fibre project with an annual capacity of 90,000 tonnes and the differential polyester chip project with a daily capacity of 450 tonnes, will produce additional output of 300,000 tonnes of PTA and 55,000 tonnes of staple fibre, which will significantly improve the Company's margin.

In the past few years, the PRC's polyester industry has been developing rapidly, and the PRC had already become the centre of the global polyester industry development. With the growing domestic demand and the growing comparative advantages of the PRC's textile industry over the world, the prospect for the PRC's polyester industry is fairly bright, and there is ample room for development in industrial, decorative, special fibre and non-fibre polyester products. However, the rapid growth of the polyester industry has also led to the problem of structural imbalance between demand and supply. As a result of the intensified competitions locally and abroad after the PRC's entry into the WTO, the PRC's polyester industry has come to a strategic turning point. Competition between the state-owned and state-controlled companies, the private companies and the foreign capital and joint venture companies has arisen, Reforms, structural adjustments and speeding-up of technological innovations are the key for development and competition.

Looking ahead, the Group will continue its efforts to convert its existing advantages over economies of scale to low costs, high added-value and high returns, and pay special attention to become stronger so as to develop into a specialised company leading in domestic market and maintaining competitive advantages internationally. Three years from 2003, the Group will focus on the following three aspects:

- Speed up the structural adjustments for development purpose. The Company will continue to adjust the structures of resources, assets and products, and try to achieve greater development and faster growth through fine-tuning and upgrading structures. The Company persists in internal development as priority, increasing production and capacity, and arranging additional investment to optimize the existing assets. The Company will continue to adopt the strategy of specialization and diversification, and put more efforts in developing product differentiation and specialisation. While developing good fibre grade polyester, focus will be put on developing industrial, decorative, special fibre and non-fibre polyester products. The Company will actively seek co-operations with those prestigious international companies in the fields of industrial fibre, PTT (polytrimethylene, a new kind of polyester product), PLA (polylactide, a kind of polymer originating from regenerated natural plants such as corn and soybean, which can be used as raw materials to produce fibre) and other upstream raw materials. The commencement of the operation of the new PTA project with an annual capacity of 450,000 tonnes and smooth operations of the two sets of PTA facilities will increase the ratio of self-supplied raw materials and improve the resources structure.



- Speed up technological innovations for development purpose. While mastering the localised technology of the complete set of polyester equipment with enlarged capacity, the Company will speed up the development of know-how technologies and their supplementary technologies in PTA, polyester, staple fibre and bottle grade chips etc, and the research and development of catalyst, new techniques, new technologies and new facilities. The Company will try to optimise the management processes and production processes through implementing new systems such as ERP and supply chain management. Focus will be placed on developing differential and specialised products, so as to increase products' technical component and added-values. The Company plans to raise the differentiation rate of polyester fibre to above 50% and the differentiation rate of polyester chip to above 60% by 2005.
- Speed up internal reforms and system innovation for development purpose. The Company is determined to carry out the market-oriented reforms, and optimise the shareholder structure by attracting foreign capital and carrying out the joint venture. More reforms will be conducted in the labour and remuneration systems. Market labour prices will be adopted, so as to establish a stimulating and binding mechanisms. The Company will carry out the campaign of "setting up an innovative and learner type of organisation and trying to be a learner type of employee", so as to have a better development of its human resources. Greater efforts are to be made to cultivate a corporate culture characterised by "Competition, Dedication and Honesty", as the core values which are in accordance with the market values of the enterprises in the market.

I was honored to be re-elected as Chairman at the recent Board meeting. I will do my best, together with the other Board members, the Senior Management team and all the staff, to create a better tomorrow for the Group through our ceaseless efforts and hard work.

Last but not the least, I would like to take this opportunity to express my sincere thanks to our employees who had been working diligently in the past year, to our clients, our shareholders, and all people from all spectrum that have been supporting the Group' development.

Fu Xing-tang

Chairman

4 April 2003, Nanjing