



Report of the Chairman



Mr. Fu Xing-tang, Chairman

Financial figures, where applicable, contained herein have been extracted from the financial statements prepared in accordance with the 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 2003. The Group's consolidated turnover increased by 29.1 per cent to Rmb10,343,641,000 (2002: Rmb8,009,669,000), consolidated profit attributable to shareholders increased by 79.6 per cent to Rmb259,131,000 (2002: Rmb144,321,000), and basic earnings per share increased by 79.6 per cent to Rmb0.065 (2002: Rmb0.036).

The Board proposed a final cash dividend of Rmb0.025 per share for the year ended 31 December 2003. The total cash dividend proposed by the Board for the year ended 31 December 2003 was Rmb0.025 per share (2002: Rmb0.015 cash dividend per share).

In 2003, the PRC economy continued to maintain a rapid growth, with the annual gross domestic product ("GDP") growth rate of 9.1 per cent. The PRC textile industry further exhibited comparative advantages, and the total export volume of the PRC textile products and clothes reached US\$80.48 billion, an increase of 27.7 per cent as compared with last year. In the first half of 2003, due to the war in Iraq and the outbreak of Severe Acute Respiratory Syndrome ("SARS"), the prices of domestic polyester products and principal polyester raw materials fluctuated significantly, which added a lot of difficulties to the polyester production operations. Starting from June, as a result of the high prices of principal raw materials such as PTA, mono-ethylene glycol ("MEG") and paraxylene ("PX"), the commencement of peak season for downstream textile industry, and the resurgence in the demand for textile products, the prices of polyester products increased steadily. From October onwards, owing to a sharp rise in the cotton price, the prices of polyester fibre, especially for polyester staple fibre, increased significantly. As a result, the operating environment of the Group improved substantially.

In 2003, the Group seriously adopted the low cost and high value added strategy, grasped business opportunities, made full use of its production capacity and expanded operation to increase profits and efficiency. As a result, the Group's consolidated turnover reached Rmb10.34 billion, which is the first time exceeding Rmb10 billion turnover in its history. The Group's structural adjustment projects, such as the PTA project with an annual capacity of 450,000 tonnes, the staple fibre project with an annual capacity of 90,000 tonnes, the specialization polyester chip project with a daily capacity of 450 tonnes (under trial run) and the improvement project of No. 5K production line were completed and in operation consecutively. All these projects rapidly reached the



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Sun Zhi-hong, Vice Chairwoman



Qian Heng-ge, Vice Chairman

designed requirements and brought the profit contributions to the Group. The Enterprise Resources System (“ERP”) project, which began its single run in July 2003, integrated the logistics, cash flow and information flow of the Company, which improved the management efficiency. In 2003, the Company obtained an international certificate ISO14001 in respect of the environmental management system, and was nominated to the National Quality Award and awarded National Quality Management Advanced Enterprise. Greater effort was made to reduce the staff number, the Group entered into voluntary resignation contracts with 912 employees during the year.

In 2003, the Company designed a detailed internal control system, which began a trial-run at the beginning of 2004. In October 2003, the Jiangsu Regulatory Bureau of CSRC (“JSRB”) carried out a regular inspection on the Company. The Company will take this chance to further enhance its corporate governance, information disclosure and financial management in the interest of the Company and all shareholders.

In 2004, there will be a more favorable operational environment for the Group. The global economy has been recovering at a faster pace, the international trade continues to increase. The global petrochemical industry is in the upswing of the business cycle. The outlook for the PRC’s economy is promising, with the ability to maintain an annual GDP growth rate of 7 per cent or above. There will be continuous high demand for both petrochemical and polyester products. At the same time, the PRC Government will continue to strengthen macro-economic controls over the polyester industry and to lead it into healthy development. In addition, the polyester industry keeps on carrying out technical improvement, structural adjustment and product upgrade. The future prospect is good and there is a large room for development on differential, specialization and non-fibre polyester products. However, with the quick development of the domestic polyester industry, the problem of shortage in polyester raw materials such as PX, MEG and PTA in the PRC is becoming more acute. As such, more such polyester raw materials are imported, which might become an important bottle-neck to the operations and development of polyester business. At the same time, with the rise in prices of textile raw materials such as cotton, the decrease in VAT rebates of textile and the intensified international trade wars and protectionism, there will be more uncertainties for the development of the downstream textile industry, which in turn may affect the demand for and prices of the polyester products.

It is expected that the prices of polyester products will, on the whole, remain high in 2004 as a result of the increase in demand and polyester raw material prices, which facilitate the Company to increase its profit. Meanwhile, the prices of principal polyester raw materials such as PTA, MEG and PX will continue to stay at a high level because of the high crude oil price and the relatively limited resources. This puts pressure on the operations of the Group.



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In 2004, the Group is expected to reap benefits from its efforts in internal reform and structural adjustments in the recent years, particularly the four projects that were put into operations in 2003, including the PTA project with an annual capacity of 450,000 tonnes. At the same time, the downsizing efforts over the past years shall also lower the labor cost and increase productivity. The Group will continue to take advantages of economies of scale and its leading position in technology to lower costs and increase profits. The major measures include: (1) Priority shall be given to sales and raw material purchases, with an aim to increase turnover and reduce purchase cost. (2) Efforts shall be made to maintain a stable and safe production, to further improve product quality, and to achieve new technological and economical targets so as to further lower costs and expenses. (3) More attention will be given to R&D. The Company will improve the coordination between marketing, production and research, and further increase the specialization rate of polyester chips and differential rate of polyester fibre to increase product added values. (4) More efforts will be made to improve the internal control system, to strengthen financial management and audit supervision, and to increase management efficiency through the use of ERP. (5) More will be done to increase the profit contributions of the new production projects. The four projects that were put into operation last year, including the PTA project with an annual capacity of 450,000 tonnes, together with the technological improvement project that will be carried out in the third quarter of 2004, namely increasing the capacity of the PTA project with an annual capacity of 450,000 tonnes to 600,000 tonnes per year, and the co-polymer ("CP") project for bottle grade polyester chip and SSP project with an annual capacity of 200,000 tonnes which is to be put into operation in December 2004, will produce additional output of 180,000 tonnes of PTA, 57,000 tonnes of staple fibers and 140,000 tonnes of specialization polyester chips, which will significantly lower cost and maximize profit.

Looking ahead, the PRC continues to be the center of the global polyester and textile industry, the PRC's demand for polyester products and the production capacities for fibre processing will continue to increase. Starting from 1 January 2005, the import quotas imposed on the PRC's export of textile products shall be lifted, which will obviously promote the development of the PRC's textile industry. It is expected that there will be a more than 10 per cent increase in the demand for polyester products in the PRC each year in the future. In particular, with the improvement in the living standards and the enlargement in the applied fields of polyester technologies, there will be greater demand for specialization, differential and non-fibre polyester products. With the aim of increasing the investment returns and achieving sustainable profit growth, the Group starts to implement projects as laid down in the "Tenth Five-Year Plan" in the next two years. Moreover, the Group is drafting the projects for the "Eleventh Five-Year Plan" (2006-2010). In the near future, in order to speed up the pace of development, the Group will focus on the following targets: (1) Increase high value-added products by focusing on the production of specialization and differential polyester products; (2) Increase the proportion of industrial and decorative polyester products by developing non-fibre polyester products to further meet the market needs; (3) Increase the proportion of self-supplied raw materials and lower the cost of raw materials by integrating into the upstream raw material fields; (4) Emphasize core business by separating the core businesses from non-core ones, accelerating reform and innovation programs, and downsizing manpower.

Last but not the least, I would like to take this opportunity to express my deepest gratitude to all the staff for their diligent work in the past year, and to all the shareholders for their kind support to the Group.

Fu Xingtang

Chairman

26 March 2004, Nanjing