

Report of the Chairman



Mr. Xu Zheng-ning, 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 2004. The Group's consolidated turnover increased by 29.1 per cent to Rmb 13,348,471,000 (2003: Rmb 10,343,641,000). In accordance with the prudence principle, the Group disposed of certain fixed assets and recorded impairment losses, which led to the consolidated profit attributable to shareholders and basic earnings per share decreasing by 7.2 per cent to Rmb 240,383,000 (2003: Rmb 259,131,000) and by 7.2 per cent to Rmb 0.060 (2003: Rmb 0.065) respectively.

The Board proposed a final cash dividend of Rmb 0.025 per share for the year ended 31 December 2004. The total cash dividend proposed by the Board for the year ended 31 December 2004 was Rmb 0.025 per share (2003: Rmb 0.025 cash dividend per share).

In 2004, polyester raw materials played a dominant role in the polyester industrial chain. Owing to the upsurge in global crude oil prices and the limited supply of polyester raw materials, prices of principal raw materials in Asia, such as PTA, mono-ethylene glycol ("MEG") and paraxylene ("PX"), continued to increase, which drove up the price of polyester products. On the other hand, as competition in the domestic polyester industry was severe, the increase in the price of polyester products was less than the increase in the price of principal raw materials. As a result, the profit margin of polyester products was significantly compressed. After November, the price of polyester products decreased rapidly following a concussive decline of global crude oil prices. The operational environment for polyester industry became increasingly difficult and many polyester enterprises stopped production or reduced output. The Group was confronted with severe challenges.

In 2004, under the severe market condition, the Group concentrated on market orientation and efficiency to expand the market and reduce costs. The Group also made full use of the advantage of having ancillary utility facilities and advanced technology. In addition, the Group put great efforts into ensuring the stable and full operation of the PTA line I and line II so as to increase output of PTA and further reduce the cost of raw materials. As a result, the Group achieved relatively good profits.



Report of the Chairman



Ms. Sun Zhi-hong, Vice Chairwoman



Mr. Qian Heng-ge, Vice Chairman

In 2004, the Company made concrete progress in management system reform. After the restructuring exercises of department specialization and rescindment of factory-level organizational system, the two-level management frame of the “Company-production center” was formed preliminarily. Management levels and the organization were simplified and management efficiency was further improved. Greater effort was also made to reduce staff number; the Group entered into voluntary resignation contracts with 343 employees during the year.

In 2004, the corporate governance was further enhanced. The Company revised and improved the Company’s Articles of Association and other governance articles in accordance with the regulatory requirements of its share-listing place. At the same time, the Company introduced an internal control system with the aim to standardize internal management and elude operating risk. The internal control system was revised and improved according to the trial results and was formally implemented on 1 January 2005.

In 2005, the global economy will maintain a relatively rapid growth. As the PRC’s economy is still in the upswing of the business cycle, there will be continuous high demand for both petrochemical and polyester products. Starting from 1 January 2005, the global textile quota system has been lifted and the outlook for PRC’s textile exports is promising. This will drive the increase in domestic demand for polyester products. But the problem of shortage of polyester raw materials such as PX, MEG and PTA in the PRC will still exist. As such, the demand for imported polyester raw materials will increase, therefore also the volume. These materials will still play a dominant role in the polyester industrial chain. Owing to the short supply of electricity, the increase in transportation costs and the aggravation of textile trade protection, the profitability of downstream textile industry will be weakened, which in turn may affect the demand for and prices of the polyester products. The operational environment of polyester industry will still be tough.



Report of the Chairman

In 2005, the Group will continuously deepen restructuring in terms of department specialization, optimizing operation processes, advancing management system reform and improving management efficiency. At the same time, the Group will continuously encourage technological innovation, refine product structure and develop polyester raw materials. The major measures include: (1) Rapid market response mechanism will be established and enhanced. Priority shall be given to products sales and raw material purchases, with the aim of increasing turnover and reducing purchase costs. (2) Internal control system will be strictly enforced. The Group will emphasize budget management to lower costs and expenses comprehensively. (3) The Group will strengthen product and technological development to widen profit margin and increase additional value of products. (4) The Group will accomplish restructuring through department specialization, operation process optimization, improve management efficiency and advance system and mechanism. (5) More efforts will be made to increase the profit contribution of new production projects. The Group will actively organize the PTA project with an annual capacity of 1,000,000 tonnes. The co-polymer ("CP") project for bottle grade polyester chips and SSP project with an annual capacity of 200,000 tonnes, which was put into operation in 2004, and specialized polyester chips project with an annual capacity of 160,000 tonnes, which will be put into operation in August 2005, will produce additional output of 195,000 tonnes of bottle grade polyester chips and 57,000 tonnes of specialized polyester chips, which will play a great role in increasing profit.

Looking ahead, we believe that the expanding market for polyester industry is the base of the Group's development and only a great market makes a great enterprise. The domestic demand for polyester products will be stimulated by relatively fast development of the PRC's economy and steady increase in the PRC's textile exports. In particular, with the upgrade of people's consumption structure and the enlargement in the applied fields of polyester technologies, there will be a rapid increase in the demand for specialized, differential and non-fibre polyester products, which will become the new drive for polyester industry development. At the same time, the polyester market will be more open and competitive. Along with this, the Group will accumulate human, financial and material resources, simplify and optimize polyester industry and improve the operation capability of the whole Group by compartmentalizing departments based on function specialization and compartmentalizing production centers based on product specialization. The Group will strongly develop the production of specialized, differential and non-fibre polyester products by technological innovation and product structure adjustments to shake off the passive role of competing at a low level in the market. The Group will try to achieve sustainable profit growth and a stable increase in investment return by developing polyester raw materials greatly and enhancing the adjustability between raw materials and polyester products.

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.

Xu Zheng-ning

Chairman

29 March 2005, Nanjing

