

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 31 December 2003.

In 2003, in spite of the influence of the war between the United States and Iraq and the Severe Acute Respiratory Syndrome ("SARS") outbreak in China, China's economy continued to grow at a high speed and the demand for petrochemicals remained strong. As a result of China's accession to the World Trade Organisation ("WTO") in November 2001, foreign enterprises' costs of exporting petrochemicals into China have been reduced. China's accession to the WTO has also had a significant impact on Chinese enterprises in terms of management mechanisms as more foreign capital enters the Chinese market. Facing intensified market challenges, the Company, through calm observation and conscientious thinking, and adherence to the development path of "low input, high output", was able to cope with the situation, seize market opportunities, follow the established development strategies and accomplish the following tasks, and hence significantly increase the results of the Company during the reporting period:



Mr. Du Guosheng
Chairman of the Board
of Directors

- 1) *Vigorously carry out technical improvements and advancements to guarantee the sustainable development of the enterprise.* In June 2003, the Company initiated a one-month shutdown and overhaul of operations at the tail-end of the SARS outbreak in Beijing and further eliminated certain technological bottlenecks in the ethylene units via a technological upgrade of the ethylene units of the Company, thus enabling the Company to fully utilize the advantages gained from the increased production capacity of the ethylene units, and ensuring that the Company would operate according to the business concept of "not for the largest, but for the best". Such a business concept in turn guarantees the sustainable development of the Company by increasing product quality as well as reducing consumption of materials and energy. Even with the one-month shutdown, the ethylene output of the Company in 2003 reached 722,000 tons, which exceeded the planned amount, ensuring the sustainable growth of the Company.
- 2) *Enhance the Company's core competence through further stripping of its non-core businesses.* In 2003, the Company gave more prominence to the core businesses and increased the efficient use of the Company's core assets by further stripping away the Company's non-core businesses, and thereby enhanced the core competence of the Company.
- 3) *Increase production of products with high added value by adopting a market-oriented approach.* In 2003, through close cooperation among all its departments, the Company continued to adjust its product mix to improve and strengthen its profitability. Based on the thorough market research conducted, the Company engaged in efforts to develop special-purpose materials with high market demand, high added value and the domestic supply of which relies mainly on imports. As a result of such efforts, the Company further increased the sales proportion of special-purpose materials used for producing synthetic resin.
- 4) *Adhere to the policy of integrating supply, production, sales and research, and further improvement of sales and marketing activities.* In 2003, the Company continued to strengthen its sales and marketing activities based on its prior experiences, and further harmonized the operations of the supply, production, sales and research departments. Through close cooperation between those various departments, the Company adjusted its production plans in a timely manner in order to meet market changes and the different needs of different customers, and was rated as an enterprise "to the satisfaction of the users throughout China" by the All China Users Committee of China Quality Association. The Company also reinforced its efforts in conducting market analysis and improving its ability to meet market changes, to avoid market risks and to enhance economic efficiency by continuing to adopt the sales strategy of "follow the market, maintain a stable production-sales ratio, and obtain the highest sales price", and thus guaranteed the increase in the economic benefits for the Company.

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The audited net profit of the Company for the year ended 31 December 2003 amounted to RMB 634 million (2002: RMB 209 million), representing an increase of 203.2%. The amount of sales was RMB 11,474 million, representing an increase of 21.5% from RMB 9,443 million in 2002. The board of directors of the Company ("Board of Directors") has therefore recommended the distribution of a final dividend of RMB 0.05 per share for the year ended 31 December 2003.

Looking forward to 2004, since the international economic situation has had further improvements recently, the Board of Directors believes that internationalisation will be an increasingly common phenomenon in the domestic market of China as a result of China's accession to the WTO. The establishment and commencement of production of a number of joint venture petrochemical enterprises will not only intensify market competition, but will also exert significant influence on the production and operations of the petrochemical industry in China. Nevertheless, the Board of Directors is confident that the momentum of the continuous growth of China's economy will further stimulate the increase in demand for petrochemical products. The Company will closely monitor the market's development, seize market opportunities, make use of the advantages gained from the completion of the technology upgrading program, and further improve the operating results of the Company through continuous implementation of its development strategies. These strategies include:

- 1) *Attain long-term and full-load operation of the Company's production facilities through reinforcing production management.* The Company has come upon the knowledge that long-term and full-load operation of the Company's production facilities is conducive to the improvement of the operating results of the Company. In 2004, the Company will institute strict technological management, reinforce process control to continuously improve the operational level, rely on technological advancement and technical innovation measures to eliminate the bottlenecks and hidden problems existing in the production facilities in order to further improve the output volume of the main products of the Company, and thereby guarantee further improvement of the Company's operating results.
- 2) *Vigorously carry out technical improvements to build a technical platform for the development of the Company.* In 2004, the Company will further increase the technical elements in the Company's products through continuous technical improvement, and improve the profitability of the Company's products by dedicating its efforts to the development of new products; and thus enabling the Company to stand at a more advantageous position in the face of intense market competition, by means of scientific and technical advancement.
- 3) *Build up a modern operation concept, and further improve on sales and marketing activities.* In 2004, the Company will continue to reinforce customer relationship management, and gradually implement a management system based on customer performance evaluations and further enhance the after-sales services. The Company will also continue to implement sales by order strategies, to maintain efforts at perfecting technical services, to stabilize the customer list to improve the market shares of the Company's products, to reduce logistics costs by further optimizing logistics management, and to clear logistics channels to provide better logistics services to the clients.
- 4) *Continuously improve the management skills of the Company by reinforcing basic management.* In 2004, the Company will take the opportunity to improve its internal control system by adopting the requirements on normalizing management of listed companies promulgated by regulatory bodies in various jurisdictions, in a manner suitable to the Company, and guarantee that all work is done in a standardized, normalized and proceduralized manner. The Company will also enhance the corporate management level and the corporate image on a full scale by facilitating information technology construction.

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With dual listings on the SEHK and NYSE, the Company is subject to and is committed to meeting the most stringent disclosure requirements. The Company has formulated internal control policies which apply to the Company as a whole and to each of its principal operating divisions. These policies are intended to comply with the new rules adopted by the Securities Exchange Commission of the United States, which apply to public companies and the policies are reviewed regularly to maintain as well as to improve the Company's standards for internal management.

During the previous year, when confronted with the SARS outbreak and rapidly changing market situation, the entire staff of the Company squarely faced the reality of circumstances, contributed their efforts to firmly grasp market opportunities, and greatly enhanced the business performance of the Company. I would like to hereby express my sincere gratitude to all of them. I believe that, in its future development, the Company will definitely achieve further success in its operations and provide more satisfactory returns to its shareholders based on the Company's current technical level and market competitive edge.

On behalf of the Board of Directors

Du Guosheng

Chairman

2 April 2004, Beijing, the PRC