



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

In 2002, the Group made considerable efforts and progress in its operational reform and development in spite of great market pressures. The Group achieved consolidated profit attributable to shareholders of Rmb144,321,000 in 2002. Of which, Yizheng Chemical Fibre Foshan Polyester Company Limited ("Foshan Polyester") and Foshan Chemical Fibre Complex Group ("Foshan Chemical") (collectively "Foshan Group") and Yihua Kangqi Chemical Fibre Company Limited ("Kangqi Company") and its subsidiaries ("Kangqi Group") made a profit of Rmb12,587,000 and Rmb11,383,000 respectively.

1. Market Review

In 2002, the global economy gradually recovered. The PRC economy achieved a GDP growth of 8 per cent and the GDP exceeded Rmb1,000,000,000,000. The average income of the resident in villages and cities increased. After the PRC's entry into the WTO, the export growth of the PRC textile products and clothes increased rapidly. The export volume reached US\$617,700,000,000, an increase of 15.9 per cent as compared with last year. The domestic consumption for clothes increased significantly by 10.2 per cent as compared with last year, which was 1.4 per cent higher than the growth rate of retail sales of social consumer goods.

In 2002, as a result of the growing demand from the textile industry, total domestic consumption of polyester fibre amounted to 8,594,400 tonnes, increased by 21.3 per cent as compared with last year. Meanwhile, domestic polyester production capacity continued to grow rapidly. The total production capacity increased almost by 2,000,000 tonnes, of which, the majority of the newly added polyester fibre production capacity was filament production capacity. Total domestic supply of polyester fibre increased by 20.9 per cent as compared with last year, of which, the domestic production volume increased by 22.8 per cent and the import volume increased by 13.7 per cent as compared with last year.

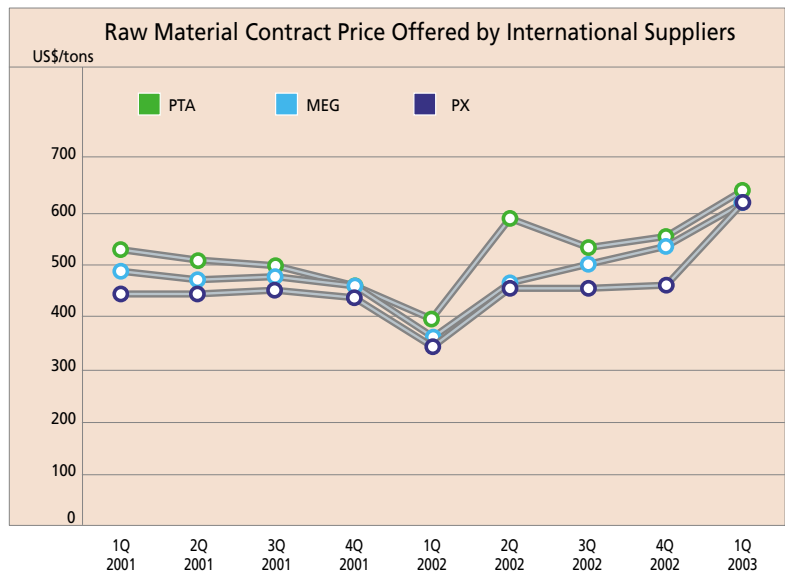
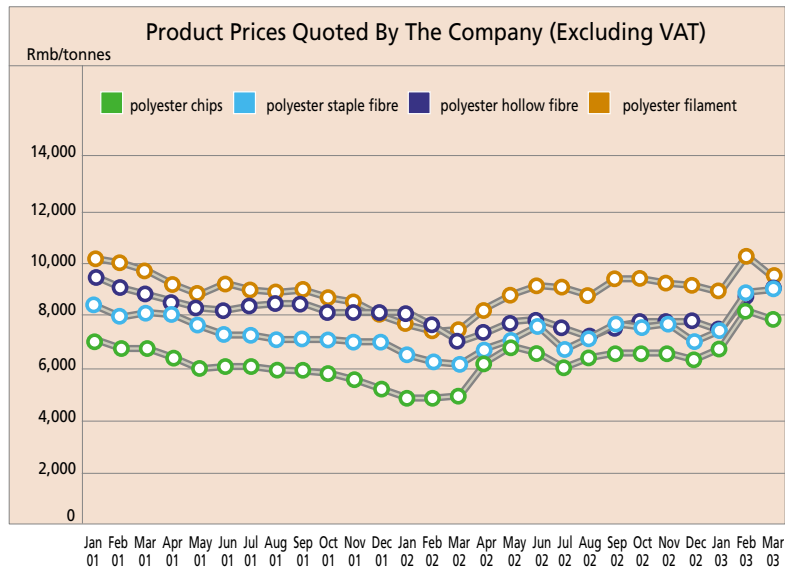
Domestic supply and demand of polyester fibre

	Polyester filament			Polyester staple fibre			Polyester fibre		
	2002 '000 tonnes	2001 '000 tonnes	+/- (%)	2002 '000 tonnes	2001 '000 tonnes	+/- (%)	2002 '000 tonnes	2001 '000 tonnes	+/- (%)
Production	4,770.4	3,892.4	22.6	2,951.2	2,395.8	23.2	7,721.6	6,288.2	22.8
Import	325.6	290.3	12.2	600.2	524.0	14.5	925.8	814.3	13.7
Export	29.4	21.9	34.2	71.6	6.1	1073.8	101.0	28.0	260.7
Net import	296.2	268.4	10.4	528.6	517.9	2.1	824.8	786.3	4.9
Inventories at the beginning of the year	187.0	113.0	65.5	69.0	151.0	-54.3	256.0	264.0	-3.0
Inventories at the end of the year	131.6	187.0	-29.6	76.4	69.0	10.7	208.0	256.0	-18.8
Total supply	5,283.0	4,295.7	23.0	3,620.4	3,070.8	17.9	8,903.4	7,366.5	20.9
Total consumption	5,122.0	4,086.8	25.3	3,472.4	2,995.7	15.9	8,594.4	7,082.5	21.3

Source: The Chemical Fibre Association of China and the Company's estimates



In 2002, the prices of domestic polyester products and principal raw materials fluctuated significantly. In January and February, the prices of domestic polyester products declined to record low. From March 2002, the prices rebounded significantly owing to the substantial increases in raw material prices. The average price of polyester products (excluding Value Added Tax (“VAT”)) of the Group decreased by 0.5 per cent as compared with last year. The weighted average purchase prices of principal purchased raw materials of the Group, such as PTA, PX and MEG remained unchanged as compared with last year.



During the reporting period, the profit margin of polyester products further decreased which increased the operation difficulties for the polyester industry.



2. *Production operational review*

(1) **Production and marketing**

In 2002, given the severe market competition and difficult operational situation, the Group continued to follow the market lead and its aim for profitability, took full advantages of its economies of scale and production capacities to increase output, put great efforts in developing market and ensuring that production matches sales, and actively increase sales and production. The Group maintained safe and stabilised production, and the product quality continued to improve. The total production volume of polyester products amounted to 1,424,899 tonnes, an increase of 14.1 per cent as compared with 1,248,584 tonnes of last year, of which, 277,157 tonnes was for its own use. The capacity utilisation rate reached 101.5 per cent. The total production volume of PTA amounted to 342,474 tonnes, an increase of 16,402 tonnes as compared with last year. In mid of the severe market competition, the Group closely followed the market trend, persisted in selling all the products produced, and sold at the optimal prices during the period. The Group's total sales of polyester products amounted to 1,149,533 tonnes, an increase of 3.0 per cent as compared with 1,116,090 tonnes of last year. The ratio of sales to production reached 100.2 per cent. A significant breakthrough was achieved in export. Bottle-grade polyester chip was exported to Europe, semi bright polyester chip has been steadily exported to Japan. A total of 35,625 tonnes of polyester products were exported for the year, with foreign exchange US\$ 26,270,000 earned.

(2) **Cost control**

In 2002, the Group optimised its supply management and seized market opportunities to purchase cheap raw materials in large quantities at the market low. The Group also centralised procurement management, promoted tendering system and optimised the stock level to achieve a further reduction in purchase costs. The quality of polyester filament products improved as a whole. The unit consumption of raw materials was kept at relatively good level, and the overall energy consumption per unit decreased by 6.3 per cent as compared with last year. Monthly overall budget management was implemented to strengthen control over the operating process. The Group also further centralised its working capital management to reduce financing costs. Due to the increase in sales volume, liabilities and R&D expenses etc., the Group's selling expenses, financial expenses and administrative expenses increased by 20.7 per cent, 19.2 per cent and 30.1 per cent respectively as compared with last year.

(3) **R&D**

In 2002, the Group made new achievements in its product and technological development. A total of 36 kinds of new polyester products were developed and launched in 2002. New breakthrough was achieved in the development of products such as full bright sewing thread type polyester staple fibre, 0.8D polyester staple fibre and full bright trilobal polyester staple fibre and polyester filaments. The development of the formula for the co-polymer of bottle-grade polyester chip became its own intellectual property. The technological development projects of polyester staple fibre facility and SSP facility were steadily in progress. The technological development project of domestic-made polymer facility with an annual capacity of 100,000 tonnes was awarded First Prize of Sinopec Technological Progress Award and Second Prize of National Technological Progress Award. The gradual completion of several R&D projects, namely, the multi-function staple 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 bottle-grade polyester chip laboratory, enabled the Company to own a comprehensive development system on main polyester products. In 2002, the Company further improved its product differentiation rates and increased product added value. The differentiation rate of polyester fibre reached 40.9 per cent, 6.2 per cent more than last year. The total production volume of differentiation polyester chips amounted to 288,477 tonnes. The specialisation rate was 56.3 per cent, 21.2 per cent more than that of last year.



(4) Internal management

In 2002, the Group continued to carry out internal reforms steadily, and achieved a new step in its information management system. There was closer cooperation between production, sales and R&D departments of bottle-grade chip and polyester filament division which increase its change management ability to the market. The ERP system was formally implemented on 18 October 2002. The office automation system was in trial run in the first quarter of 2003. Measures were taken to implement new management initiatives such as ISO14000, Healthy, Safety and Environmental (“HSE”) and 6σ.

(5) Capital expenditure

In 2002, the Group’s structural adjustment projects proceeded smoothly. The total capital expenditure paid amounted to Rmb1,531,165,000. The SSP project with an annual capacity of 100,000 tonnes was completed and in operation on 22 February 2002, which enabled the Company to launch its bottle grade chips before peak consumption season. The draw-twisted yarn (“DTY”) improvement project with an annual capacity of 50,000 tonnes was fully completed and in operation by the end of March 2002. The multi-functional fibre project with an annual capacity of 7,500 tonnes and the sea island filament yarn project with an annual capacity of 750 tonnes etc, were completed and in operation consecutively. 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 specialised polyester chip project with a daily capacity of 450 tonnes have been proceeding on schedule. The Company also started the improvement project of No. 5K production line in the Polyester Plant 1.

(6) Human resources

In 2002, the Group actively carried out reforms on personnel and remuneration system. A preliminary system, which formalised job competition and dismissal, was set up, and implemented employee job assessment programme. During the year, 451 employees were identified for job relocation. The administrative reform in organisational structure was streamlined, 178 people have been relocated. Reforms were also carried out in the security department and the catering department, 634 employees have been transferred. The remuneration reform was firstly implemented in the Group’s R&D and sales departments with special allowances for employees working in the Group’s key R&D teams.

At 31 December 2002, the Group had 15,557 registered employees, of which 14,158 belonged to the Company and 1,419 belonged to the Foshan Group. Total retired staff amounted to 1,823.

The Group had 44 employees with master or higher degree, 1,318 employees with bachelor or higher degree, 2,868 employees with tertiary or higher education background, 11,386 employees with senior high school or higher educational background.

The Group had 10,567 production staff, 192 sales staff, 1,525 engineers, technicians and research staff of the product research center, 199 financial personnel and 1,254 administration staff.

The Group launched a campaign of ‘setting up a learner type of organisation and trying to be a learner type of employee’. Active measures were taken to develop human resources, so as to establish a stimulating and binding mechanism to cultivate, retain and make good use of talented staff.



3. *Business prospects and arrangement*

(1) **Market Analysis**

Based on the 2003 market analysis, the Group considers the following favourable conditions: Firstly, the global economy will continue to recover from tumors and the global petrochemical industry is expected to recover further. The PRC Government will continue to implement active fiscal policy and monetary policy to expand domestic demand and stimulate exports, with targeted annual GDP growth rate of 7 per cent. Following the goal of establishing a well-off society in an all rounded way and taking a new step forward in industrialisation, the PRC economy is speeding up its development pace. All these will provide ample room for the continuous growth favourably in polyester and textile industry. Secondly, the continuous development of textile manufacturing industry generates demand for petrochemical industry. After the entry into WTO, the PRC will further open up to the world. More and more foreign capital and private capital will be injected into the textile industry, which will continue to boost up the textile exports. In 2002, the imported textile machineries in the PRC amounted to US\$3.52 billion, an increase of 40 per cent as compared with last year. The textile industry is speeding up its industrial upgrade, and the substitutes for import becomes more acute. Thirdly, operating environment for polyester will further improve. The PRC Government has started to levy anti-dumping tariff on the imported polyester products from Korea since 3 February 2003 for 5 years. From 1 January 2003, the PRC Government imposes a compulsory quality standard on the production of bottle-grade polyester chips. Fourthly, the Group's structural adjustments will have full effect this year, in particular, the smooth operation of the PTA facility with an annual capacity of 450,000 tonnes shall further lower the Company's raw material costs, which will lead to the greatest growth in profit of the Group.

At the same time, the Group is also facing with challenges and problems. Firstly, there is an imbalance between the supply and the demand of the PRC's polyester products. Production capacity expansion is expected to increase in the near future, which will definitely intensify the already severe competition. Secondly, in accordance with the promises made as a result of the PRC 's entry into the WTO, the tariffs will further be lowered on the imported polyester raw materials and products, which will increase the pressures from the overseas import. Since 1 January 2003, the PRC import tariffs on PTA, MEG and PX have been lowered to 8 per cent, 7 per cent and 4 per cent, respectively. Also, the PRC import tariffs on polyester chip, polyester staple fibre and polyester filament have been lowered to 11.8 per cent, 7.8 per cent and 11 per cent, respectively.

Since the end of last year, prices of polyester raw materials and products have kept on rising as a result of the upsurge in global oil prices. We estimate the overall prices of polyester raw materials and polyester products will go up in 2003, and are very likely to fluctuate sharply. Globally speaking, the demands for PX and MEG will increase, meanwhile, the productivity is expected to maintain at a reasonable level. If the oil prices continue to rise, the downstream sector shall not be able to stand continuously against the pressure of high raw material costs. We expect to face both pressures. Overall, the domestic polyester industry shall still face a stern operational situation in view of the high priced raw materials, the self-supply, the intense competition in product type, quality and cost.



(2) Production operation

In 2003, the Group shall continue its aim to develop and priorities are given to structural adjustments, the implementation of low cost and high value added strategies to strengthen the Group's core competency and sustainable profitability. The planned production volume of polyester products is 1,468,900 tonnes, of which, the planned self consumption volume amounting to 321,000 tonnes. The planned sales volume of polyester products is 1,146,300 tonnes, achieving sales to production ratio of 100 per cent. The planned production of PTA is 633,000 tonnes. 12 new products are planned to be developed for the year. In view of the larger production volume, the Company plans to realise a differentiation rate of 38.3 per cent in its polyester fibre and a specialisation rate of polyester chip of 67.1%.

In 2003, the Group plans to perform well in the following areas:

I. Continue market expansion and strengthen sales management

In 2003, in light of the stern market situation, the Group will strengthen its sales management and continue to expand both the domestic and international markets. Firstly, the Group will persist in matching production and sales, keeping a low stock level and selling at the optimal prices. Secondly, the Group will continue to improve its sales services, strengthen the customer relationship management, and enlarge the strategic alliances with downstream enterprises. Thirdly, the Group will adopt the brand name strategy. Fourthly, the Group will strengthen its cooperation with other domestic polyester manufacturers, regulate the market supply, and stabilise the product prices so as to develop the market jointly. Fifthly, the Group will adopt export strategy, and make greater efforts to explore the export market and enlarge the product categories for exports.

II. Speed up technological innovation and new product development

In 2003, the Group will follow the high value-added strategy as the Group's core development focus and strengthen new product and technological development so as to increase the profit contribution from differential and specialised products. The Group is applying to set up a "National Polyester and Polyester Fibre Research Center" and to increase the facility for technological center. The Group will strengthen its scientific research and make good use of its scientific research facilities, such as the multi-functional staple fibre project with an annual capacity of 7,500 tonnes, the bottle grade chip laboratory and the sea island filament yarn project with an annual capacity of 750 tonnes, to put new products into large scale production as soon as possible and increase the profit contribution. At the same time, the Group will make great efforts to further develop know-how technologies and their auxiliary technologies in the fields of PTA, polyester, staple fibre and bottle grade chips, and start to develop industrial fibre, PTT and PLA etc, so as to give technological support to the Group's capacity expansion, technological improvement and sustainable development.

III. Increase and stabilise production and economic operation

In 2003, the Group will integrate the management systems of ISO9000, ISO14000 and HSE and further formalise its safety and environmental standards. Emphasis will be laid on fine-tuning production and optimising operations. The Group will adopt up-to-date management modes such as statistical analysis, 6 σ and promote the use of quality control groups and quality improvement teams, so as to continuously improve the product quality and upgrade the product status. The safe, stable and optimal operation of the PTA facility with an annual capacity of 450,000 tonnes will be ensured so as to bring greater profit contribution to the Group.

**IV. Strive to reduce costs and expenses**

In 2003, the Group will continue to adopt the low cost strategy to further lower costs and expenses. Measures will be taken to implement the overall budget management. The ERP system will be used to strengthen the unit-based cost analysis. The financial management will be reinforced to ensure the fund adequacy and lower the financial expenses. The management of procurement plans will be enhanced to improve the relevance and accuracy of purchases made. The Group will further optimise the supply structure of raw materials at spot market or forward market and in domestic and overseas market, so as to lower principal raw material costs. More will be done to improve the supply management, to adopt such modes as centralised management, centralised purchasing, centralised reserves and centralised settlements.

V. Focus on the constructions of structural adjustment projects and plan for development projects in the subsequent 3 years of the "Tenth Five-Year plan"

The Group's PTA project with an annual capacity of 450,000 tonnes will be completed and commence operation in April 2003. The staple fibre project with an annual capacity of 90,000 tonnes and the improvement project of No. 5K production line in the Polyester Plant 1 will be completed and in operation in June 2003. The specialised polyester chip project with a daily capacity of 450 tonnes will be completed and in operation in the fourth quarter of 2003. Meanwhile, the Group will start to construct the subsequent structural adjustment projects for the subsequent 3 years of the "Tenth Five-Year Plan" as soon as possible, including the construction of the co-polymer ("CP") project for bottle grade polyester chip with an annual capacity of 200,000 tonnes and SSP project shall start in the third quarter of 2003.

VI. Accelerate management innovation

In 2003, the Group will push forward its internal reforms, improve the organisation system, and encourage management innovation. Measures will be taken to improve the economic responsibility assessment system, remuneration policy, and the labour utilisation remuneration system, in order to make better use of human resources and to promote a stimulating mechanism. The new remuneration reform system will speed up the shift to a salary package for each post. The Group shall continue to flatten its management structure, speed up the reorganisation of the repair and maintenance team and to carry out innovative management control system. With the aid of the implementation of ERP system, the management control processes will improve in efficiency and effectiveness. Greater efforts are to be made to cultivate an advanced corporate culture characterised by "Competition, Dedication and Honesty", and to increase the corporate cohesion and centripetal forces.