

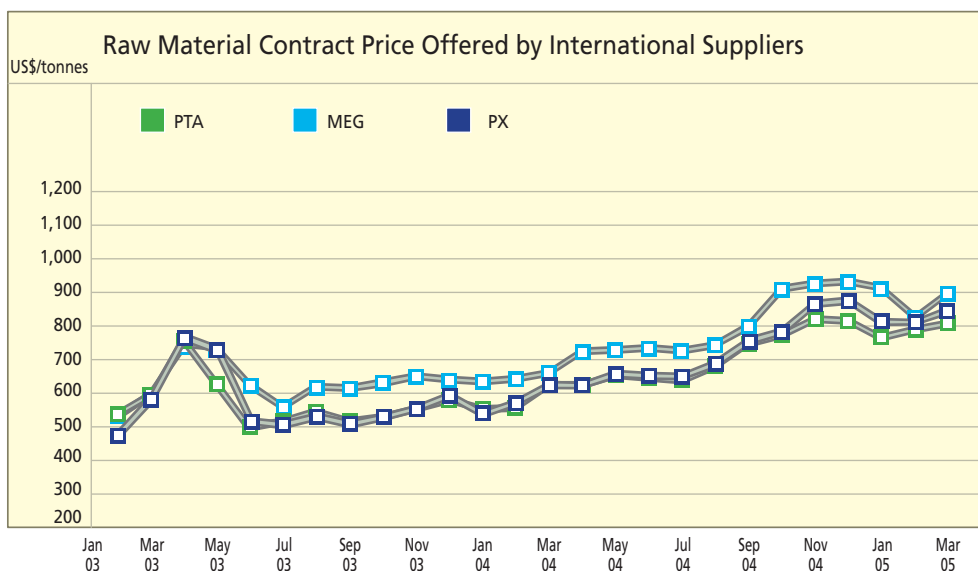
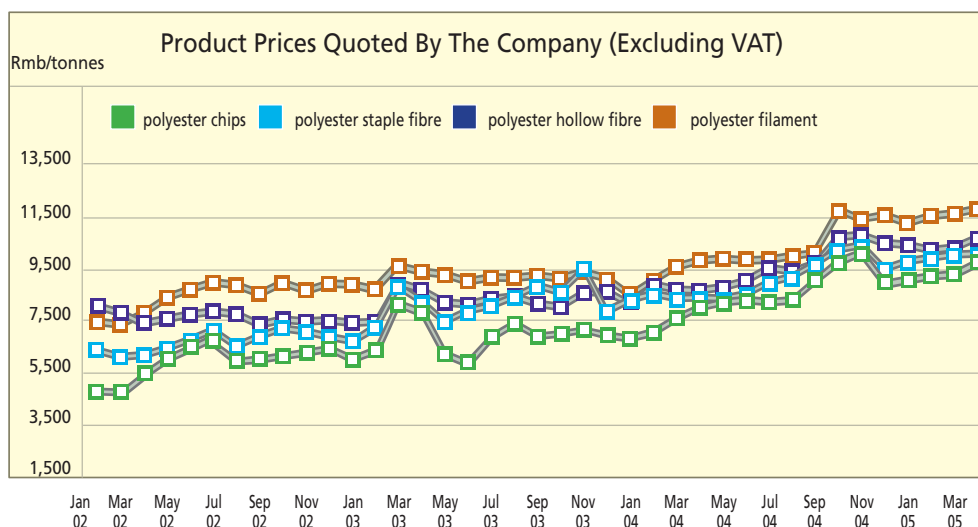
Business Review and Prospects

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

In 2004, under unfavourable market conditions, the Group concentrated on ensuring the stable and full operation of PTA line I and line II to increase the output of PTA, and paid particular attention to improving its operations and reforms. As a result, the Group achieved relatively good profit.

1. Market Review

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, MEG and PX, continued to increase, and the price of polyester products was driven up accordingly. On the other hand, as the competition in the domestic polyester industry was severe, the increase in 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 the polyester industry became increasingly difficult and many polyester enterprises stopped production or reduced output. The Group was confronted with stern challenges.



Business Review and Prospects

In 2004, total domestic supply and consumption of polyester products grew steadily. The total polyester production capacity increased by 3,500,000 tonnes during the year. Total domestic supply volume of polyester fibre amounted to 12,457,200 tonnes, an increase of 20.6 per cent as compared with last year, of which, the domestic production volume increased by 24.6 per cent and the import volume decreased by 11.7 per cent as compared with last year. In addition, the total domestic consumption volume of polyester fibre amounted to 11,867,900 tonnes, an increase of 19.2 per cent as compared with last year.

Domestic supply and demand of polyester fibre

	Polyester filament			Polyester staple fibre			Polyester fibre		
	2004 '000 tonnes	2003 '000 tonnes	+/(-) (%)	2004 '000 tonnes	2003 '000 tonnes	+/(-) (%)	2004 '000 tonnes	2003 '000 tonnes	+/(-) (%)
Production volume	7,033.1	5,642.2	24.7	4,347.4	3,491.3	24.5	11,380.5	9,133.5	24.6
Import volume	361.9	407.7	(11.2)	507.5	577.1	(12.1)	869.4	984.8	(11.7)
Export volume	132.6	43.6	204.1	144.3	115.9	24.5	276.9	159.5	73.6
Net import	229.3	364.1	(37.0)	363.2	461.2	(21.2)	592.5	825.3	(28.2)
Inventories at beginning of the year	145.5	131.6	10.6	61.8	76.4	(19.1)	207.3	208.0	(0.3)
Inventories at end of the year	255.6	145.5	75.7	56.8	61.8	(8.1)	312.4	207.3	50.7
Total supply volume	7,540.5	6,181.5	22.0	4,916.7	4,144.8	18.6	12,457.2	10,326.3	20.6
Total consumption volume	7,152.3	5,992.4	19.4	4,715.6	3,967.1	18.9	11,867.9	9,959.5	19.2

Source: The Chemical Fibre Association of China

2. Production and Operation Review

(1) Production and Marketing

In 2004, the Group's facilities maintained safe and stable operations, and the main product quality improved steadily. The total production volume of polyester products amounted to 1,683,393 tonnes, an increase of 12.3 per cent as compared with 1,498,762 tonnes in 2003. The capacity utilization rate reached 100.5 per cent. The total production volume of PTA amounted to 933,363 tonnes, an increase of 29.7 per cent as compared with 719,828 tonnes in 2003. The Group closely followed market trends, persisted in selling all the goods produced, and sold at optimal prices during the period. Since good pre-sales work had been done before the new facilities were put into operation, the products were quickly launched to the market. The Group's total sales volume of polyester products amounted to 1,351,137 tonnes in 2004, an increase of 12.1 per cent as compared with 1,205,140 tonnes in 2003. Excluding self-consumption volume and other factors, the ratio of sales to production volume reached 99.3 per cent. A total of 18,942 tonnes of polyester products were exported during the year.



Business Review and Prospects

(2) Cost control

In 2004, the weighted average price of polyester products (excluding VAT) of the Group increased by 18.1 per cent as compared with last year, while the weighted average purchase prices of principal purchased raw materials of the Group, such as PTA, MEG, and PX, increased by 31.8 per cent as compared with last year. The Group's profit margin was significantly compressed due to the severely competitive market. The Group vigorously offset the influence of the market by reducing costs and expenses and strictly implementing budget management to strengthen controls over costs and expenses in the production processes. As a result, the overall energy consumption per unit decreased by 7.6 per cent as compared with last year. The Group strengthened its management of raw materials purchases and products sales, optimized the stock structure of raw materials and polyester products, which in turn controlled the business risks and reduced the use of funds. Mainly due to the increase in sales volume and transportation costs, interest expenses of discounted bills and the decrease in interest capitalized, the Group's selling expenses, and financing costs increased by 6.1 per cent and 31.5 per cent as compared with last year respectively. Thanks to its efforts in internal management and reducing costs and expenses, administrative expenses decreased by 2.3 per cent as compared with last year. The proportion of the above expenses to turnover decreased by 1.3 percentage points as compared with last year.

(3) R&D

In 2004, the profit contributions from differential and specialized products increased further. The Group made new achievements in its product and technological development. Some new and advantageous products were gradually launched to market and a healthy profit margin was achieved. For instance, differential products such as film-grade polyester chips, high heat-absorbing bottle-grade polyester chips, specialized polyester chips for plastic steel band, and 4.44dtex x 90mm polyester staple fibre were put into batch production. Some positive results were achieved in the development of aramid fibre 1414 and polylactide ("PLA") fibre. In 2004, the Group's total production volume of specialized polyester chips amounted to 405,000 tonnes and the specialized rate was 61.8 per cent, 1.4 percentage points higher than that of last year. The total production volume of differential polyester fibre amounted to 386,000 tonnes and the differential rate of polyester fibre was 53.0 per cent, 4.3 percentage points higher than that of last year.

(4) Internal management

In 2004, the Company vigorously proceeded with management system reform, flattened and simplified the management structure and cut back unnecessary staff. The number of management departments decreased from 20 to 11, secondary units decreased from 19 to 13, and middle-level management staffs decreased by 51.9 per cent. Other restructuring progresses included department specialization, rescindment of factory-level organization system and preliminarily formation of the two-level management framework of "Company-production center" were achieved and management efficiency was further improved. The Company also introduced an internal control system to standardize internal management and reduce operating risk. The internal control system was revised and improved according to the trial results and was formally implemented on 1 January 2005. Greater effort was made to reduce staff numbers. The Group entered into voluntary resignation contracts with 343 employees during the year.

(5) Capital expenditure

In 2004, total capital expenditure paid amounted to Rmb 578,104,000. The CP and SSP projects with an annual capacity of 200,000 tonnes were completed and put into operation in November 2004. The products were soon welcomed by the market. The specialized polyester chips project with an annual capacity of 160,000 tonnes was carried out smoothly. The Group believes that the intellectual property rights obtained, high technology and cost effective projects shall further improve products and fixed assets structure.



3. Business Prospects and Plan

(1) Market Analysis

According to the 2005 market analysis, the Group considers: Firstly, the global economy will maintain a relatively rapid growth. The upswing of China's new business cycle will still persist. There will be continuous high demand for both petrochemical and polyester products. Secondly, starting from 1 January 2005, the global textile quota system has been lifted and the outlook for the China's textile export will be promising, which can be seen in the increase of domestic demand for polyester products. Meanwhile, the problem of shortage in polyester raw materials such as PX, MEG and PTA in the PRC would still exist. As such, the demand for imported polyester raw materials as well as the volume will increase. The polyester raw materials will still play a dominant role in the polyester industrial chain. Owing to limited supply of electricity, increase in transportation cost and aggravation of textile trade protection, the profitability of downstream textile industry will be weakened, which in turn may affect the demand and prices of the polyester products. From 1 January 2005, the PRC import tariffs on PTA and PX have been lowered to 6.5 per cent and 2 per cent respectively, while the import tariffs on MEG stays at 5.5 per cent. Also, the new PRC import tariffs on polyester chip and polyester filament have been lowered to 9.7 per cent and 5 per cent respectively, while the import tariffs on polyester staple fibre stays at 5 per cent.

It is expected that global crude oil price will continue to fluctuate concussively at a high level in 2005. Owing to the combined effects of high global crude oil prices and the limited supply of polyester raw materials, prices of principal raw materials for polyester products, such as PTA, MEG and PX will continue to stay at a high level. Despite there is a high correlation between prices of polyester products and prices of raw materials, the outlook on profit margin of polyester products is pessimistic due to tough competition of polyester industry. As a result, the Group's operation environment is still severe.

(2) Business Strategy

In 2005, the Group will continue the restructuring in department specialization, advance management system reform, speed up structure adjustment, and strive to reduce costs and expenses for improving profitability. In 2005, the Group will strive to perform well in the following areas:

I. Focus on market orientation, expand turnover and lower purchase costs

The Group will focus on market orientation and strengthen the tracking, forecast and analysis of international and domestic raw material price trends. By exercising tactics on stock, price and delivery date comprehensively, the procurement cost and capital occupied will be reduced on the basis of stabilizing raw material supply. The planned production volume of polyester products is 2,121,000 tonnes, of which, the planned self-consumption volume amounting to 540,000 tonnes. The planned sales volume of polyester products is 1,581,000 tonnes, achieving sales to production ratio of 100 per cent. The planned production volume of PTA is 966,000 tonnes.

II. Advance Healthy, Safe and Environmental ("HSE") system comprehensively to maintain safe, stable and long-term operation of production facilities

In 2005, the Group will continue to strengthen safety and environment management, and further enhance its safety responsibility system. Efforts will be put to optimize the operation of key facilities to reduce unexpected cessation of production. In light of the new situation in extended management range and rearrangement of staffs and facilities after the restructuring, the safety management network will be modified and supervision and inspection will be strengthened. Various basic administrative works will continuously be strengthened to maintain long-term high-load operation of production facilities.



Business Review and Prospects

III. *Strengthen product and technology development, widen profit margin of products and increase profit contributions of technology innovation*

The Group will exert the coordination of marketing, production and research according to market conditions and efficiency, in order to reinforce the function of marketing, development and production. Development of 9 new products is planned for the year. In view of the larger production volume, the Group plans to produce 419,000 tonnes of differential polyester fibre and 664,000 tonnes of specialized polyester chips, and to realize a differential rate of 57.0 per cent in its polyester fibre and a specialized rate of 72.4 per cent in its polyester chip. Emphasis will be put on the development and production of full-dull chips, specialized chips for industrial filaments, high heat-absorbing bottle-grade chips, high grade non-weaving staple fibre, and fine staple fibre. The sales volume of 1.33dtex full-bright sewing thread type polyester staple fibre is expected to increase by 22.5 per cent as compared with last year. The Group will work hard on quality improvement and market expansion of existing differential products in order to make more profits. The Group will continue to promote the technological development of high strength aramid fibre, PLA, PTT and new types of catalysts.

IV. *Strictly maintain internal control system and lower costs and expenses*

The Group will carry out internal control system strictly to standardize internal management and reduce operating risk. The financial management will be reinforced to cut down on capital occupied and lower financial expenses accordingly. Investment management and supervision of financial audit will be strengthened. Debt collection and proportion of bills receivable will be strictly controlled to minimize capital occupied and control capital risk exposure. Activities will be vigorously developed to reduce consumption of energy and raw materials. The Group will strive to decrease the overall energy consumption per unit by 4 per cent as compared with last year.

V. *Advance construction of structure adjustment projects and focus on the capacity of sustainable development*

The Group will put efforts into the construction of specialized polyester chips project with an annual capacity of 160,000 tonnes and start the staple fibre project with an annual capacity of 100,000 tonnes, which will commence operation in August 2005 and in the third quarter of 2006 respectively. Meticulous measures will be taken to implement the technological improvement project to increase the capacity of the PTA project with an annual capacity of 450,000 tonnes to 600,000 tonnes per year in April 2005. The Group will meticulously organize the preparatory work of the PTA project with an annual capacity of 1,000,000 tonnes and will begin construction as soon as possible.

VI. *Enhance restructuring based on department specialization, optimize operation process, improve management efficiency and advance system and mechanism innovation*

The Group will follow the principle of efficiency and profit, enhance restructuring based on department specialization, optimize operation processes, and improve management efficiency. The work of operational management employee reduction will be steadily put forward. The Group will put equal focus on reform and adjustment. The Group will hasten the pace in establishing the personal performance evaluation system based on position appraisal and introducing the market price for the labor force. A comprehensive remuneration system of managerial, technological and operational duties will be established and the transition to a "one salary, one position" system will be accelerated, which will inspire ardour and enthusiasm of employees.

