

Ma Yu-ping, Managing Director



The information set out below does not form part of the accounts audited by KPMG or KPMG Peat Marwick Huazhen, as set out on pages 52 to 90 and pages 91 to 134, respectively, of this annual report and is included for information purpose. This discussion and analysis should be read in conjunction with the information contained in the Consolidated Accounts and Notes thereto (the "Accounts") presented in this annual report. Financial figures, where applicable, contained herein have been extracted from the accounts prepared in accordance with IAS.

1. BUSINESS ENVIRONMENT

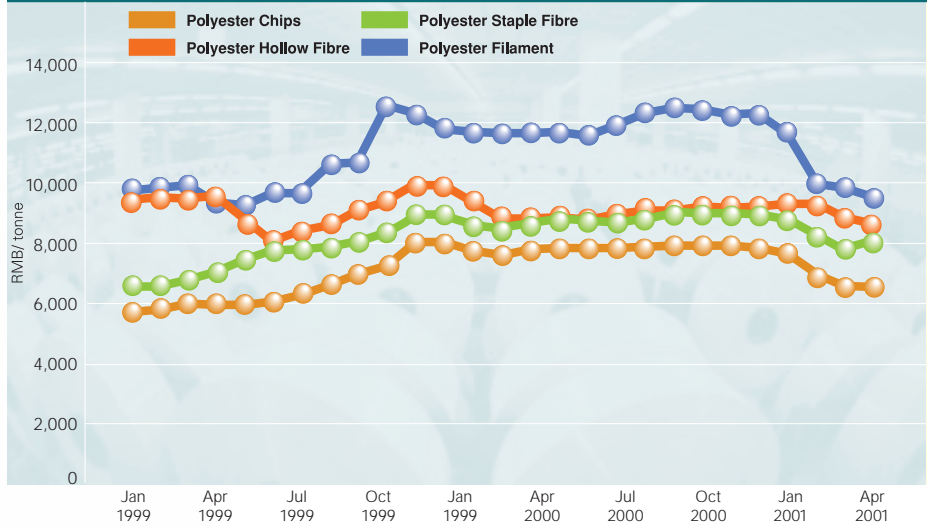
In 2000, both the global and the PRC economy improved. The PRC textile industry's profit increased by 120 percent. The total PRC domestic consumption of polyester fibre increased by 12.5 percent compared to 1999. Meanwhile, the capacity of domestic polyester production increased greatly, and the total domestic supply of polyester fibre increased by 14.9 percent compared with 1999. Consequently, the prices of domestic polyester products stabilized at a relatively high level due to strong demand and supply in a generally balanced way.

	Polyester filament			Polyester staple fibre			Total polyester fibre		
	2000 '000 tonnes	1999 '000 tonnes	+/(%)	2000 '000 tonnes	1999 '000 tonnes	+/(%)	2000 '000 tonnes	1999 '000 tonnes	+/(%)
Production	3,152.4	2,697.4	16.9	1,949.4	1,669.9	16.7	5,101.8	4,367.3	16.8
Import	402.6	307.0	31.1	622.4	531.1	17.2	1,025.0	838.1	22.3
Export	18.6	16.2	14.8	2.4	3.9	-38.5	21.0	20.1	4.5
Net import	384.0	290.8	32.0	620.0	527.2	17.6	1,004.0	818.0	22.7
Inventories at the beginning of the year	59.4	172.9	-65.6	62.8	61.8	1.6	122.2	234.7	-47.9
Inventories at the end of the year	176.6	59.4	197.3	90.3	62.8	43.8	266.9	122.2	118.4
Total supply	3,614.4	3,177.3	13.8	2,634.6	2,262.8	16.4	6,249.0	5,440.1	14.9
Total consumption	3,419.0	3,101.7	10.2	2,541.9	2,196.1	15.7	5,960.9	5,297.8	12.5

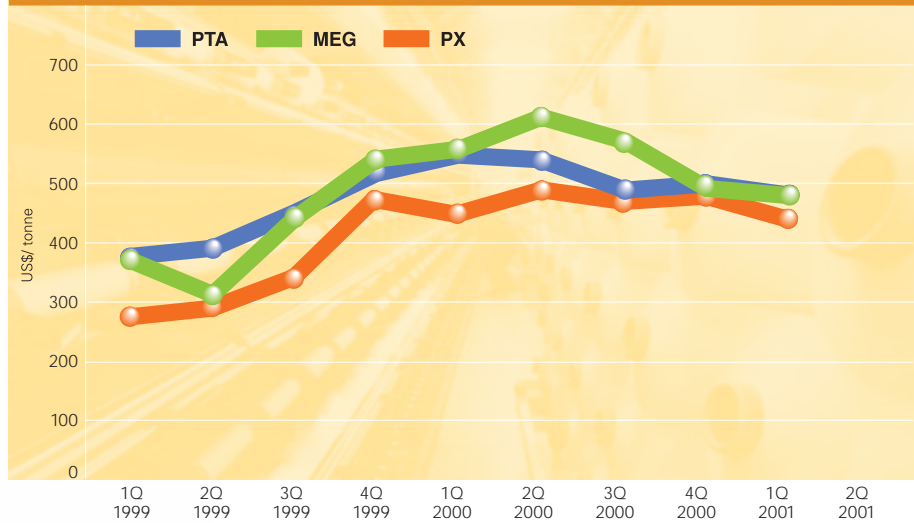
Source: Chemical Fibre Association of China and the Company's estimates

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Product Prices Quoted by the Company (Excluding VAT)



Raw Material Contract Price Offered by the International Supplies



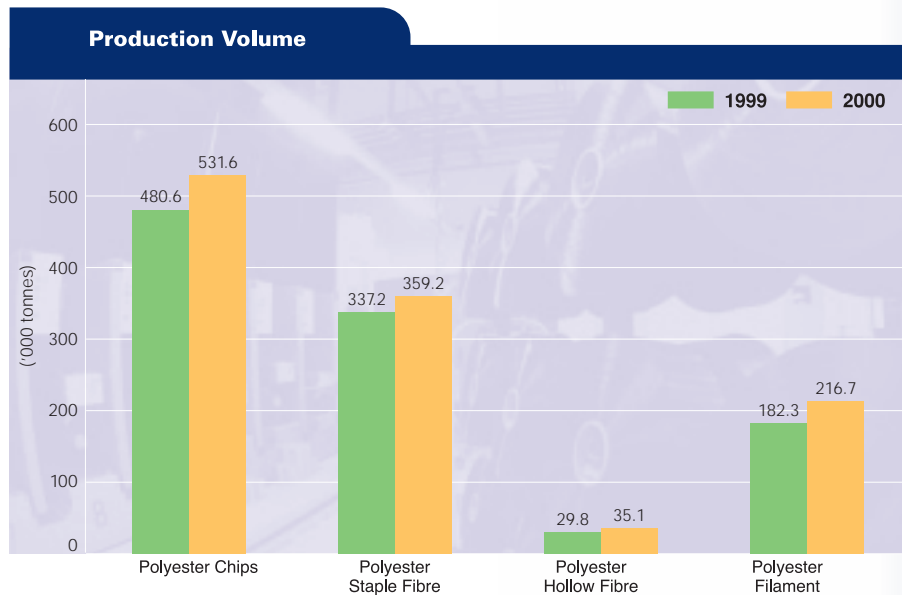
In 2000, the prices of polyester raw materials in Asia, such as PTA, MEG, PX, were generally higher than last year due to the increased crude oil prices. However, the prices did not closely follow the increase in crude oil prices but remained stable because the capacity of polyester manufacturing industry was still under-utilized.

2. RESULTS OF OPERATIONS

In 2000, the Group's profit attributable to shareholders amounted to Rmb840 million, an increase of 8.1 percent from 1999, and marked the best result in the past five years since 1996.

(1) TURNOVER

In 2000, the Group's utilization rate reached 102.5 percent compared with 99.9 percent in 1999. The Group's production volume of polyester products increased to 1,142,636 tonnes in 2000, an increase of 10.9 percent from 1,029,960 tonnes in 1999. The increase was mainly due to the completion of structural adjustment projects and that there were no overhauls in 2000.



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In 2000, the Group's total sales volume of the polyester products increased by 10.5 percent to 1,011,504 tonnes from 915,237 tonnes in 1999. The increase in sales volume was resulted from the Group's increased effort in promotion sales and the increase in production volume. Also, the Group's product prices were higher compared to other domestic manufacturers due to the publicly recognized high quality and excellent sales services. In 2000, the weighted average price of the Group's polyester products increased by 15.4 percent to Rmb8,858 per tonne as compared to Rmb7,674 in 1999 (excluding VAT).

Sales Volume

For the year ended 31 December

	2000		1999	
	Sales volume tonnes	Percentage of total sales volume	Sales volume tonnes	Percentage of total sales volume
Polyester chips	455,471	45.0	409,191	44.7
Polyester staple fibre	359,307	35.5	334,414	36.5
Polyester hollow fibre	35,024	3.5	28,401	3.1
Polyester filament	161,702	16.0	143,231	15.7
Total	<u>1,011,504</u>	<u>100</u>	<u>915,237</u>	<u>100</u>

Average Prices for products (Rmb/tonne excluding VAT)

For the year ended 31 December

	2000	1999	Increase/ (decrease)
			(%)
Polyester chips	7,917	6,814	16.2
Polyester staple fibre	8,910	7,761	14.8
Polyester hollow fibre	9,368	9,372	(0.04)
Polyester filament	11,248	9,593	17.3
Weighted average sales price	<u>8,858</u>	<u>7,674</u>	<u>15.4</u>

Turnover

For the year ended 31 December

	2000		1999	
	Turnover <i>Rmb million</i>	Percentage of turnover %	Turnover <i>Rmb million</i>	Percentage of turnover %
Polyester chips	3,606	40.0	2,788	39.4
Polyester staple fibre	3,201	35.5	2,596	36.7
Polyester hollow fibre	328	3.6	266	3.8
Polyester filament	1,825	20.3	1,374	19.4
Others	54	0.6	52	0.7
Total	9,014	100	7,076	100

In 2000, the Group's turnover increased by 27.4 percent to Rmb9,014 million from Rmb7,076 million in 1999. This increase was mainly due to the increase in product prices and sales volume.

(2) COST OF SALES

In 2000, the Group's cost of sales amounted to Rmb7,186 million or 79.7 percent of net turnover, an increase of 34.7 percent compared with Rmb5,333 million in 1999. The increase was mainly due to the increase in sales volume and the raw material prices. Total raw material costs increased by 39.9 percent to Rmb5,615 million in 2000 compared with Rmb4,014 million in 1999, which accounted for 78.7 percent of cost of sales. The increase was mainly due to the increase in sales volume and an increase of 28.0 percent in the weighted average price of polyester raw materials. The average purchase costs of PTA, MEG, and PX increased by 23 percent, 32 percent and 42 percent, respectively, compared to 1999. During 2000, the Group took decisive action to purchase principal raw materials timely at acceptable low prices from overseas and domestic suppliers, which partly offset the negative impact of the increase in the crude oil price.

In 2000, since the increase in turnover was higher than that in cost of sales, the Group's gross profit increased by Rmb86 million to Rmb1,829 million in 2000. Because the growth rate of turnover was lower than that of the cost of sales, the Group's gross margin was 20.3 percent, which had a decrease of 4.3 percent from 1999.

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(3) SELLING, ADMINISTRATIVE AND FINANCIAL EXPENSES
For the year ended 31 December

	2000	1999	Increase/ (decrease)
	Rmb'000	Rmb'000	%
Selling expenses	112,901	129,883	(13.1)
Administrative expenses	565,037	399,784	41.3
Financial expenses, net	56,890	129,135	(55.9)
Total	<u>734,828</u>	<u>658,802</u>	<u>11.5</u>

In 2000, administrative expenses increased by Rmb165 million and this was mainly due to the increase in wages, depreciation rate, as well as the loss on disposal of current assets. Selling expenses decreased by Rmb17 million because of the enhanced management over sales and marketing. Financial expenses decreased by Rmb72 million, which was mainly because the Group centralised its working capital allocation, decreased its bank loans through early repayment and that the bank loan's interest rate was also lowered.

In conclusion, selling, administrative and financial expenses increased by 11.5 percent.

(4) PROFIT FROM OPERATIONS, PROFIT BEFORE TAXATION, PROFIT ATTRIBUTABLE TO SHAREHOLDERS
For the year ended 31 December

	2000	1999	Increase/ (decrease)
	Rmb'000	Rmb'000	%
Profit from operations	1,118,153	1,235,236	(9.5)
Profit before taxation	985,493	921,454	6.9
Income tax expense	139,391	129,211	7.9
Profit attributable to shareholders	840,228	777,067	8.1
Earnings per share(Rmb)	<u>0.210</u>	<u>0.194</u>	8.1

In 2000, the Group continued its prudent policy, and wrote off non-performing fixed assets of Rmb76 million (1999: Rmb185 million).

Because of the Group's increased sales volume and the increase in its products' prices, the quick-response product mix and schedule adjustment, and better cost and expense controls in 2000, the Group's profit from ordinary activities before taxation increased by 6.9 percent to Rmb985 million, and profit attributable to shareholders increased by 8.1 percent to Rmb840 million from 1999. In 2000, the Group's operating margin was 12.4 percent, and net profit margin was 9.4 percent.

3. LIQUIDITY

Cash and cash equivalents as at 31 December 2000 amounted to Rmb601 million, an increase of Rmb193 million from Rmb408 million as at 31 December 1999. The change was due to the increase in the Group's production and sales and faster settlement of debtors.

In 2000, the Group's net cash inflow from operating activities was Rmb2,005 million compared with Rmb1,808 million in 1999. This was attributed to the increase in the Group's production and sales and faster settlement of debtors. As at 31 December 2000, there was an increase of Rmb110 million in inventories compared with an increase of Rmb210 million in 1999, a decrease of Rmb264 million in trade and other receivables compared with a decrease of Rmb165 million in 1999.

In 2000, the Group's net cash outflow from investing activities was Rmb538 million compared with Rmb822 million in 1999. This was mainly attributed to the increase in capital expenditure during the year.

In 2000, the Group's net cash outflow from financing activities was Rmb1,274 million compared with Rmb1,572 million in 1999. This was mainly attributed to the repayment of bank loans and the payment of 1999 final dividend.

Bank loans amounted to Rmb880 million as at 31 December 2000 compared with Rmb1,710 million in 1999. The decrease was due to the substantial repayment of bank loans sourced from the net cash inflow from operating activities. Of all the bank loans, short-term loans due in 2001 amounted to Rmb430 million, and long-term loans amounted to Rmb450 million, of which Rmb150 million will be due in 2002, and the remaining will be due in 2003.

In 2000, shareholders' funds (excluding minority interests) increased by Rmb400 million to Rm9,078 million due to the profit attributable to shareholders of Rmb840 million and the payment of final cash dividends of Rmb440 million. As at 31 December 2000, total liabilities decreased by Rmb542 million to Rmb2,234 million, of which long-term bank loans amounted to Rmb450 million, mainly resulted from the early repayment of bank loans. Accordingly, total assets decreased by Rmb141 million to Rmb11,368 million, of which property, plant and equipment amounted to Rmb7,525 million. Total liabilities/total assets as at 31 December 2000 was 19.6 percent, compared with 24.1 percent as at 31 December 1999.

4. CAPITAL EXPENDITURE

In 2000, the Company's total capital expenditure amounted to Rmb439 million. The Company's capital expenditure in 2001 is expected to be approximately Rmb1,230 million, and is mainly for the following projects: Rmb190 million to increase the DTY capacity by 50,000 tonnes per annum, Rmb349 million to complete the direct-melt-spinning polyester filament project with an annual capacity of 60,000 tonnes, Rmb262 million to expand the PTA plant's annual capacity by 450,000 tonnes, and Rmb120 million to complete SSP project with an annual capacity of 100,000 tonnes. The planned capital expenditures will be funded from cash generated from operations and bank loans to the Group.

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