

5. MANAGEMENT DISCUSSION AND ANALYSIS

The following financial data, where applicable, are extracted from the Group's unaudited interim financial report prepared in accordance with IAS 34 *Interim Financial Reporting*. These data should be read in conjunction with the unaudited interim financial report and notes therein.

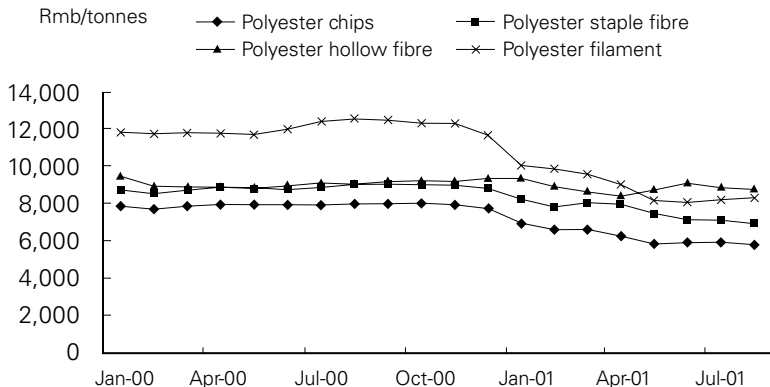
1. BUSINESS ENVIRONMENT

In the first half of 2001, the growth rates of textile products, volume export and profitability also declined, which diminished the growth of demand for polyester products. Meanwhile, domestic polyester production capacity increased by approximately 800,000 tonnes. The total supply of polyester fibre increased by 22.0 per cent, while total domestic consumption of polyester fibre increased by 16.7 per cent. Because of the significant increase in new polyester production capacity and oversupply, prices of polyester products dropped sharply and profit margin shrank drastically. Consequently, some of the domestic polyester product manufacturers incurred losses.

	Polyester filament			Polyester staple fibre			Total polyester fibre		
	1H2001	1H2000	+/(%)	1H2001	1H2000	+/(%)	1H2001	1H2000	+/(%)
	'000	'000		'000	'000		'000	'000	
	tonnes	tonnes		tonnes	tonnes		tonnes	tonnes	
Production	1,804.8	1,459.0	23.7	1,116.6	902.3	23.8	2,921.4	2,361.3	23.7
Import	136.0	177.9	-23.6	265.2	281.2	-5.7	401.2	459.1	-12.6
Export	10.3	9.6	7.3	3.2	1.2	166.7	13.5	10.8	25.0
Net import	125.7	168.3	-25.3	262.0	280.0	-6.4	387.7	448.3	-13.5
Inventories at the beginning of the period	176.6	59.4	197.3	90.3	62.8	43.8	266.9	122.2	118.4
Inventories at the end of the period	177.4	68.3	159.7	152.3	81.8	86.2	329.7	150.1	119.7
Total supply	2,117.4	1,696.3	24.8	1,472.1	1,246.3	18.1	3,589.5	2,942.6	22.0
Total consumption	1,929.7	1,618.4	19.2	1,316.6	1,163.3	13.2	3,246.3	2,781.7	16.7

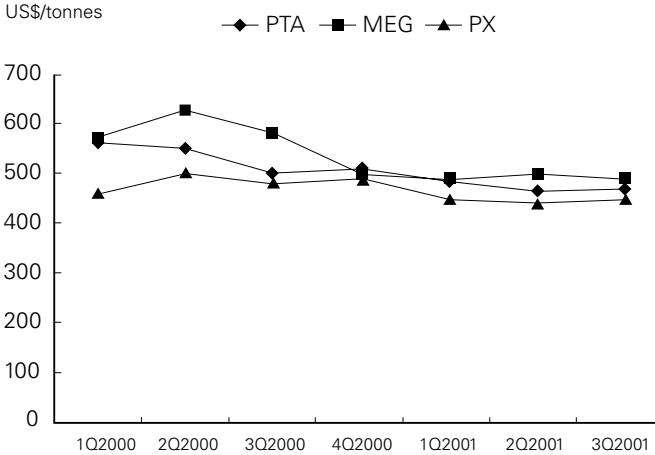
Source: Chemical Fibre Association of China and the Company's estimates

Product Prices Quoted By the Company (Excluding VAT)



In the first half of 2001, prices of polyester raw materials in Asia, such as PTA, MEG and PX, were slightly decreased because of the decline in crude oil prices and the under-utilization of polyester manufacturing capacity.

Raw Material Contract Price Offered by the International Suppliers

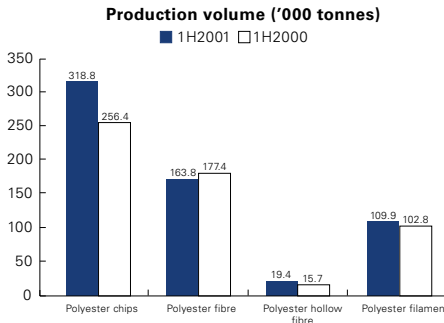


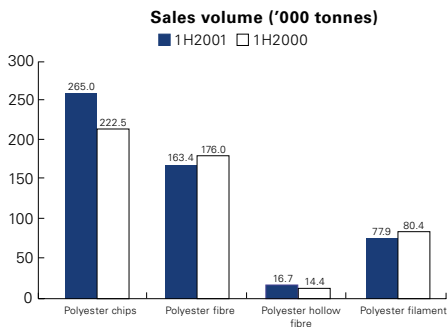
2. RESULTS OF OPERATIONS

In the first half of 2001, the Group’s profit attributable to shareholders amounted to Rmb121 million, representing a decrease of 67.9 per cent as compared with the corresponding period last year. Yizheng Chemical Fibre Foshan Polyester Company Limited and Foshan Chemical Fibre Complex Group recorded a profit of Rmb4,862,000 while Kangqi Group recorded a profit of Rmb7,257,000.

(1) Turnover

In the first half of 2001, due to the commencement of the structural adjustment projects and overhaul, the Group’s capacity utilization rate reached 101.1 per cent, as compared with that of 102.9 per cent for the corresponding period last year. The Group’s total production volume of polyester products was 611,851 tonnes, representing an increase of 10.8 per cent as compared with 552,277 tonnes for the corresponding period last year.





In the first half of 2001, the Group's total sales volume of the polyester products was 522,948 tonnes, representing an increase of 6.0 per cent over that of 493,294 tonnes for the corresponding period last year. Such increase was due to the Group's enhanced efforts in sales promotion and the increase in production volume. In addition, the Group's sales prices for its products still represented the higher end of prices in the domestic market during the period, due to the publicly recognized high quality and excellent sales services. As compared with the corresponding period last year, the weighted average prices (excluding VAT) of the Group's polyester products decreased from Rmb8,741/tonne to Rmb7,373/tonne, representing a decrease of 15.7 per cent.

	For the six months ended 30 June			
	2001		2000	
	Sales volume	Percentage of total sales	Sales volume	Percentage of total sales
	Tonnes	volume (%)	Tonnes	volume (%)
Polyester chips	264,990	50.7	222,505	45.1
Polyester staple fibre	163,367	31.2	175,993	35.7
Polyester hollow fibre	16,709	3.2	14,441	2.9
Polyester filament	77,882	14.9	80,355	16.3
Total	522,948	100.0	493,294	100.0

	Average Prices for Products		
	(Rmb/tonne excluding VAT)		
	For the six months ended 30 June		
	2001	2000	Change (%)
Polyester chips	6,410	7,901	-18.9
Polyester staple fibre	7,742	8,652	-10.5
Polyester hollow fibre	8,978	9,231	-2.7
Polyester filament	9,534	11,165	-14.6
Weighted average selling price	7,373	8,741	-15.7

	For the six months ended 30 June			
	2001		2000	
	Turnover	Percentage	Turnover	Percentage
	Rmb million	of turnover	Rmb million	of turnover
		(%)		(%)
Polyester chips	1,697	43.4	1,758	40.4
Polyester staple fibre	1,265	32.4	1,523	35.0
Polyester hollow fibre	150	3.8	133	3.1
Polyester filament	741	19.0	902	20.8
Others	57	1.4	31	0.7
Total	3,910	100.0	4,347	100.0

In the first half of 2001, the Group's turnover amounted to Rmb3,910 million, representing a decrease of 10.0 per cent as compared with that of Rmb4,347 million for the corresponding period last year. The decrease was mainly due to the sharp decrease of 15.7 per cent in product prices although the Group's sales volume increased by 6.0 per cent as compared with the corresponding period last year.

(2) Cost of sales

In the first half of 2001, the Group's cost of sales amounted to Rmb3,471 million or 88.8 per cent of net sales, representing a slightly increase as compared with that of Rmb3,469 million for the corresponding period last year. Such increase was mainly due to the increase in sales volume and decrease in raw materials prices. Total costs of raw materials amounted to Rmb2,758 million in the first half of 2001, which accounted for 79.4 per cent of cost of sales, representing a decrease of 2.5 per cent as compared with that of Rmb2,830 million for the corresponding period last year. Such increase was mainly due to the increase in sales volume and a decrease of 6.3 per cent in weighted average price of the polyester raw materials as compared with the corresponding period last year. The average purchase cost of PTA increased by 0.14 per cent, while that of MEG and PX decreased by 22.4 per cent and 0.3 per cent respectively as compared with the corresponding period last year.

As a result of decrease in turnover and the increase in the cost of sales in the first half of 2001, the Group's gross profit decreased by Rmb438 million to Rmb439 million. The Group's gross margin was 11.2 per cent, representing a decrease of 9.0 per cent compared with the corresponding period last year.

(3) Selling, administrative and financial expenses

	For the six months ended 30 June		
	2001	2000	Change
	Rmb'000	Rmb'000	(%)
Selling expenses	56,242	53,921	4.3
Administrative expenses	217,471	261,542	-16.9
Financial expenses	11,825	33,259	-64.4
Total	285,538	348,722	-18.1

In the first half of 2001, selling expenses increased by Rmb2 million, mainly due to the increase in sales volume. Administrative expenses decreased by Rmb44 million, mainly due to implementation of austerity programs and better control over expenses. Financial expenses decreased by Rmb21 million, mainly due to the rational allocation the working capital and the restructuring of long-term and short-term bank loans timely. The overall decrease in selling, administrative and financial expenses was 18.1 per cent.

(4) Profit from operations, profit from ordinary activities before taxation, profit attributable to shareholders

	For the six months ended 30 June		
	2001	2000	Change
	Rmb'000	Rmb'000	(%)
Profit from operations	162,249	487,037	-66.7
Profit from ordinary activities before taxation	150,424	453,814	-66.9
Income tax expenses	26,972	72,623	-62.9
Profit attributable to shareholders	121,186	377,525	-67.9
Earnings per share (in Rmb Yuan)	0.030	0.094	-67.9

In the first half of 2001, despite the Group's enhanced efforts in uplifting production volume and sales volume and exercising better control over costs and expenses, and the positive effects of the structural adjustment projects during the past few years, the significant decrease in product prices brought about the decrease in the Group's profit from ordinary activities before taxation of 66.9 per cent to Rmb150 million, and the decrease in profit attributable to shareholders of 67.9 per cent to Rmb121 million as compared with the corresponding period last year. The Group's operating profit margin and net profit margin were 4.1 per cent and 3.2 per cent respectively.

3. LIQUIDITY

At 30 June 2001, the Group's cash and cash equivalents amounted to Rmb688 million, representing an increase of Rmb87 million as compared with that of Rmb601 million as at 31 December 2000.

In the first half of 2001, the Group's net cash inflow from operating activities was Rmb244 million, as compared with that of Rmb1,053 million for the corresponding period last year. Such decrease was mainly due to the decrease of Rmb303 million in profit from ordinary activities before taxation caused by the decrease in product prices. As at 30 June 2001, the Group's stocks increased by Rmb68 million, which was mainly due to the increase in raw materials inventories. Trade and other receivables increased by Rmb194 million, which was mainly due to the increased bills receivable under the changed market situation.

In the first half of 2001, the Group's net cash outflow from investing activities was Rmb236 million, as compared with cash inflow of Rmb57 million for the corresponding period last year. Such change was mainly because that there was capital expenditure of Rmb753 million while there was Rmb525 million matured deposit with banks and other financial institutions during the period.

In the first half of 2001, the Group's net cash inflow from financing activities was Rmb79 million, as compared with net cash outflow of Rmb705 million for the corresponding period last year. Such change was mainly due to the increase in short-term bank loans.

As at 30 June 2000, the Group's bank loans amounted to Rmb960 million, as compared with that of Rmb880 million as at 31 December 2000. Such increase was mainly due to the increase in short-term bank loan .

In the first half of 2001, the Group's profit attributable to shareholders amounted to Rmb121 million and a final dividend for the year ended 31 December 2000 approved by the Board amounted to Rmb360 million. As such, the Group's shareholders' funds (excluding minority interests) decreased by Rmb239 million to Rmb8,840 million. The Group's total liabilities increased by Rmb422 million to Rmb2,656 million, of which long-term liabilities amounted to Rmb300 million. Such increase was mainly due to dividend payable of Rmb360 million and the increase in bank loans of Rmb80 million. As a result, the Group's total assets increased by Rmb185 million to Rmb11,554 million, of which property, plant and equipment amounted to Rmb7,156 million. At 30 June 2001, total liabilities to total assets ratio was 23.0 per cent as compared with that of 19.7 per cent at 31 December 2000.

4. CAPITAL EXPENDITURE

In the first half of 2001, the Company's capital expenditure amounted to Rmb753 million while the amount of capital expenditure for the second half of 2001 is expected to be approximately Rmb942 million. Such capital expenditure mainly includes: Rmb121 million as expenditure for the DTY capacity project with an annual capacity of 50,000 tonnes, Rmb99 million as expenditure for the direct-melt-spinning polyester filament project with an annual capacity of 75,000 tonnes, Rmb400 million as expenditure for the PTA project with an annual capacity of 450,000 tonnes, Rmb72 million as expenditure for the SSP project with an annual capacity of 100,000 tonnes. The anticipated capital expenditure will be funded from cash generated from operations and bank credit facilities available to the Group.