

## BUSINESS REVIEW

### Review of polyester operation

During the first six months of 2001, a total of 18,496 tons (corresponding period of 2000: 18,118 tons) of pre-oriented yarn (POY), drawn and textured yarn (DTY) and fully-drawn yarn (FDY) were produced. Sales and processing volume were 18,074 tons and 721 tons respectively, which were at a similar level as the corresponding period of 2000 (corresponding period of 2000: 10,332 tons and 8,456 tons). The volume of production went in line with that of sales in the first half of 2001.

Consolidated turnover for the first six months of 2001 increased by 24.5% over the corresponding period of 2000. Without taken into account the turnover of RMB30,409,000 derived from Huayang Engineering, turnover of the first half of 2001 increased by 12.1% comparing to the corresponding period of last year. The improvement in turnover was attributable to the decrease in processing fee and increase in sales income.

Though the overall market selling price dropped from last year under the prevailing poor operating environment of the chemical fibre market, the Group was not significantly affected relatively.

The Group has been successfully sheltered from the price drop due to: (i) there is much demand in the PRC market for polyester differential yarn, the major product of the Group, making its price remain stable relatively; (ii) when compared to the corresponding period of last year, a decrease of 5.0% in the average selling price per tons (excluding value added tax) during the first half of 2001 through continuous adjustment in its product mix to include products with higher added-value; (iii) the savings from the decrease in purchase cost of major raw materials, for example, the average purchase price of polyester chip and pre-oriented yarn has dropped by 21.1% and 14.1% from the corresponding period of last year.

During the first six months of 2001, the gross profit margin of sales of goods was 3.6% over the corresponding period of last year. However, the consolidated gross profit margin decreased by 10.6% in the first half of 2001 due to the sharp decrease in business from the processing operation which has a higher gross profit margin.



The Group has been developing new products. For instance, 30D/24F fully-drawn yarn was already listed as one of the key projects for the Fujian Province in the year 2001.

### **Heshun Spandex**

The construction of the plant and production line of Heshun Spandex was scheduled to be completed by the end of 2002. The Group is currently arranging facilities and finance for the Heshun Spandex project.

### **Acquisition of an additional interest in Heshun Spandex and disposal of interest in Changle Shunshi**

The Group entered into an agreement in July 2001 for the acquisition of an additional interest in Heshun Spandex to 75% and the disposal of all of its interests in Changle Shunshi. Details of the above transactions were set out in the circular dated 30 July 2001 regarding the connected transactions. The Group anticipated that the demand for spandex in the PRC market would continue to grow and believed that the acquisition would enhance its profitability in the future.

As Changle Shunshi is principally acting as an investment vehicle and the Group does not depend heavily on the facilities or services provided by Changle Shunshi for its operation, the disposal of its interests in Changle Shunshi will simplify the Group structure and the utilization of its resources in a more efficient way.

### **Acquisition of Huayang Engineering**

The turnover of Huayang Engineering, which was acquired by the Group at the end of 2000, was RMB 30,409,000 and its contribution to the profit of the Group was RMB 5,810,000 in the first six months of 2001.

### **Production line of differential polyester chip**

The production line has commenced trial production since June and it is scheduled to commence normal production in the coming October.

### **Staff and compensation policy**

As at 30 June 2001, the Group had a total workforce of 729 (30 June 2000: 521), including the 104 employees transferred to the Group upon acquisition of Huayang Engineering. Our employees are mostly based in Mainland. The salaries and wages of our employees are dependent on their duties and performance.