

FINANCIAL REVIEW

Capital structure

As at 30 June 2001, the Group had bank loan and finance lease loan in an aggregate amount of RMB 276 million (30 June 2000: RMB 278 million), of which 68.2% was denominated in Renminbi, 30.4% in US dollars and 1.4% in Hong Kong dollars (30 June 2000: 64.4%, 34.7% and 0.9%) respectively.

It is the normal practice of Mainland China banks to grant short-term loans which are renewed on a yearly basis. As a result, the short-term loans of the Group account for 99.3% (30 June 2000: 98.9%) of the total loans.

The consolidated interest expenses in the first half of 2000 were RMB 10,450,000 (corresponding period of 2000: RMB 10,550,000). The interest-earning multiples of 9 times (corresponding period of 2000: 8.6 times) was satisfactory.

As at 30 June 2001, the ratio of total liabilities to total assets of the Group was 40.9 %, showing an improvement over the figure of 43.7 % as at 31 December 2000.

In conclusion, the financial position of the Group is further strengthened as compared with 2000.

Pledges of assets

As at 30 June 2001, land, buildings and motor vehicles of the Group with net book value of RMB 82,400,000 (30 June 2000: RMB 88,300,000) were pledged as securities for bank loans and finance lease loans.

Exchange exposure

Since most of our sales, raw materials and bank loans were denominated in Renminbi during the first half of 2001, the Group was only exposed to insignificant exchange risks.

Capital commitment

The Group will finance the construction of production facilities of Heshun Spandex in the coming two years from the profits of operation and bank loans.



Prospects for the second half of 2001

Looking forward into the second half of 2001, the market for the polyester fibre will more or less remain stable, however, the selling price may further be dropped slightly. Due to the intensive market competition, the marketability of brand names and types of products is becoming increasingly important. Since there's a limited supply of differential polyester in the market, the Group's differential polyester still sells well . In order to meet the market's requirement and maintain its competitive edge in the future, the Group will develop new products with high quality on the basis of its existing products.