



The information set out below does not constitute part of the financial statements audited by KPMG or KPMG Huazhen, as set out on pages 58 to 95 and pages 96 to 144, 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 financial statements and notes thereto presented in this annual report. Financial figures, where applicable, contained herein have been extracted from the financial statements prepared in accordance with IAS.

Xu Zheng-ning, *Managing Director*

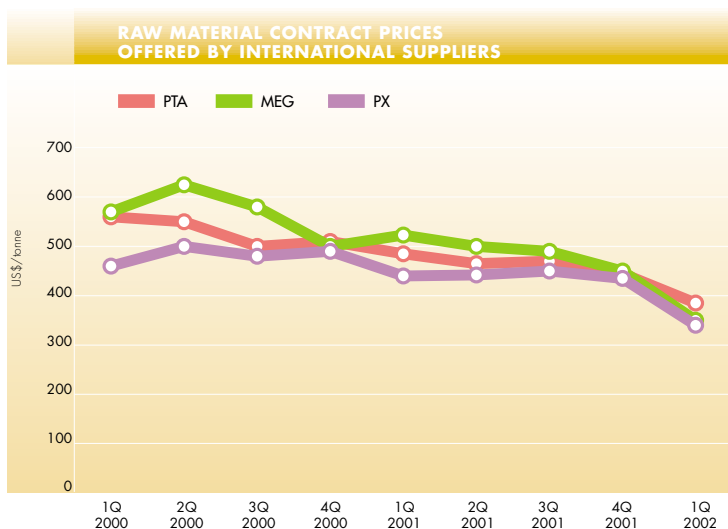
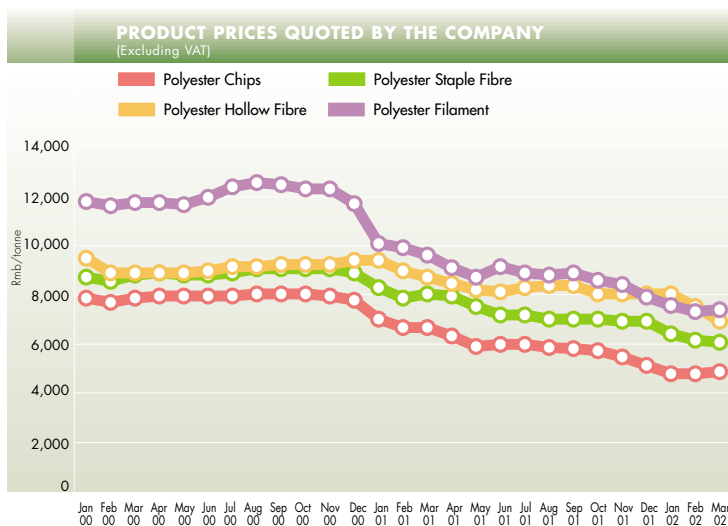
1. Business Environment

During 2001, the global demand remained weak, domestic polyester market was still in a situation of an imbalance demand and supply. Total domestic consumption of polyester fibre increased by 17.9 per cent as compared with 2000. Total domestic supply of polyester fibre increased significantly by 17.1 per cent as compared with 2000. The prices of domestic polyester products continued to decline during the year. The PRC polyester industry faced a more difficult situation than any time ever.

	Domestic supply and demand of polyester fibre								
	Polyester filament			Polyester staple fibre			Total polyester fibre		
	2001	2000	+/- (%)	2001	2000	+/- (%)	2001	2000	+/- (%)
'000 tonnes	'000 tonnes		'000 tonnes	'000 tonnes		'000 tonnes	'000 tonnes		
Production	3,907.5	3,191.0	22.45	2,417.8	1,974.0	22.48	6,325.3	5,165.0	22.46
Import	290.3	413.7	-29.83	524.0	622.4	-15.81	814.3	1,036.1	-21.41
Export	19.8	18.6	6.45	6.1	2.4	154.17	25.9	21.0	23.33
Net import	270.5	395.1	-31.54	517.9	620.0	-16.47	788.4	1,015.1	-22.33
Inventories at the beginning of the year	113.0	59.4	90.24	151.0	62.8	140.45	264.0	122.2	116.04
Inventories at the end of the year	187.0	113.0	65.49	69.0	151.0	-54.3	256.0	264.0	-3.03
Total supply	4,310.8	3,664.1	17.65	3,092.8	2,659.2	16.31	7,403.6	6,323.3	17.08
Total consumption	4,104.0	3,532.5	16.18	3,017.7	2,505.8	20.43	7,121.7	6,038.3	17.94

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

Management Discussion and Analysis



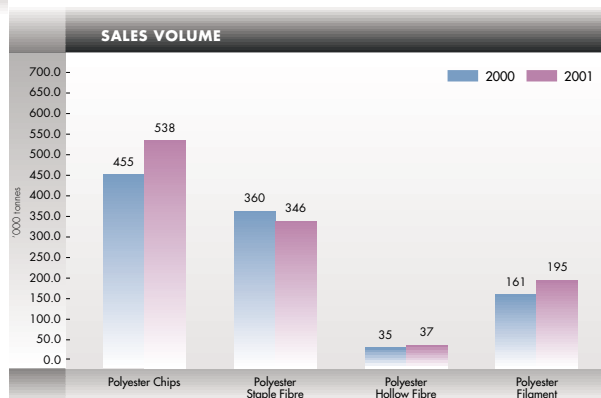
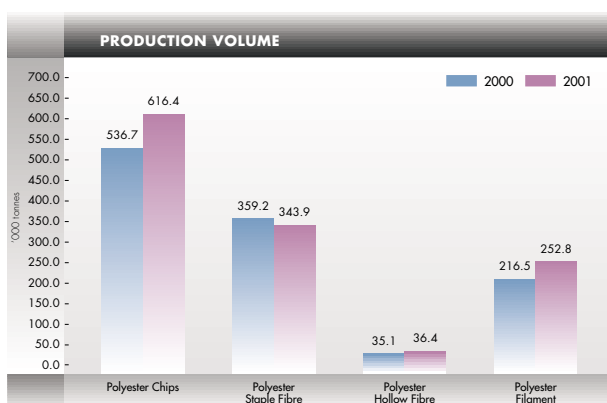
During 2001, prices of polyester raw materials in Asia such as PTA, MEG and PX decreased by different extent, due to the decline in crude oil prices and the under-utilisation of polyester manufacturing capacity, yet at a magnitude less than the decrease in prices of polyester products.

2. Results of Operations

In 2001, the Group achieved consolidated profit attributable to shareholders of Rmb171 million, representing a decrease of 79.7 per cent as compared with last year. The Group has achieved an above industry average result despite the adverse market conditions.

(1) Turnover

In 2001, due to the commencement of the structural adjustment projects, the Group's total production volume of polyester products increased to 1,248,584 tonnes, representing an increase of 9.3 per cent as compared with that of 1,142,636 tonnes for last year, and the average capacity utilisation rate reached 101.1 per cent.



Management Discussion and Analysis

In 2001, the Group's total sales volume of the polyester products was 1,116,090 tonnes, representing an increase of 10.3 per cent over that of 1,011,504 tonnes for last year. The increase was due to the increase in production volume and the Group's enhanced efforts in sales promotion. In addition, the Group's sales prices for its products still represented the higher end of prices in the domestic market during the year, due to the recognised high quality and excellent sales services. As compared with last year, the weighted average prices (excluding VAT) of the Group's polyester products decreased from Rmb8,858/tonne to Rmb6,919/tonne, representing a decrease of 21.9 per cent. The decrease was due to the continuous sluggish of the market.

For the year ended 31 December

	2001		2000	
	Sales volume Tonnes	Percentage of total sales volume (%)	Sales volume Tonnes	Percentage of total sales volume (%)
Sales volume (tonnes)				
Polyester				
– Chips	538,023	48.2	455,471	45.0
– Staple Fibre	346,080	31.0	359,307	35.5
– Hollow Fibre	36,788	3.3	35,024	3.5
– Filament	195,199	17.5	161,702	16.0
Total	1,116,090	100	1,011,504	100

Average product price (Rmb/tonne, excluding VAT)

For the year ended 31 December

	2001	2000	Change (%)
Polyester			
– Chips	5,994	7,917	(24.3)
– Staple Fibre	7,356	8,910	(17.4)
– Hollow Fibre	8,745	9,368	(6.7)
– Filament	8,350	11,248	(25.8)
Weighted average product price	6,919	8,858	(21.9)

	For the year ended 31 December			
	2001 Turnover Rmb million	Percentage of turnover %	2000 Turnover Rmb million	Percentage of turnover %
Polyester products				
– chips	3,225	41.3	3,606	40.0
– staple fibre	2,545	32.6	3,201	30.5
– hollow fibre	322	4.1	328	3.6
– filament	1,630	20.9	1,825	20.3
Others	87	1.1	54	0.6
Total	7,809	100	9,014	100

In 2001, the Group's turnover amounted to Rmb7,809 million, representing a decrease of 13.4 per cent as compared with that of Rmb9,014 million for last year. The decrease was mainly due to the sharp decrease in product prices although the Group's sales volume increased.

The Group continued to hold a leading share market in domestic market.

(2) Cost of sales

In 2001, the Group's cost of sales amounted to Rmb7,090 million or 90.8 per cent of turnover, representing a slight decrease compared with that of Rmb7,186 million for last year. The decrease was mainly due to the increase in raw materials procurement as the production volume increased and decrease in raw materials prices. Total costs of raw materials decreased to Rmb5,431 million in 2001, which accounted for 76.6 per cent of cost of sales, representing a slight decrease as compared with that of Rmb5,615 million for last year. The decrease was mainly due to the increase in raw materials procurement and a decrease of 13.0 per cent in weighted average price of polyester raw materials as compared with last year. The average purchase costs of PTA, MEG, and PX decreased by 11 per cent, 24 per cent and 5 per cent respectively as compared with last year. Although the volume of raw materials purchased by the Group increased substantially, the purchase costs of raw materials were substantially less than last year.

In 2001, since the decrease in turnover was more than that of cost of sales, the Group's gross profit decreased to Rmb719 million as compared with last year. The Group's gross margin was 9.2 per cent, representing a reduction of 11 per cent compared with last year.

Management Discussion and Analysis

(3) Selling, administrative and financial expenses

For the year ended 31 December

	2001	2000	Change
	Rmb'000	Rmb'000	(%)
Selling expenses	138,933	112,901	23.1
Administrative expenses	265,510	565,037	(53.0)
Financial expenses	28,824	56,890	(49.3)
Total	433,267	734,828	(41.0)

In 2001, selling expenses increased by Rmb26 million, mainly due to the increased services to its customers and the business development. Administrative expenses decreased by Rmb300 million, mainly due to implementation of austerity programs, expenses structural adjustments and the decrease in wages as well as decreased overhaul expenses. Financial expenses decreased by Rmb28 million, mainly due to centralised management of the Group's working capital which improved its utilisation efficiency. The overall decrease in selling, administrative and financial expenses was 41.0 per cent.

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

For the year ended 31 December

	2001	2000	Change
	Rmb'000	Rmb'000	(%)
Profit from operations	242,199	1,042,383	(76.8)
Profit from ordinary activities before taxation	213,375	985,493	(78.3)
Income tax expense	40,087	139,391	(71.2)
Profit attributable to shareholders	170,789	840,228	(79.7)
Earnings per share(Rmb)	0.043	0.210	(79.7)

In 2001, despite the Group's enhanced efforts in uplifting production volume and sales volume and exercising better controls over costs and expenses, the significant decrease in product prices brought about the decrease in the Group's profit from ordinary activities before taxation to Rmb213 million, and the decrease in profit attributable to shareholders to Rmb171 million. The Group's operating profit margin and net profit margin was 3.1 per cent and 2.2 per cent respectively.

(5) Principal products

Polyester products, which contributed above 10 per cent of the Group's income from principal operations and profit from principal operations, are the Group's principal products. In 2001, turnover for the Group's polyester products amounted to Rmb7,722,043,000, cost of sales amounted to Rmb6,996,448,000, gross margin was 9.4 per cent.

(6) Operation of the new project completed in 2001

The polyester filament project with an annual capacity of 75,000 tonnes was completed and started operations during the year and netted a profit.

(7) Operation of principal subsidiaries in 2001

- A. Foshan Polyester: the Company directly holds 59 per cent and indirectly holds 41 per cent of the equity of Foshan Polyester. Foshan Polyester's registered capital is USD85,427,000. Its principal activities are the production and distribution of chemical, chemical fibre, textile and its ancillary raw materials, and after sales services for products manufactured by it. At 31 December 2001, the total assets of Foshan Polyester was Rmb806,583,000. For the year ended 31 December 2001, Foshan Polyester recorded a net loss of Rmb29 million.
- B. Foshan Chemical: the Company directly holds 100 per cent of the equity of Foshan Chemical. Foshan Chemical's registered capital is Rmb32,933,000. Its principal activities are management and administration. At 31 December 2001, the total assets of Foshan Chemical was Rmb140,079,000. For the year ended 31 December 2001, Foshan Chemical recorded a net loss of Rmb14,421,000.
- C. Kangqi Company: the Company directly holds 95 per cent and indirectly holds 5 per cent of the equity of Kangqi Company. Kangqi Company's registered capital is Rmb60,000,000. Its principal activity is investment holding. Kangqi Company, through setting up 13 branches in principal domestic markets, has established a sales network throughout PRC for the Company. At 31 December 2001, the total assets of Kangqi Group was Rmb332,632,000. For the year ended 31 December 2001, Kangqi Group recorded a net profit of Rmb6,630,000.

3. Liquidity

At 31 December 2001, the Group's cash and cash equivalents amounted to Rmb445 million, representing a decrease of Rmb156 million as compared with that of Rmb601 million as at 31 December 2000.

In 2001, the Group's net cash inflow from operating activities was Rmb668 million, as compared with that of Rmb2,005 million for last year. The decrease was mainly due to the decrease in the Group's turnover during the year. At 31 December 2001, the Group's inventories decreased by Rmb119 million and trade and other receivables increased by Rmb51 million, as compared with an increase in inventories of Rmb110 million and a decrease in trade and other receivables of Rmb264 million for last year.

In 2001, the Group's net cash outflow from investing activities was Rmb809 million, as compared with that of Rmb538 million for last year. The increase was mainly due to the increase in capital expenditure during the year.

In 2001, the Group's net cash outflow from financing activities was Rmb15 million, as compared with that of Rmb1,274 million for last year. The decrease was mainly due to the repayment of bank loans during the year.

At 31 December 2001, the Group's bank loans amounted to Rmb1,230 million, as compared with that of Rmb880 million as at 31 December 2000. The increase was due to the increase in short-term loans. Of all the bank loans, short-term loans due in 2002 amounted to Rmb730 million, and long-term loans amounted to Rmb500 million, of which Rmb300 million will be due in 2003, and the remaining will be due in 2004.

At 31 December 2001, the Group's shareholders' funds (excluding minority interests) decreased by Rmb189 million. The change was mainly due to the profit attributable to shareholders of Rmb171 million for the year and the payment of final cash dividends of Rmb360 million. At 31 December 2001, the Group's total liabilities increased by Rmb32 million, of which long-term liabilities increased by Rmb50 million and short-term liabilities decreased by Rmb18 million. As a result, the Group's total assets decreased by Rmb160 million. Total liabilities to total assets ratio on 31 December 2001 was 20.2 per cent as compared with that of 19.6 per cent on 31 December 2000.

4. Capital Expenditure

In 2001, the Company's capital expenditure amounted to Rmb1,424 million. The Company's capital expenditure for the year 2002 is expected to be approximately Rmb1,895 million. The capital expenditure mainly includes: Rmb1,400 million for the PTA project with an annual capacity of 450,000 tonnes, Rmb5 million for the SSP project with an annual capacity of 100,000 tonnes, Rmb30 million for the DTY project with an annual capacity of 50,000 tonnes and Rmb100 million for the staple fibre project with an annual capacity of 90,000 tonnes. The anticipated capital expenditures will be funded from cash generated from operations and bank credit facilities available to the Group.