

The Board of Directors are pleased to announce that the Group recorded an encouraging results for 2000, the consolidated turnover was RMB634 million, representing an increase of 29.0% over 1999. The consolidated profit attributable to shareholders amounted to RMB182 million, representing a growth of 50.6% over 1999. The earnings per share was RMB0.13, representing an increase of 44.4% over 1999.

BUSINESS REVIEW

Review of operation

During 2000, a total of 43,787 tons (1999: 56,047 tons) of pre-oriented yarn (POY), drawn and textured yarn (DTY) and fully-drawn yarn (FDY) were produced.

Sales and processing volume were 31,074 tons and 12,990 tons (1999: 26,557 tons and 33,843 tons) respectively. As a result, the volume of production went in line with that of sales.

Turnover of 2000 was 29.0% over 1999. It was based on the continuous adjustment in the Group's product mix to include sales of products with higher added-value.

The Group has been developing new products to maintain its competitive edges. During the year, new varieties of products of the series of polyester thermal channel spinning system yarn ("TCS") of ultra fine denier, polyester drawn and textured yarn ("DTY") of ultra fine denier and polyester differential fully-drawn yarn ("FDY") of ultra fine denier were developed and produced. All these products were well-received by the market and became popular products.

The supply channel of the polyester chip, the major raw material of the Group, remained stable during the year.

Listed successfully

The Group was listed on the main board of The Stock Exchange of Hong Kong Limited successfully on 15 November 2000 and raised funds of approximately HK\$201 million for business development. It marks that the Group will develop and expand with an increasing pace.

Heshun Spandex

The construction of Heshun (Fujian) Spandex Co., Ltd. ("Heshun Spandex") commenced in August 2000 and the site levelling and infrastructure works are underway. The construction period is expected to last for two years. It is expected that the production line will commence production by the end of 2002. Upon reaching full production capacity, it will bring significant revenue to the Group.

Chairman's Statement

Acquisition of Huayang Engineering

Dalian Huayang Engineering Co., Ltd. ("Huayang Engineering") is a company engaged in the provision of engineering services of chemical fibre projects and the design and installation of chemical fibre production machinery and equipment. It is also the first company in Mainland China to develop various chemical fibres such as PA/PET bi-component fibres of ultra fine denier and the polyester non-woven fabric. In order to promote the Group's business in chemical fibre engineering and enhance its strength in developing new technology, the Group acquired a 95% equity interest in Huayang Engineering in 2000 with a consideration of RMB42.75 million.

Production line of differential polyester chip

In early 2000, the Group invested in the construction of a production line of differential polyester chip with an annual production capacity of 80,000 tons. The installation of equipment has been completed and it is expected to commence production in April 2001.

Staff and compensation policy

As at the end of 2000, the Group had a total workforce of 619 (1999: 553), including the 104 employees transferred to the Group upon acquisition of Huayang Engineering in 2000. Our employees are mostly based in Mainland China. The salary and wages of our employees are dependent on their duties and performance.

FINANCIAL REVIEW

Capital structure

As at 31 December 2000, the Group had bank loans and finance lease loans in an aggregate amount of RMB254 million (1999: RMB276 million), of which, 70.4% was denominated in Renminbi, 28.4% in US dollars and 1.2% in Hong Kong dollars.

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 accounted for 99.0% (1999: 98.7%) of the total loans.

The consolidated interest expenses in 2000 were RMB23.7 million. The interest-earnings multiples of 9.5 times (1999: 6.9 times) was satisfactory.

As at 31 December 2000, the ratio of total liabilities to total assets of the Group was 42.2%, showing a significant improvement over the figure of 69.9% as at 31 December 1999.

In conclusion, the financial position of the Group is further strengthened as compared with 1999.

Pledges of assets

As at 31 December 2000, land, buildings and vehicles of the Group with net book value of RMB 83.61 million (1999: RMB 86.51 million) were pledged as security for loans.

Use of proceeds of new issue

The Company placed and issued 465,000,000 shares on 9 November 2000 at a price of HK\$0.5 each. The net proceeds of share offer, after deduction of related expenses, were approximately HK\$201 million (approximately RMB 213 million).

For the year ended 31 December 2001, the net proceeds of share offer were applied as stated in the Prospectus as follows:

- (a) approximately RMB149 million for the construction of Heshun Spandex;
- (b) approximately RMB42.75 million for the acquisition of Huayang Engineering;
- (c) approximately RMB11.22 million for the upgrading and purchase of production facilities; and
- (d) the balance of approximately RMB10.03 million as general working capital of the Group.

The commencement of operation of a production line of ultra fine POY as mentioned in the section headed "Future Plans and Use of Proceeds" in our Prospectus will be delayed to December 2001 due to the modification in the original technology proposal. Accordingly, the balance of net proceeds of approximately RMB10.03 million has been used for the purpose as stated in point (d) above so as to deploy our resources more effectively.

Exchange exposure

Since most of our sales, raw materials and bank loans were denominated in Renminbi during 2000, 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.

Contingent liabilities

As at 31 December 2001, the Group did not have any material contingent liabilities.

Chairman's Statement

PROSPECTS

Looking forward into 2001, the market for differential chemical fibres will remain competitive. However, the market supply still will not meet the market demand in the near future. To maintain its winning position, the Group will be market-oriented and continue to develop new products with good quality to meet the requirement of the market.

Moreover, following the expected commencement of operation of the production line of differential polyester chip, the production costs of polyester filaments will be lowered effectively. It will also secure a stable raw material supply with good quality for the production of differential polyester filaments.

The supply of purified terephthalic acid and mono ethylene glycol, the raw materials for the production of polyester chip, has always been abundant. The Group has already selected several reliable suppliers with good quality to form a strong basis of raw material supplies.

Lastly, Mainland China is anticipated to enter into the World Trade Organization and following which the existing textile products quota system will be lifted gradually. Consequently, it will boost the export of Mainland China textile products and lead to an increase in the demand for chemical fibres with good quality. These will bring positive business opportunities to the Group.

CONCLUSION

On behalf of the Board of Directors, I would like to extend sincere gratitude towards our staff for their effort and contribution during last year. I am also deeply thankful for the continuous support from our shareholders, customers and suppliers.

By order of the Board

Chen Shun Li

Chairman & Chief Executive Officer

Fuzhou, the People's Republic of China,
9 April 2001