CHINA SPECIALISED FIBRE HOLDINGS LIMITED
中國特種纖維控股有限公司 *

(Incorporated in Bermuda with limited liability)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2002

The board of directors (the "Board") of China Specialised Fibre Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2002 together with comparative figures for the previous year as follows:

	Notes	2002 *RMB'000*	2001 *RMB'000*
Turnover			
Continuing operations		**869,721**	622,516
Discontinued operations		**—**	33,340
	1	**869,721**	655,856
Cost of sales		**(675,639)**	(437,400)
Gross profit		**194,082**	218,456
Other income		**3,967**	2,838
Selling and distribution expenses		**(1,466)**	(1,837)
General and administrative expenses		**(27,890)**	(48,196)
Impairment loss of goodwill		**—**	(2,403)
Impairment loss of construction-in-progress		**(87,845)**	—
Provision for bad debts		**(119,425)**	—
Prepayments for property, plant and equipment written off		**(106,113)**	—
Operating (loss)/profit			
Continuing operations		**(144,690)**	164,346
Discontinued operations		**—**	4,512
		(144,690)	168,858
Finance costs	2	**(28,350)**	(25,200)
Gain on disposal of discontinued operations		**—**	23,710
(Loss)/profit before taxation		**(173,040)**	167,368
Taxation	3	**(18,162)**	(23,951)
(Loss)/profit after taxation		**(191,202)**	143,417
Minority interests		**46,518**	263
(Loss)/profit attributable to shareholders			
Continuing operations		**(144,684)**	139,386
Discontinued operations		**—**	4,294
		(144,684)	143,680
Depreciation		**49,024**	41,905
Transfer to reserves		**1,964**	16,571
(Loss)/earnings per share — Basic	4	**(RMB0.08)**	RMB0.08

Notes:

1. **Turnover, revenue and segment information**

The Group is principally engaged in the production and distribution of differential chemical fibre products. Revenues recognised during the year are as follows:

	Group 2002 *RMB'000*	2001 *RMB'000*
Sales of goods	**869,721**	617,745
Processing fees	**—**	4,771
Fees from construction contracts	**—**	33,340
Total turnover	**869,721**	655,856
Sundry income	**3,585**	2,704
Interest income	**382**	134
Total revenue	**873,688**	658,694

Primary reporting format — business segments

Since all the Group's turnover and operating profit are derived from activities in Mainland China, no geographical analysis is shown.

2002

	Continuing operations sales of goods *RMB'000*	**Discontinued operations construction contracts** *RMB'000*	**Group** *RMB'000*
Turnover	**869,721**	**—**	**869,721**
Segment results	**(148,657)**	**—**	**(148,657)**
Other revenue			**3,967**
Operating loss			**(144,690)**
Finance costs			**(28,350)**
Loss before taxation			**(173,040)**
Taxation			**(18,162)**
Loss after taxation			**(191,202)**
Minority interests			**46,518**
Loss attributable to shareholders			**(144,684)**

2001

	Continuing operations sales of goods *RMB'000*	Discontinued operations construction contracts *RMB'000*	Group *RMB'000*
Turnover	622,516	33,340	655,856
Segment results	184,897	4,512	189,409
Unallocated costs			(23,389)
Other revenue			2,838
Operating profit			168,858
Finance costs			(25,200)
Gain on disposal of discontinued operations	—	23,710	23,710
Profit before taxation			167,368
Taxation			(23,951)
Profit after taxation			143,417
Minority interests			263
Profit attributable to shareholders			143,680

2. **Finance costs**

	Group 2002 *RMB'000*	2001 *RMB'000*
Interest expenses		
— Bank borrowings wholly repayable within five years	**25,237**	22,831
— Other loans wholly repayable within five years	**3,075**	2,298
— Finance charges in respect of finance leases	**38**	71
	28,350	25,200

3. **Taxation**

	Group 2002 *RMB'000*	2001 *RMB'000*
Mainland China income tax	**18,162**	23,951
Hong Kong profits tax	**—**	—
	18,162	23,951

No Hong Kong profits tax was provided for as the Group had no assessable profits arising in Hong Kong (2001: Nil). Provision for taxation by subsidiaries operating in Mainland China has been calculated at the rates applicable, based on existing laws, interpretations and practice, during the year.

4. **(Loss)/earnings per share**

The calculation of basic loss per share for the year ended 31 December 2002 is based on the loss attributable to shareholders of approximately RMB144,684,000 (2001: profit of RMB143,680,000) and the 1,860,000,000 (2001: 1,860,000,000) ordinary shares in issue during the year.

No diluted (loss)/earnings per share is presented as there were no dilutive potential shares in existence during the years ended 31 December 2001 and 2002.

5. **Comparative figures**

Within a review of financial statements' presentation, certain items in the financial statements were reclassified which would result in a more appropriate presentation of events or transactions. Accordingly, comparative figures have been reclassified to conform to the current year's presentation.

RECONCILIATION

The Board has announced the unaudited consolidated results of the Group for the year ended 31 December 2002 on 21 July 2003. The unaudited profit attributable to shareholders for the year ended 31 December 2002 as announced previously was RMB58,905,000, which differs materially from the audited figures as disclosed in this announcement. The following is a reconciliation, showing all the full particulars of, and the reasons for, the differences:

	Year ended 31 December 2002 *RMB'000*
Unaudited profit attributable to shareholders	58,905
Less: provision for bad debts	(119,425)
Less: additional amounts of prepayments for property, plant and equipment written off	(96,566)
Less: additional amounts of impairment loss of construction-in-progress	(16,346)
Less: underprovision for depreciation charge for the year 2002	(1,373)
Add: Minority interests	30,746
Less: miscellaneous	(625)
Audited loss attributable to shareholders	(144,684)

AUDITORS' REPORT

In their report, the auditors draw attention to the following fundamental uncertainty, and have included the following paragraph in their report:

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared. As explained in note 2 to the financial statements, the Group is currently undertaking a number of measures to relieve its current liquidity difficulties, including the rescheduling of the repayment terms of certain of the Group's banking facilities, the procurement of new banking facilities and new equity financing. The financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the measures undertaken, the ongoing support of the Group's bankers and other financial institutions. The financial statements do not include any adjustments that may be necessary should the implementation of such measures become unsuccessful. We consider that the fundamental uncertainty has been adequately accounted for and disclosed in the financial statements and our opinion is not qualified in this respect.

DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31 December 2002 (2001: Nil).

BUSINESS REVIEW

Review of operations

During the year under review, there were no significant changes in the Group's principal business and operations which remained the production and distribution of differential chemical fibre products.

During 2002, a total of 51,618 tons (2001: 40,442 tons) of pre-oriented yarn ("POY"), drawn and textured yarn ("DTY") and fully-drawn yarn ("FDY") were produced by the Group. In addition, the Group also produced a total of 30,398 tons (2001: 14,932 tons) of polyester chips in 2002.

Sales and processing volume of POY, DTY and FDY were 51,019 tons (2001: 40,578 tons) and 423 tons (2001: 721 tons) respectively. In addition, the Group recorded sales of polyester chips of 30,667 tons (2001: 4,474 tons) which contributed approximately RMB186 million (2001: RMB21 million) sales revenue in 2002.

Consolidated turnover for the year under review increased significantly by 33% when compared with that of last year. This is mainly due to increase in sales of polyester chips. The sales of polyester chips in 2002 represented the full year sales while there were only four month sales in 2001. The Group's gross profit margin dropped from 33% in 2001 to 22% in year under review, representing a drop of 11%. The decrease in gross profit margin was mainly due to:

(i) the continuous increase in sales of polyester chips, which still contributed a negative profit margin to the Group in the year 2002;

(ii) the commencement of sales of chemical fibre products by Foshan Heshun Dongli Specialised Fibre Co., Limited ("Foshan Dongli"), the products of which contributed a gross profit margin lower than that of the Group's current products; and

(iii) the price of DTY decreased during the year.

The effect of drop in gross profit margin is compensated by the increase in Group's sales volume in the year 2002, thus only making a slightly drop in gross profit in the amount of RMB24 million for the year 2002.

Acquisition of fixed assets and factory premises of Foshan Dongli factory

It has always been the Group's plan to take advantage of the anticipated increase in demand in differential fibre. On 9 June 2002, the Group, together with a third party, came into an agreement with Foshan Dongli Chemical Fibre Co., Limited and Foshan Dafeng Chemical Fibre Co., Ltd, to acquire all the fixed assets (machinery, motor vehicles and office equipment, etc.) and the factory premises (including the land use rights of land on which the factory located) at a consideration of RMB82 million, of which the Group accounted for RMB50.84 million. A new subsidiary, Foshan Dongli, was incorporated in the PRC in 2002 and all the fixed assets and factory premises acquired were injected into this subsidiary. The Group has an interest of 62% in Foshan Dongli.

Foshan Dongli also manufactured differential chemical fibre, concentrating on polyester fine denier and ultra fine denier in the past and the management expects the Group will benefit from synergies generated by the acquisition in respect of technology, management, production, sales and marketing, thus lowering production costs and enhancing sales revenue.

The factory commenced commercial production in August 2002.

Change of Company's name

The name of the Company was changed from Heshun Specialised Fibre Holdings Limited to China Specialised Fibre Holdings Limited with effect from 12 June 2002. For the purpose of identification, the Chinese name of the Company was changed from "和順特種纖維控股有限公司" to "中國特種纖維控股有限公司". The change of name was intended to better reflect the Group being one of the largest differential fibre manufacturers in the PRC and to enable investors to have easy recognition of the Group's business operation and market being focused in the PRC.

Major changes in Group's projects

As a result of the substantial drop in shares price of the Company on 26 November 2002, the Group experienced a liquidity problem. Accordingly, the Board arrived at a decision to change/reschedule the scale and/or the timetable of development of the Group's projects because in the opinion of the Board, the Group does not have sufficient resources to develop all the Group's projects at the same time. In the opinion of the Board, the postponement or termination of the projects does not have any impact on the Group's current business and operations. The details of the changes are summarised as follows:

Spandex project

The group originally planned to construct and develop the spandex project under an integrated production line comprising polymerisation, spinning and post-processing with a production capacity of 2,000 tonnes per annum. It is now determined that the scale of this project will decrease to half of its original plan and the timetable to complete this project will be further delayed and spread over a period of several years to come.

Ultra fine POY project

The Group originally planned to construct a new production line for ultra fine POY. It is originally expected that the new production line will commence its full commercial operation in late 2003, with an annual production capacity of 15,000 tonnes per annum. It is now determined that the scale of this project will decrease to half of its original plan and the timetable to complete the project will be further delayed and spread over a period of several years to come.

Island staple project

The Group originally planned to construct a new production line for island staple. The designed capacity of the new production line is 5,000 tonnes per annum. It is now determined that this project will be discontinued and terminated.

As a result of the above decision, the Group has already entered into agreements with the respective suppliers to cancel all the machine purchase and machine installation contracts in 2003.

Employees and remuneration policies

As at 31 December 2002, the Group employed a total of 758 (2001: 591) employees. Most of the employees are based in the PRC. They are remunerated according to the nature of job and market conditions in which they are employed. Other staff benefits include a mandatory provident fund scheme for all the eligible employees, medical compensation and a year-end bonus.

FINANCIAL REVIEW

Financial resources

As at 31 December 2002, the Group's cash and bank balances were approximately RMB118 million (2001: RMB45 million). The Group's current ratio as at 31 December 2002 was 43% (2001: 40%). Current assets and current liabilities were approximately RMB345 million (2001: RMB220 million) and RMB812 million (2001: RMB547 million) respectively.

As at 31 December 2002, the Group had bank and other loans in an aggregate amount of RMB608 million (2001: RMB424 million), of which 73% (2001: 50%) was denominated in Renminbi, 9% (2001: 13%) in US dollars and 18% (2001: 37%) in Hong Kong dollars respectively. In addition, bank and other loans in an aggregate amount of RMB406 million was at fixed interest rates, representing 67% to total borrowings.

During the financial year 2002, the Company did not issue any new shares or other securities. As at 31 December 2002, the Company has issued 1,860 million (2001: 1,860 million) shares. The gearing ratio of the Group (total of short-term and long-term bank borrowings over the shareholders' equity) was 85% (2001: 49%).

Exchange exposure

Due to the fact that the Group's transactions (including the sale of chemical fibre, purchases of raw materials and bank financing) are denominated in Hong Kong dollars, US dollars or Renminbi, and the related exchange rates are considered relative stable, and accordingly, the exposure to fluctuations in exchange rate is minimal.

Hedging

The Group did not use any financial instruments for hedging purposes during the period under review and there were no foreign currency net investments being hedged by currency borrowings and other hedging instruments.

Capital commitment

A significant portion of capital commitment as at 31 December 2002 is attributable to Spandex project.

Contingent liabilities

As at 31 December 2002, the Company had issued guarantees of approximately RMB295 million (2001: RMB226 million) to bankers to secure general banking facilities granted to certain subsidiaries of which approximately RMB281 million was utilised at 31 December 2002 (2001: RMB184 million).

FUTURE PLAN AND PROSPECTS

Looking ahead, 2003 and coming few years will continue to be difficult years. In the face of liquidity problems currently encountered by the Group, the Group is currently undertaking a number of measures to relieve its current liquidity difficulties, including seeking the continuous support from the Group's principal bankers, the rescheduling of the repayment terms of the Group's certain banking facilities and procurement of new equity financing, the terminations or delays of the Group's existing projects.

AUDIT COMMITTEE

An audit committee of the Board was established on 25 September 2000. Written terms of reference which set out the authorities and duties of the audit committee were adopted by the Board on the same date. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee has two members comprising the two independent non-executive directors. Mr Chen Ding will be the chairman of the audit committee.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's shares during the year.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), except that non-executive directors of the Company were not appointed for a specific term but are subject to retirement by rotation according to the provisions of the Company's Bye-laws.

DISCLOSURE OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

The Company's annual report for the year ended 31 December 2002 containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the Stock Exchange's website as soon as possible.

By Order of the Board
Chen Shunli
Chairman and Chief Executive Officer

Shenzhen, the PRC, 21 November 2003

* *For identification purpose only*

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an Annual General Meeting of China Specialised Fibre Holdings Limited (the "Company") will be held at Room 1904, World Trade Centre, 280 Gloucester Road, Causeway Bay, Hong Kong on Friday, 16 January 2004 at 3:00 p.m. for the following purposes:

ORDINARY BUSINESS

1. To receive and consider the audited financial statements and the reports of the Directors and Auditors for the year ended 31 December 2002;
2. To re-elect Directors and to authorise the Board of Directors to fix Directors' remuneration;
3. To re-appoint Auditors and to authorise the Board of Directors to fix Auditors' remuneration;

SPECIAL BUSINESS

To consider and, if thought fit, pass with or without amendments, the following resolutions 4, 5, 6 as an ordinary resolution:

4. "**THAT**:
   (a) subject to paragraph (c) below, the exercise by the directors of the Company (the "Directors") during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;
   (b) the approval in paragraph (a) shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;
   (c) the aggregate nominal value of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined) or (ii) an issue of shares upon the exercise of the subscription rights under any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company or (iii) an issue of shares in lieu of the whole or part of the dividend on shares of the Company in accordance with the Bye-laws of the Company, shall not exceed 20% of the aggregate nominal value of the share capital of the Company in issue at the date of passing of this resolution and the said approval shall be limited accordingly; and
   (d) for the purpose of this Resolution:

   "Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:
   (i) the conclusion of the next annual general meeting of the Company;
   (ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable laws or the Bye-laws of the Company to be held; and
   (iii) the revocation or variation of this Resolution by an ordinary resolution of the members of the Company in general meeting.

   "Rights Issue" means an offer of shares open for a period fixed by the Directors to holders of shares whose names appear on the register of members on a fixed record date in proportion to their then holdings of such shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company)."

5. "**THAT**:
   (a) subject to paragraph (b) below, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all powers of the Company to repurchase the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or on any other stock exchange on which the shares of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and/or the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;
   (b) the aggregate nominal amount of shares to be repurchased by the Company pursuant to the approval in paragraph (a) of this Resolution during the Relevant Period shall not exceed 10% of the aggregate nominal value of the share capital of the Company in issue at the date of passing this Resolution, and the said approval shall be limited accordingly; and
   (c) for the purposes of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:
      (i) the conclusion of the next annual general meeting of the Company;
      (ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable laws or the Bye-laws of the Company to be held; and
      (iii) the revocation or variation of this Resolution by an ordinary resolution of the members of the Company in general meeting."
6. "**THAT** subject to the passing of ordinary resolutions Nos. 4 and 5 set out in the Notice convening this meeting being duly passed, the general mandate granted to the Directors to allot, issue and deal with additional shares pursuant to ordinary resolution No. 4 set out in the Notice convening this meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of shares repurchased by the Company under the authority granted pursuant to ordinary resolution No. 5 set out in the Notice convening this meeting, provided that such amount of shares shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this Resolution."
7. To transact any other business.

By Order of the Board
Chen Shunli
Chairman & Chief Executive Officer

Shenzhen, the PRC, 21 November 2003

Notes:

1. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.
2. In order to be valid, a form of proxy, together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be lodged with the Company's share registrar, Standard Registrars Limited at 28/F, BEA Harbour View Center, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
3. An explanatory statement containing further details regarding items 4 to 6 above will be despatched to shareholders together with the 2002 Annual Report.