



China Specialised Fibre Holdings Limited 中國特種纖維控股有限公司*

(incorporated in Bermuda with limited liability)

Announcement

The shareholding of Gigalink in the Company decreased from 64.3% to 63.0% on 26 November 2002, as a result of the margin cuts exercised by two mortgagees.

Out of the remaining 1,171,092,000 Shares held by Gigalink, 1,108,000,000 Shares are still pledged with eight mortgagees, including Top New Finance Limited. 63,092,000 Shares are free from securities or any forms of encumbrance.

As a consequence of the subject matter, certain provisions in the agreements with seven mortgagees, including Top New, have been triggered and these mortgagees shall have the rights to exercise their margin cuts to dispose of up to a total of 1,107,000,000 Shares in accordance with the agreements.

Gigalink or its representatives is now negotiating with the mortgagees to obtain their support to Gigalink or hold their margin cuts or seeking alternative to solve the problem. These negotiations are not yet finalised and these mortgagees may or may not exercise their margin cuts upon resumption of trading in the securities of the Company.

786,600,000 Shares pledged with Top New represent approximately 42.3% of the issued share capital of the Company, and therefore, there exists a possibility of change of control in the Company.

The Company noted that there were various articles appearing in newspapers from 27 November 2002 to 17 December 2002 relating to the Company and the substantial drop in the Company's share price on 26 November 2002 and wish to clarify these articles by means of this announcement.

The Company was informed by Mr. Chen that he was not in negotiation nor has the intention to place the Shares to any third parties before the event occurred on 26 November 2002. However, Gigalink is currently negotiating with certain third parties to dispose of a portion of its interest in the Company.

The Board believes that the subject matter has no material impact on the Company's current business and operations.

The Company does not have any difficulty to contact with Mr. Chen.

Trading in the securities of the Company has been suspended with effect from 2:30 p.m. on Tuesday, 26 November 2002 and will remain temporarily suspended pending the release of the announcement in relation to the change in the shareholding structure of the Company.

Shareholders and other persons who are contemplating dealing in the securities of the Company are advised to exercise extreme caution.

This announcement is made at the request of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Reference is made to the announcements of China Specialised Fibre Holdings Limited (the "Company") dated 10 January 2002 and 8 February 2002, inter alia, in relation to the shares of the Company (the "Shares") held by Gigalink Group Limited ("Gigalink"), the substantial shareholder of the Company. Gigalink is beneficially and wholly-owned by Mr. Chen Shunli ("Mr. Chen"), the chairman and chief executive officer of the Company.

The board of directors of the Company (the "Board") has noted the recent decreases in price and increases in the trading volume of the Shares. Except as disclosed below, we wish to state that we are not aware of any reasons for such changes.

The Company noted that the share price of the Company began to drop since 10:00 a.m. on 26 November 2002 and it has been decreased from HK\$1.210 per share at 10:00 a.m. to HK\$0.920 per share at about 12:04 p.m., representing a drop of 24%. As a result of the drop in the Company's share price, one of the mortgagees exercised its margin cut and began to dispose the Shares held by Gigalink into the market. The decrease of the Company's share price continued and dropped to HK\$0.150 per share at about 12:15 p.m. As a result of further decreases in the Company's share price, another mortgagee also exercised its margin cut and began to dispose the Shares held by Gigalink into the market. Gigalink was informed by the above two mortgagees that a total of 24,908,000 Shares held by Gigalink were disposed of into the market on 26 November 2002 and all the margin facilities provided by these two mortgagees were fully repaid and left 3,092,000 Shares kept in one of the above mortgagees in custody. The above 24,908,000 Shares were disposed of at the prices ranging from HK\$0.930 to HK\$0.090 per share. The shareholding of Gigalink in the Company, as a result of the disposal, decreased from 64.3% (1,196,000,000 Shares) to 63.0% (1,171,092,000 Shares) on 26 November 2002.

Out of these remaining 1,171,092,000 Shares, 1,108,000,000 Shares are still pledged with certain mortgagees. 786,600,000 Shares are being pledged with Top New Finance Limited ("Top New"), the sole director of which is Mr. Wu Kezhong, the vice president of the Company. Top New is beneficially owned by individuals who are all independent third parties to the Company and are not connected persons as defined under the Listing Rules. 321,400,000 Shares are being pledged with other seven mortgagees, not including the two mortgagees as mentioned above. 63,092,000 Shares held by Gigalink are free from securities or any forms of encumbrance. As a consequence of the subject matter, certain provisions in the agreements with seven mortgagees, including Top New, have been triggered and these mortgagees shall have the rights to exercise their margin cuts to dispose of up to a total of 1,107,000,000 Shares in accordance with the agreements.

Gigalink or its representatives is now negotiating with these mortgagees to obtain their support to Gigalink or hold their margin cuts or seeking alternatives to solve the problem. These negotiations are not yet finalised and these mortgagees may or may not exercise their margin cuts upon resumption of trading in the securities of the Company. In addition, 786,600,000 Shares pledged with Top New represent approximately 42.3% of the issued share capital of the Company, and therefore, there exists a possibility of change of control in the Company. The Company was informed by Gigalink that the negotiation with Top New is not yet finalised. Given the default by Gigalink, Top New has informed Gigalink that they will take appropriate actions to protect the loan and all their rights under the loan agreement. Top New has started negotiations with Gigalink and Top New is unable to confirm at this stage the particular action to be taken.

In addition, the Company also noted that there were various articles appearing in newspapers from 27 November 2002 to 17 December 2002 relating to the Company and the substantial drop in the Company's share price on 26 November 2002. In these regards, the Board intends to clarify, to the best of our knowledge and belief, as follows:

- (i) Mr. Chen is still and currently the chairman and chief executive officer of the Company. He is responsible for the overall strategic planning, management and business development of the Company and its subsidiaries (the "Group"). The Company does not have any difficulty to contact with Mr. Chen;
- (ii) The Company was informed by Mr. Chen that he was not in negotiation nor has the intention to place the Shares to any third parties before the event occurred on 26 November 2002. No other shareholders of the Company have informed the Company that they are in negotiation or have the intention to place the Shares to any third parties;
- (iii) Except for Gigalink, the Company was not informed by any other shareholders that their Shares are pledged to any mortgagees;
- (iv) The Company is not aware of any senior management of the Company engaging in litigation in the People's Republic of China;
- (v) The Group plans 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. The total investment of spandex project is estimated at approximately

RMB800 million, of which approximately RMB300 million has been already invested as at today. Before the occurrence of the subject matter, the progress of spandex project was in line with our original plan. The foundation work for spandex site was substantially completed and construction of factory premise would immediate follow once the required funding was ready, including the issuance of convertible bonds and bank financing up to a total of approximately RMB500 million. There was no material change in tentative timetable as quoted in the Company's 2002 interim report, i.e., it was expected that commercial production of spandex project would commence by the end of year 2003. In fact, the progress of fund raising exercises was considered satisfactory and would be completed in early 2003. As a result of the subject matter, the Board believes it would have a direct impact on fund raising exercise of the Company, which in turn, affects the progress of the spandex project. At this stage, it is very difficult for the Board to estimate the impact accurately and the Board is currently reviewing the existing circumstances. Should there be any material change in the timetable for spandex project and any issuance of convertible bonds, the Company, if necessary, would make the necessary announcement; and

- (vi) As reported by newspapers on 4 December 2002, there was a claim made against Mr. Chen for approximately HK\$4.4 million on 2 December 2002. The Company was informed by Mr. Chen that this HK\$4.4 million indebtedness relates to a margin facility provided to Gigalink by one of the above-mentioned mortgagees (other than Top New) and he was sued as a guarantor of the above margin facility. The Board wishes to state that the claim is made against Mr. Chen in his personal capacity and it is not expected to have any material impact on the normal operations of the Group, including without limitations to the Group's production lines in the People's Republic of China.

The Group has a syndicated bank loan of approximately RMB90 million. As at today, the Shares have been suspended from trading on the Stock Exchange for a consecutive period of more than 5 trading days and Mr. Chen, one of the guarantors of the loan, has been involved in a personal civil litigation (as mentioned above) since 2 December 2002. According to the terms and conditions of the syndicated loan agreement, these constitute events of default, and consequently, the loan is technically repayable on demand. The Company has informed the banks regarding the above matters and is seeking their continued supports to the Group. In consideration of relationship with these banks and no default in payment of both principal and interest in the past, the Board believes that these banks will give continuing financial support to the Group. In addition, the Board wishes to state that all the Group's bankers have not demanded repayment of any loans as at today.

The Board believes that the subject matter has no material impact on the Company's current business and operations. The Board is of the opinion that the Group shall have sufficient working capital to operate in the foreseeable future. This is based on the view that the banks will give continuing financial support to the Group as mentioned above.

Except for the above-mentioned Shares dealings, each of the directors of the Company has confirmed that they have not dealt in any Shares in any manner on 26 November 2002.

The Company was recently informed by Gigalink that Gigalink is currently negotiating with certain third parties to dispose of a portion of its interest in the Company. The negotiation is not yet finalised and the deal may or may not materialised. These will lead to a substantial change in the shareholding structure of the Company. A further announcement giving the details will be made by the Company as soon as possible.

Save as disclosed above, the Board confirms that there are no negotiations or agreements relating to intended acquisitions or realisations which are discloseable under paragraph 3 of the Listing Agreement, neither is the Board aware of any matter discloseable under the general obligation imposed by paragraph 2 of the Listing Agreement, which is or may be of a price sensitive nature.

At the request of the Company, trading in the securities of the Company has been suspended with effect from 2:30 p.m. on Tuesday, 26 November 2002 and will remain temporarily suspended pending the release of the announcement in relation to the change in the shareholding structure of the Company.

Shareholders and other persons who are contemplating dealing in the securities of the Company are advised to exercise extreme caution.

By Order of the Board
China Specialised Fibre Holdings Limited
Chen Shunli
Chairman and Chief Executive Officer

Hong Kong, 18 December 2002

The directors of the Company collectively and individually accept full responsibility for the accuracy of the information contained in this announcement and confirm, having made all reasonable inquiries, that to the best of their knowledge and belief, the opinions expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statement in this announcement misleading.