

Report of the Directors

The Board of Directors has pleasure in presenting their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2001.

CHANGE OF COMPANY NAME

Pursuant to a special resolution passed at the special general meeting held on 5 December 2001, the name of the Company was changed from Heshun Holdings Company Limited to Heshun Specialised Fibre Holdings Limited and the Chinese trade name adopted by the Company was changed from 和順控股有限公司 to 和順特種纖維控股有限公司.

Pursuant to a directors' meeting held on 23 April 2002, the name of the Company was proposed to change to China Specialised Fibre Holdings Limited with the Chinese trade name as 中國特種纖維控股有限公司. The proposal is subject to the passing of a special resolution at the forthcoming Annual General Meeting on 30 May 2002.

PRINCIPAL ACTIVITIES

The Company is an investing holding company. Its subsidiaries are principally engaged in the production and distribution of differential chemical fibre products. The business in the provision of engineering and installation services for chemical fibre projects and the design and installation of chemical fibre production machinery and equipment was discontinued during the year.

Except for the discontinued operations, there were no significant changes in the nature of the Group's activities during the year.

SEGMENTAL INFORMATION

The Group's turnover and operating profit in 2000 and 2001 were derived from Mainland China. The analysis of turnover and operating profit by operating activity are set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2001 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 20 to 64.

The Board of Directors does not recommend the payment of a final dividend for the year ended 31 December 2001.

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FINANCIAL SUMMARY

The Company was incorporated in Bermuda on 28 June 2000 and became the holding company of the companies now comprising the Group as a result of the reorganisation which became effective on 25 September 2000. Accordingly, the only consolidated balance sheets of the Group are as at 31 December 1999, 2000 and 2001 as follows:

Consolidated balance sheet

	As at 31 December		
	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>	1999 <i>RMB'000</i>
Non-current assets	1,248,944	1,119,632	655,901
Current assets	219,767	157,892	62,098
Current liabilities	(546,871)	(414,625)	(497,980)
Net current liabilities	(327,104)	(256,733)	(435,882)
Total assets less current liabilities	921,840	862,899	220,019
Non-current liabilities	(64,686)	(145,078)	(3,611)
	857,154	717,821	216,408
Minority interests	3,101	2,302	—
Net assets	860,255	720,123	216,408

The consolidated income statements for the five years ended 31 December 2001 are presented below:

Consolidated income statement

	Year ended 31 December				
	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>	1999 <i>RMB'000</i>	1998 <i>RMB'000</i>	1997 <i>RMB'000</i>
Turnover	655,856	633,985	491,512	314,329	154,159
Profit before taxation	167,368	202,458	144,451	47,046	52,688
Taxation	(23,951)	(24,776)	(23,320)	—	—
Profit after taxation	143,417	177,682	121,131	47,046	52,688
Minority interests	263	4,739	—	—	—
Profit attributable to shareholders	143,680	182,421	121,131	47,046	52,688
Earnings per share - Basic	RMB0.08	RMB0.13	RMB0.09	RMB0.03	RMB0.04

FIXED ASSETS

Movements in fixed assets of the Company and the Group during the year are set out in note 14 to the financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 17 to the financial statements.

SHARE PREMIUM ACCOUNT AND RESERVES

Details of movements in the share premium account and reserves of the Company and the Group during the year are set out in note 32 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2001, the Company's reserves available for distribution calculated in accordance with the Companies Act 1981 of Bermuda amounted to RMB425,827,000.

In addition, the Company's share premium may be distributed in the form of fully paid bonus shares.

BANK AND OTHER LOANS

Details of bank and other loans of the Company and the Group are set out in notes 26, 27 and 28 to the financial statements.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling RMB754,900 (2000: RMB115,000).

RETIREMENT SCHEME

Details of retirement scheme of the Company and the Group are set out in note 38 to the financial statements.

POST BALANCE SHEET EVENTS

Details of significant post balance sheet events are set out in note 39 to the financial statements.

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DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive Directors

Chen Shunli (*Chairman & Chief Executive Officer*)

Chen Guoli

Hao Yu Pin (*Deputy Chairman*)

(appointed on 26 April 2002)

Huo Shizhi

Law Fei Shing (*Deputy Chairman & Chief Financial Officer*)

(resigned on 24 December 2001)

Xiao Tianguan

Independent Non-Executive Directors

Chen Dajun

Huang Yue

Jiang Xixia

In accordance with Bye-law 99 of the Company's Bye-laws, Mr Chen Guoli and Mr Huo Shizhi retire and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of directors and senior management are set out in pages 9 to 10.

DIRECTORS' REMUNERATION

Details of directors' remuneration are set out in note 8 to the financial statements.

FIVE HIGHEST PAID INDIVIDUALS

Details of five highest paid individuals of the Group are set out in note 8 to the financial statements.

DIRECTORS' SERVICE CONTRACTS

Messrs Chen Shunli, Chen Guoli, Huo Shizhi and Xiao Tianguan each entered into a service contract with the Company for a term of three years commencing 1 September 2000, which continue thereafter until terminated by either party giving not less than three months' notice in writing. Other than these service contracts, none of the directors has an unexpired service contract with the Company which is not terminable by the Company within one year without payment of compensation other than statutory compensation.

SHARE OPTIONS AND DIRECTORS' RIGHTS TO ACQUIRE SHARES

The Company has a share option scheme, under which it may grant options to employees of the Group (including executive directors of the Company) to subscribe for shares in the Company, subject to a maximum of 10% of the nominal value of the issued share capital of the Company from time to time, excluding for this purpose shares issued on the exercise of options. The subscription price will be determined by the Company's board of directors, and will not be less than the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares quoted on the Stock Exchange on the five trading days immediately preceding the date of offer of the options. As at 31 December 2001, no option has been granted under the share option scheme.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries or holding companies a party to any arrangements to enable any of the Company's directors or members of its management to acquire benefits by means of the acquisition of shares in the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Other than disclosed in note 33 to the financial statements, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries or holding companies was a party and in which any of the Company's directors or members its management had a material interests, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2001, the directors of the Company had the following beneficial interests in the shares of HK\$0.10 each in the capital of the Company within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), as recorded in the Register of Directors' Interests required to be kept by the Company pursuant to Section 29 of the SDI Ordinance:

Director	Number of Shares				Total interest (%)
	Corporate interest	Personal interest	Family interest	Other interests	
Mr Chen Shunli	1,196,000,000	—	—	—	64.3

Note:-

The 1,196,000,000 shares are held by Gigalink Group Limited. 68 shares of Gigalink Group Limited, representing 68% of its issued share capital, are held by Process Logistics Limited and 32 shares of Gigalink Group Limited, representing 32% of its issued share capital, are held by Leading Logistics Limited. Mr Chen Shunli is the legal and beneficial owner of the entire issued share capital of both Process Logistics Limited and Leading Logistics Limited.

CONNECTED TRANSACTIONS

Details of the connected transactions are set out in note 33 to the financial statements.

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SUBSTANTIAL SHAREHOLDERS

As at 31 December 2001, according to the Register of Interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance, the shareholder who was interested in 10% or more of the issued share capital of the Company was as follows:

Name	Number of Shares	Percentage of voting rights
Gigalink Group Limited	1,196,000,000	64.3%
Process Logistics Limited	1,196,000,000	64.3%
Mr Chen Shunli	1,196,000,000	64.3%

Note:-

The 1,196,000,000 shares are held by Gigalink Group Limited. 68 shares of Gigalink Group Limited, representing 68% of its issued share capital, are held by Process Logistics Limited, a company beneficially and wholly-owned by Mr Chen Shunli. The interests held by Gigalink Group Limited, Process Logistics Limited and Mr Chen Shunli are duplicated.

Other than as disclosed above, no other person is recorded in the Register as having an interests in 10% or more of the issued share capital of the Company.

PURCHASE, SALE AND 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.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws and the laws in Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholder.

MAJOR CUSTOMERS AND SUPPLIERS

The largest customer of the Group by itself and taken together with the next four largest customers accounted for 21% and 81% respectively of the Group's total turnover for the year.

The largest supplier of the Group by itself and taken together with the next four largest suppliers accounted for 18% and 64% respectively of the Group's total purchases for the year.

At no time during the year did any directors, their respective associates, or any shareholders of the Company (which to the knowledge of the directors own more than 5% of the Company's issued share capital) have an interest in any of the Group's five largest customers and suppliers.

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, 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.

AUDIT COMMITTEE

An audit committee of the Board of Directors 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 Huang Yue is the Chairman of the audit committee.

AUDITORS

The financial statements for the year ended 31 December 2000 were audited by Arthur Andersen & Co. Arthur Andersen & Co resigned as the auditors of the Company during the year. Charles Chan, Ip & Fung CPA Ltd. were then appointed as auditors to fill the casual vacancy. A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Charles Chan, Ip & Fung CPA Ltd. as auditors of the Company.

On behalf of the Board

Chen Shunli

Chairman & Chief Executive Officer

Shenzhen, the People's Republic of China
26 April 2002