The board of directors (the "Board") of the Company is pleased to announce that the Group recorded a net loss attributable to shareholders of RMB145 million for 2002 (2001: profit of RMB144 million). The consolidated turnover for the Group was RMB870 million (2001: RMB656 million), representing an increase of approximately 33% over that of 2001. The Board does not recommend the payment of a final dividend for the year (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 tonnes (2001: 40,442 tonnes) 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 tonnes (2001: 14,932 tonnes) of polyester chips in 2002.

Sales and processing volume of POY, DTY and FDY were 51,019 tonnes (2001: 40,578 tonnes) and 423 tonnes (2001: 721 tonnes) respectively. In addition, the Group recorded sales of polyester chips of 30,667 tonnes (2001: 4,474 tonnes) 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 is 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.

BUSINESS REVIEW *(continued)*

Review of operations *(continued)*

The effect of drop in gross profit margin was compensated by the increase in Group's sales volume in the year 2002, thus only making a slight 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 People's Republic of China (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 factory 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.

BUSINESS REVIEW *(continued)*

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 was determined that the scale of this project would decrease to half of its original plan and the timetable to complete this project would 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 was originally expected that the new production line would commence its full commercial operation in late 2003, with an annual production capacity of 15,000 tonnes per annum. It was determined that the scale of this project would decrease to half of its original plan and the timetable to complete the project would 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 was determined that this project would 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 machines purchase and 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 sales 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 year under review and there were no foreign currency net investments being hedged by foreign currency borrowings and other hedging instruments.

Capital commitments

A significant portion of capital commitments 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).

FINANCIAL REVIEW *(continued)*

Pledges of assets

As at 31 December 2002, certain land and buildings, plant and machinery and motor vehicles of the Group with net book value of RMB569 million (2001: RMB414 million) were pledged as securities for borrowings from other creditor, banks and financial institutions.

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.

APPRECIATION

On behalf of the Board, I would like to express our appreciation to all management and staff members for their dedication and contribution, and to thank shareholders, customers and suppliers for their continuing support to the Group. The Board will make every endeavor to explore potential opportunities for our business growth and to create a promising future for the Group as well as our shareholders.

By order of the Board

Chen Shunli
Chairman & Chief Executive Officer

Shenzhen, the People's Republic of China
21 November 2003