1. ORGANISATION AND PRINCIPAL ACTIVITIES

China Specialised Fibre Holdings Limited (the "Company") was incorporated in Bermuda on 28 June 2000 as an exempted company with limited liabilities under the Companies Act 1981 of Bermuda. The Company's shares have been listed on The Stock Exchange of Hong Kong Limited since 15 November 2000.

The Company is an investment holding company. Its subsidiaries are principally engaged in the production and distribution of differential chemical fibre products.

2. BASIS OF PREPARATION

As at 31 December 2002, the Group had net current liabilities of RMB466,799,000. As explained in the consolidated cash flow statement, despite the positive net cash flows from operating activities, the Group had a significant negative cash flows after investing activities had been taken into consideration. The directors are of the opinion that the Group's financial position and tight cash flows are mainly attributable to the investing activities which are principally related to the spandex project and development of new production lines. As at 31 December 2002, the Group had total borrowings of RMB607,989,000, of which RMB292,165,000 was overdue. The Group is currently under negotiations with the bankers to reschedule the bank borrowings and to seek their ongoing support to the Group. As at the date of approval of these financial statements, certain bankers have given written indications that they have the intention to provide continuing financial support to the Group. The directors believe that the negotiations will be successful and that the bank borrowings will be repaid through the funds generated from continuing profitable operations and additional resources from future fund raising exercises, including the procurement of new banking facilities and new equity financing.

Included in the current portion of long-term borrowings are a syndicated bank loan and loans from other financial instructions of RMB90,217,000 and RMB17,637,000 respectively. The Group was unable to repay the loans in accordance with the repayment schedule. This led to a breach of certain terms of the loan agreements. As a result, the loans have become technically repayable on demand and have been re-classified as current liabilities. The directors are of the opinion that the banks and financial institutions will give continuing financial support to the Group.

In light of the measures taken and the expected outcome, the directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

If the going concern basis was not to be appropriate, adjustments would have to be made to restate the values of the assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and long term liabilities as current assets and current liabilities, respectively.

3. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants (the "HKSA"), and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements are prepared under the historical cost convention. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below:

In the current year, the Group adopted, for the first time, the following new or revised SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 34	:	Employee benefits

The adoption of these standards has resulted in a change in the format of presentation of the cash flow statement and the statements of changes in shareholders' equity, but has not had any significant impact on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

(a) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. The subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half of the voting power or holds more than half of the issued share capital or has power to govern the financial and operating policies.

The results of subsidiaries as acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated income statement .

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Basis of Consolidation *(Continued)*

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(b) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries:

— for acquisitions before 1 January 2001, positive goodwill is eliminated against reserves and is reduced by impairment losses; and

— for acquisitions on or after 1 January 2001, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Positive goodwill is capitalised at cost less any accumulated amortisation and any impairment losses.

In respect of acquisitions of associates and jointly controlled entities, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortisation and any impairment losses is included in the carrying amount of the interests in associates or jointly controlled entities.

Negative goodwill arising on acquisitions of controlled subsidiaries, associates and jointly controlled entities represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is accounted for as follows:

— for acquisitions before 1 January 2001, negative goodwill is credited to a capital reserve; and

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Goodwill *(Continued)*

— for acquisitions on or after 1 January 2001, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated income statement over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated income statement.

In respect of any negative goodwill not yet recognised in the consolidated income statement:

— for controlled subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill; and

— for associates and jointly controlled entities, such negative goodwill is included in the carrying amount of the interests in associates or jointly controlled entities.

On disposal of a controlled subsidiary, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement or which has previously been dealt with as a movement on Group reserves is included in the calculation of the profit or loss on disposal.

(c) Subsidiaries

A subsidiary is a company in which the Group or Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors. Subsidiaries are considered to be controlled if the company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries *(Continued)*

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

(d) Revenue Recognition

(i) Revenue on sale of goods is recognised when the significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

(ii) Revenue on subcontracting work services is recognised when the subcontracting work services are rendered.

(iii) Interest income is recognised on a time proportion basis on the principal outstanding and at the applicable rate.

(e) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Major costs incurred in restoring property, plant and equipment to their normal working condition are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The gain or loss on disposal of property, plant and equipment is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Construction-In-Progress

Construction-in-progress represents facilities under construction and plant and machinery pending installation, and is stated at cost. This includes the costs of construction, the costs of plant and machinery and interest charges arising from borrowings used to finance these assets during the period of construction or installation and testing.

No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and put into operational use.

(g) Prepayments for Property, Plant and Equipment

Prepayments for property, plant and equipment represents downpayment for acquisition of machinery and land and buildings and is stated at cost. No provision for depreciation is made on prepayments for property, plant and equipment until such time as the relevant assets are delivered and put into operational use.

(h) Depreciation

Property, plant and equipment are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis, after deducting the estimated residual value. The annual rates of depreciation are as follows:

Land	Over the lease terms
Buildings	4.75%
Machinery	4.75%
Motor vehicles	19 — 20%
Other equipment	19 — 33.33%
Leasehold improvements	19%

(i) Assets under Leases

(i) Finance leases

Leases that substantially transfer to the Company or the Group all the rewards and risks of ownership of assets are accounted for as finance leases. At the inception of a finance lease, the fair value of the asset is recorded together with the obligation, excluding the interest element, to pay future rentals.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) Assets under Leases *(Continued)*

(i) Finance leases (Continued)

Payments to the lessor are treated as consisting of capital and interest elements. Finance charges are debited to the income statement over the periods of the leases so as to produce an approximately constant periodic rate of charge on the remaining balances of the obligation for each accounting period.

Assets held under finance leases are depreciated over the shorter of the lease terms and their estimated useful lives on the same basis as owned assets. Impairment losses are accounted for in accordance with the accounting policy as set out in note 3(j).

(ii) Operating leases

Lease where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rental payables under operating leases are accounted for in the income statement on a straight-line basis over the period of the respective leases.

(j) Impairment of Assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;
— investments in subsidiaries; and
— positive goodwill.

If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, or are amortised over more than 20 years from the date when the asset is available for use or goodwill that is amortised over 20 years from initial recognition, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) Impairment of Assets *(Continued)*

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(k) Provisions and Contingent Liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) Provisions and Contingent Liabilities *(Continued)*

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(l) Related Parties

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions, or vice versa. Parties are also considered to be related if they are subject to common control or common significant influence.

(m) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on a first-in, first-out basis, comprises all costs of purchases, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is calculated based on the estimated normal selling price in the ordinary course of business less further costs expected to be incurred to completion and related selling and distribution expenses.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction of expense in the period in which the reversal occurs.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(n) Trade Receivables

Provision is made against trade receivables to the extent that they are considered to be doubtful. Trade receivables in the balance sheet is stated net of such provision.

(o) Cash Equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. Cash equivalents include investments and advances denominated in foreign currencies provided that they fulfil the above criteria.

For the purposes of the cash flow statement, cash equivalents would also include bank overdrafts and advances from banks repayable within three months from the date of the advance.

(p) Taxation

Individual companies within the Group provide for profits tax on the basis of their profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes.

Deferred taxation is accounted for under the liability method in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or asset is expected with reasonable probability to crystallise in the foreseeable future. Deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

(q) Translation of Foreign Currencies

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations ("functional currencies"). In the financial statements of the individual companies, transactions in other currencies during the year are translated into the respect functional currencies at the applicable rate of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into their respective functional currencies at the applicable rates of exchange in effect at the balance sheet date. Exchange gains or losses are dealt with in the income statement of the individual companies.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(q) Translation of Foreign Currencies *(Continued)*

The Group prepares the consolidated financial statements in Renminbi ("RMB"). For the purpose of consolidation, assets and liabilities of subsidiaries with functional currencies other than RMB are translated into RMB at the applicable rates of exchange in effect at the balance sheet date; income and expense items are translated into RMB at the average applicable rates during the year. Exchange differences arising from such translation are dealt with as movements in reserves.

(r) Retirement Costs

Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Scheme Ordinance are charged to the income statement when incurred.

The Group's contributions to the defined contribution retirement benefit scheme of the subsidiaries outside Hong Kong are expensed as incurred.

The assets of the schemes are held separately from those of the Group in independently administered funds.

(s) Borrowing Costs

Borrowing costs are expensed as incurred, except for interest directly attributable to long-term construction projects, which are capitalised as part of the cost of those projects. Interest is capitalised up to the date when the project is completed and ready for its intended use. The capitalised interest rate represents the cost of fund from raising the related borrowings externally.

(t) Segment Reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(t) Segment Reporting *(Continued)*

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and no geographical segment is presented as all the Group's turnover and operating profit are derived from activities in Mainland China.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

(u) Research and Development Costs

Research and development costs represent all costs directly attributable to the development of polyester filament products. Both research and development costs are expensed off as incurred.

4. 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	2001
	RMB'000	*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
Other income	**3,967**	2,838
Total revenue	**873,688**	658,694

4. TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

Primary reporting format — business segments

Since the Group's turnover and operating profit/(loss) are derived from production and sales of differential chemical fibre products 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)
Segment and total assets	1,521,441	—	1,521,441
Segment and total liabilities	824,330	—	824,330
Capital expenditure	289,775	—	289,775
Depreciation	49,024	—	49,024

4. TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

Primary reporting format — business segments *(Continued)*

	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
Segment assets	1,461,476	—	1,461,476
Unallocated assets			7,235
Total assets			1,468,711
Segment liabilities	101,326	—	101,326
Unallocated liabilities			510,231
Total liabilities			611,557
Capital expenditure	254,556	7	254,563
Depreciation			
— Segment depreciation	39,076	2,373	41,449
— Unallocated depreciation			456
			41,905

5. PROVISION FOR BAD DEBTS

Included in provision for bad debts was a sum amounting to RMB119.4 million in respect of a cancellation of contract for the purchase of property, plant and equipment. Up to the report date, RMB119.4 million has not been refunded by the supplier. According to the agreement dated 21 August 2003, one of the subsidiaries, Central Harvest Holdings Limited, will acquire all the shares of Foshan Heshun Dongli Specialised Fibre Co. Ltd. from the minority shareholder at a consideration of RMB86 million. The consideration will be offset against the prepayments for property, plant and equipment to be refunded to the Group by the supplier whereas the remainder balance of RMB33.4 million will be refunded by cash after the completion of the transfer of shares. However, the validity of the agreement is subject to the approval of the shareholders of the Company at the forthcoming extraordinary general meeting. The recoverability of RMB119.4 million is uncertain and the Group has no security for this amount. Thus, full provision was made.

6. FINANCE COSTS

	Group	
	2002	2001
	RMB'000	*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 lease	**38**	71
	28,350	25,200

7. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is stated after charging the following:

	2002 RMB'000	2001 RMB'000
Auditors' remuneration	**1,273**	1,114
Less: Overprovision in previous years	**(265)**	—
	1,008	1,114
Cost of inventories sold *(Note)*	**675,639**	413,133
Cost of construction contract income	**—**	24,267
Staff costs		
— Basic salaries and allowances	**14,077**	12,346
— Pension scheme contributions	**636**	425
Depreciation		
— Owned assets	**48,618**	41,675
— Leased asset	**406**	230
Operating lease rentals		
— Office premises	**675**	619
— Oil tank	**—**	580
Loss on disposal of property, plant and equipment	**52**	13
Net exchange loss	**21**	390

Note: Cost of inventories sold includes staff cost approximately RMB7,543,000 (2001: RMB5,847,000) and depreciation charges of approximately RMB42,553,000 (2001: RMB34,329,000) that have been included in the respective total amounts disclosed above.

8. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Directors' emoluments

The emoluments of the Company's directors disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance are as follows:

	2002	2001
	RMB'000	*RMB'000*
Fees for executive and non-executive directors	**—**	—
Other emoluments for executive directors		
— basic salaries and allowances	**911**	4,104
— discretionary bonuses	**—**	1,230
— contributions to pension schemes	**16**	31
— contractual compensation payments for loss of office paid to a director by the Company	**—**	1,126
Other emoluments for independent non-executive directors		
— basic salaries and allowances	**—**	40
	927	6,531

None of the directors waived any emoluments during the year. No incentive payment nor compensation for loss of office was paid or payable to any directors during the year.

The emoluments of the directors were within the following bands:

(i) Executive directors

		Number of directors	
RMB	Equivalent HK$	**2002**	2001
Nil — 1,060,700	Nil — 1,000,000	**5**	3
1,060,701 — 1,591,050	1,000,001 — 1,500,000	**—**	—
1,591,051 — 2,121,400	1,500,001 — 2,000,000	**—**	1
4,242,801 — 4,773,150	4,000,001 — 4,500,000	**—**	1
		5	5

8. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

(ii) Independent non-executive directors

		Number of directors	
RMB	Equivalent HK$	**2002**	2001
Nil — 1,060,700	Nil — 1,000,000	**3**	3

(b) Five highest-paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2001: two) executive director whose emoluments are reflected in the analysis presented above. The emoluments payable to these five individuals during the year are as follows:

	2002	2001
	RMB'000	*RMB'000*
Basic salaries and allowances	**2,388**	5,014
Discretionary bonuses	**—**	1,230
Contributions to pension schemes	**55**	58
Gratuity on termination of service contract	**—**	1,126
	2,443	7,428

The emoluments fell within the following bands:

		Number of individuals	
RMB	Equivalent HK$	**2002**	2001
Nil — 1,060,700	Nil — 1,000,000	**5**	3
1,060,701 — 1,591,050	1,000,001 — 1,500,000	**—**	—
1,591,051 — 2,121,400	1,500,001 — 2,000,000	**—**	1
4,242,801 — 4,773,150	4,000,001 — 4,500,000	**—**	1
		5	5

During the year, no emolument was paid to the five highest-paid individuals (all senior executives including directors) as inducement to join or upon joining the Group or as compensation for loss of office.

9. TAXATION

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

In accordance with the applicable enterprise income tax law of Mainland China, Heshun (China) Industrial Group Co., Ltd. ("Heshun China") and Fujian Shunda Polyester Fibre Co., Ltd. ("Fujian Shunda"), as wholly foreign-owned enterprises incorporated in Fuzhou Coastal Economic Open Zone, are exempt from the Enterprise Income Tax ("EIT") for the first two profitable years of operations after offsetting prior year losses and are entitled to a 50% reduction on the EIT for the following three years. Heshun China and Fujian Shunda began their first profitable year in the year ended 31 December 1997 and were entitled to a 50% reduction on EIT, at an effective tax rate of 12% for the years from 1999 to 2001. Moreover, as Heshun China and Fujian Shunda were classified as hi-tech companies, extra three years 50% reduction were granted by tax authority up to 2004.

Heshun (Fujian) Spandex Co., Ltd. ("Heshun Spandex") is an equity joint venture established in Mainland China in 2001. In accordance with the applicable EIT law of Mainland China, Heshun Spandex is exempt from the EIT for the first two profitable years operations after offsetting prior year losses and is entitled to a 50% reduction on the EIT for the succeeding three years. Heshun Spandex is still at its development stage and hence has no assessable profit since its establishment.

During the year, the Group had no significant deferred taxation (2001: Nil).

10. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss attributable to shareholders included a loss of approximately RMB9,711,000 (2001: RMB21,867,000) dealt with in the financial statements of the Company.

11. DIVIDEND

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

12. (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 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.

13. GOODWILL

	Group	
	2002	2001
	RMB'000	*RMB'000*
Arising from acquisition of further interest in a subsidiary	—	2,403
Impairment charge	—	(2,403)
At 31 December	—	—

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Other equipment RMB'000	Leasehold im-provements RMB'000	Total RMB'000
Cost						
At 1 January 2002	151,055	853,285	5,264	1,883	—	1,011,487
Transfer from construction-in-progress *(Note 15)*	13,091	—	—	—	—	13,091
Additions	44,428	46,068	1,734	342	448	93,020
Disposals	—	—	(62)	—	—	(62)
At 31 December 2002	208,574	899,353	6,936	2,225	448	1,117,536
Accumulated depreciation						
At 1 January 2002	15,318	137,487	2,712	732	—	156,249
Charge for the year	6,048	41,573	951	445	7	49,024
Write back on disposal	—	—	(6)	—	—	(6)
At 31 December 2002	21,366	179,060	3,657	1,177	7	205,267
Net book value						
At 31 December 2002	187,208	720,293	3,279	1,048	441	912,269
At 31 December 2001	135,737	715,798	2,552	1,151	—	855,238

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Company

	Motor vehicles RMB'000	Other equipment RMB'000	Total RMB'000
Cost			
At 1 January 2002	1,208	638	1,846
Disposal	(62)	—	(62)
At 31 December 2002	1,146	638	1,784
Accumulated depreciation			
At 1 January 2002	308	255	563
Charge for the year	233	218	451
Write back on disposal	(6)	—	(6)
At 31 December 2002	535	473	1,008
Net book value			
At 31 December 2002	611	165	776
At 31 December 2001	900	383	1,283

Land and buildings are located outside Hong Kong and held on medium leases. The net book value of the Group's land and buildings, machinery and motor vehicles amounting to RMB147,580,000 (2001: RMB108,232,000), RMB420,784,000 (2001: RMB305,209,000) and RMB431,000 (2001: Nil) respectively were pledged as securities for borrowings from other creditor, banks and financial institutions.

At 31 December 2002, the motor vehicles with carrying amount of RMB844,000 and Nil (2001: Nil and RMB840,000 respectively) held by the Group and the Company respectively under finance leases.

15. CONSTRUCTION-IN-PROGRESS

	Group 2002 RMB'000	Group 2001 RMB'000
At 1 January	**91,784**	238,100
Additions	**79,197**	91,444
Transfer to property, plant and equipment *(Note 14)*	**(13,091)**	(237,760)
Impairment loss	**(87,845)**	—
At 31 December	**70,045**	91,784

16. PREPAYMENTS FOR PROPERTY, PLANT AND EQUIPMENT

	Group 2002 RMB'000	Group 2001 RMB'000
At 1 January	**301,922**	169,712
Additions	**117,558**	132,210
Written off	**(106,113)**	—
Provision for bad debts	**(119,425)**	—
At 31 December	**193,942**	301,922

17. INVESTMENTS IN SUBSIDIARIES

	Company 2002 RMB'000	Company 2001 RMB'000
Unlisted equity interests, at cost	**452,070**	452,070

The directors are of the opinion that the underlying value of investments in subsidiaries is not less than the carrying value as at 31 December 2002.

17. INVESTMENTS IN SUBSIDIARIES *(Continued)*

The following is a list of the principal subsidiaries as at 31 December 2002:

Name of subsidiaries	Place/ country of incorporation/ operation	Percentage of equity interest attributable to the Group (i)	Capital Authorised/ registered	Capital Paid up	Principal activities
Heshun Technology Holdings Limited	British Virgin Islands/ Hong Kong	100%	US$50,000	US$1	Investment holding
Central Harvest Holdings Limited	Hong Kong	100%	HK$121,000,000	HK$99,900,000	Investment holding
Central Harvest International Trading Limited	Hong Kong	100%	HK$10,000	HK$10,000	Inactive
Heshun (China) Industrial Group Co., Ltd. ("Heshun China") (iii)	Mainland China	100%	US$38,000,000	US$38,000,000	Production and sales of polyester filaments
Fujian Shunda Polyester Fibre Co., Ltd. ("Fujian Shunda") (iii)	Mainland China	100%	US$18,000,000	US$18,000,000	Production and sales of polyester filaments
Heshun (Fujian) Spandex Co., Ltd. ("Heshun Spandex") (iii)	Mainland China	75%	US$31,050,000	US$5,253,736	Production and sales of spandex filaments
Foshan Heshun Dongli Specialised Fibre Co., Ltd. ("Foshan Dongli") (ii) and (iii)	Mainland China	62%	RMB82,000,000	RMB31,160,000	Production and sales of polyester filaments

(i) The shares of Heshun Technology Holdings Limited are held directly by the Company. The shares and equity interests of other subsidiaries are held indirectly.

(ii) Foshan Dongli was incorporated in Mainland China during the year ended 31 December 2002.

(iii) Of the subsidiaries incorporated in Mainland China, Heshun China and Fujian Shunda are wholly foreign-owned enterprises and Heshun Spandex and Foshan Dongli are sino-foreign equity joint ventures.

18. INVENTORIES

	Group	
	2002	2001
	RMB'000	*RMB'000*
Raw materials	**39,986**	11,635
Work-in-progress	**6,645**	9,089
Finished goods	**7,021**	4,317
	53,652	25,041

As at 31 December 2002 and 2001, all inventories were stated at cost.

19. AMOUNT DUE FROM A DIRECTOR

	Group	
	2002	2001
	RMB'000	*RMB'000*
Mr. Chen Shunli		
Balance at end of year	**—**	56,000
Balance at beginning of year	**56,000**	—
Maximum outstanding balance during the year	**56,000**	76,000

The amount is unsecured, interest free and repayable on demand.

20. AMOUNTS DUE FROM/(TO) SUBSIDIARIES

The amounts are unsecured, interest free and repayable on demand.

21. AMOUNT DUE FROM A MINORITY SHAREHOLDER

The amount is unsecured, interest free and repayable on demand.

22. AMOUNTS DUE FROM RELATED COMPANIES

Name	Connected parties	Balance at end of year	Balance at beginning of year	Maximum outstanding balance during the year 2002	2001
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
福州和順房地產開發有限公司	Xiao Tianguan	**119**	—	**119**	—
飛博公司	Chen Shunli	**77**	—	**77**	—
		196	—	**196**	—

The amounts are unsecured, interest free and repayable on demand. At 31 December 2002 and 31 December 2001, there was no outstanding overdue interests and provision has not been made for the amounts due.

23. ACCOUNTS RECEIVABLE

The sales of the individual companies of the Group are usually settled by "delivery upon payment" and credit terms up to 30 days. The aging analysis of accounts receivable was as follows:

	Group 2002	2001
	RMB'000	*RMB'000*
Within 30 days	**51,662**	48,991
Over 30 days but within 180 days	**688**	—
	52,350	48,991

24. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Deposits, prepayments and other receivables represented mainly the deposits for utilities and the purchase of raw materials.

25. TAX RECOVERABLE/(PAYABLE)

	Group	
	2002	2001
	RMB'000	*RMB'000*
Tax recoverable		
Mainland China EIT	**1,077**	—
Mainland China Value-added Tax	**13,821**	—
	14,898	—
Tax payable		
Mainland China EIT	**(5,686)**	(11,672)
Mainland China Value-added Tax	**(2,396)**	(4,997)
	(8,082)	(16,669)

26. ACCOUNTS PAYABLE

	Group	
	2002	2001
	RMB'000	*RMB'000*
Within 1 year	**23,234**	21,351
Over 1 year but within 2 years	**2,140**	1,799
Over 2 years	**7**	425
	25,381	23,575

27. SHORT-TERM BORROWINGS

	Group		Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bank loans	**390,445**	236,951	**—**	—
Trust receipt loans	**—**	30,707	**—**	—
Bills payable	**93,000**	14,800	**—**	—
Bank overdrafts				
— Secured	**—**	6,139	**—**	—
— Unsecured	**—**	217	**—**	217
Other loans, unsecured	**15,100**	15,100	**—**	—
	498,545	303,914	**—**	217

Bank loans, trust receipt loans, bills payable and secured bank overdrafts were secured by:

- Land and buildings with net book value of approximately RMB100,183,000 (2001: RMB103,760,000).
- Guarantee issued by the Water Supply Company of Changle City, a director and related companies.
- Machinery of approximately RMB179,487,000 (2001: RMB103,050,000).
- Properties owned by a related company.
- Bank deposits of approximately RMB102,657,000 (2001: RMB5,978,000).

28. OBLIGATION UNDER FINANCE LEASES

	Group			
	Minimum lease Payments		**Present value of minimum lease payment**	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within one year	**365**	313	**352**	303
In the second to fifth year inclusive	**30**	—	**30**	—
	395	313	**382**	303
Less: Future finance charges	**(13)**	(10)	**N/A**	N/A
Present value of lease obligations	**382**	303	**382**	303
Repayable within one year	**352**	303	**352**	303
Repayable in the second to fifth year inclusive	**30**	—	**30**	—
	382	303	**382**	303
Long-term portion of obligation under finance leases	**(30)**	—	**(30)**	—
	352	303	**352**	303

28. OBLIGATION UNDER FINANCE LEASES *(Continued)*

	Company			
	Minimum lease Payments		**Present value of minimum lease payment**	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within one year	—	313	—	303
In the second to fifth year inclusive	—	—	—	—
	—	313	—	303
Less: Future finance charges	—	(10)	**N/A**	N/A
Present value of lease obligations	—	303	—	303
Repayable within one year	—	303	—	303
Repayable in the second to fifth year inclusive	—	—	—	—
	—	303	—	303
Long-term portion of obligation under finance leases	—	—	—	—
	—	303	—	303

The leases term for the Group and the Company are 2 years. For the year ended 31 December 2002, the average effective borrowing rate was approximately 6% (2001: 12%) per annum. Interest rate is fixed at the contract date. The leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

29. BORROWINGS

	Group	
	2002	2001
	RMB'000	*RMB'000*
Bank loans		
Amount due within one year	**90,820**	90,785
Amount due after one year but within second year	**605**	610
Amount due after second year but within fifth year	**—**	605
	91,425	92,000
Loans from other financial institutions		
Within 1 year or on demand	**17,637**	27,872
	109,062	119,872
Current portion of bank and other loans	**(108,457)**	(118,657)
	605	1,215

(i) The bank loans were secured by land and buildings with net book value of approximately RMB4,218,000 (2001: RMB4,472,000) and plant and machinery with net book value of approximately RMB151,102,000 (2001: RMB146,364,000) and guarantees issued by the Company, Central Harvest Holdings Limited and a director.

Included in the bank loans is a syndicated loan of approximately RMB90,217,000 (2001: RMB90,217,000). The Group was unable to repay the loan in accordance with the repayment schedule. This led to a breach of certain terms of the loan agreement. As a result, the loan has become technically repayable on demand and has been re-classified as a current liability.

(ii) The loans from other financial institutions were secured by plant and machinery with net book value of approximately RMB51,630,000 (2001: RMB55,795,000) and guarantees issued by the Company, Central Harvest Holdings Limited and a director.

The loan agreements of these loans contain certain financial covenants. The publication of these financial statements discloses the fact that the Group has not complied with the financial covenants which give rise to defaults. As a consequence, the loans have become technically repayable on demand and have been re-classified as current liabilities.

30. LONG-TERM ADVANCE FROM A MINORITY SHAREHOLDER

The advance is unsecured, interest free and not repayable within next twelve months.

31. LONG-TERM ADVANCE FROM A DIRECTOR

The advance from a director, Mr. Chen Shunli, is unsecured, interest free and not repayable within the next twelve months.

32. ISSUED CAPITAL

	2002		2001	
	Nominal value *HK$'000*	**Nominal value *RMB'000* Equivalent**	Nominal value *HK$'000*	Nominal value *RMB'000* Equivalent
Authorised:				
ordinary shares				
5,000,000,000				
of HK$0.10 each	**500,000**	**530,350**	500,000	530,350
Issued and fully paid:				
ordinary shares				
1,860,000,000				
of HK$0.10 each	**186,000**	**197,290**	186,000	197,290

33. RELATED PARTY TRANSACTIONS

(a) During the year, the Group had the following material transactions with related parties:

1. (i) All short-term bank loans were guaranteed by a director and related companies and secured by properties owned by a related company; and

   (ii) All bank loans not wholly repayable within one year and the loans from other financial institutions were guaranteed by a director.

   The details can be referred to notes 27 and 29 to the financial statements.

2. The Group entered into agreement for construction of spandex project in 2000, and agreements for construction of ultra fine pre-oriented yarn and island staple projects in 2001 with Fujian Jima Fibre Technology Engineering Co., Ltd. (福建吉馬新合纖技術工程有限公司) ("Jima") of which Chen Zhen Xiang has beneficial interest. During the year, the projects were not completed. Chen Zhen Xiang was appointed as one of the directors of Foshan Dongli, one of the Company's subsidiaries, in September 2002. As a result, Chen Zhen Xiang and Jima are connected persons under definition of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, and accordingly, the above transactions were classified as connected transactions in 2002. In February 2003, the projects were terminated the details of which have been set out in note 40(b) to the financial statements.

(b) The balances with related parties were as follows:

	Group	
	2002	2001
	RMB'000	*RMB'000*
Amount due from a director *(Note 19)*	—	56,000
Amount due from a minority shareholder *(Note 21)*	**29,113**	—
Long-term advance from a minority shareholder *(Note 30)*	—	(52,723)
Long-term advance from a director *(Note 31)*	**(11,711)**	(10,748)

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Disposal of a subsidiary

	2002	2001
	RMB'000	*RMB'000*
Net assets disposed of:		
Property, plant and equipment	—	13,030
Inventories	—	861
Accounts receivable	—	21,868
Deposits, prepayments and other receivables	—	10,795
Accounts payable	—	(1,114)
Other payable and accruals	—	(5,793)
Cash at bank	—	19,151
Tax payable	—	(21)
Minority interests	—	(2,939)
	—	55,838
Less: Capital reserve released on disposal	—	(3,548)
Profit on disposal	—	23,710
	—	76,000
Satisfied by:		
Due from a director	—	56,000
Set off with amount due to Changle City Shunshi Group Co. Ltd.	—	20,000
	—	76,000

(b) Analysis of the net outflow of cash and cash equivalents in respect of the disposal of the subsidiary

	2002	2001
	RMB'000	*RMB'000*
Cash and cash equivalents disposed of with the subsidiary	—	19,151
Net outflow of cash and cash equivalents in respect of the disposal of the subsidiary	—	19,151

35. COMMITMENTS

(a) Capital commitments

	Group		Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Contracted but not provided for acquisition of				
— Machinery	**358,444**	556,154	**—**	—
— Land and buildings	**116,038**	258,576	**—**	—
	474,482	814,730	**—**	—

Subsequent to the balance sheet date, the Group has entered into agreements with the respective suppliers to cancel all the machines purchase and installation contracts. The capital commitments contracted but not provided for acquisition of machinery amounting to RMB358,444,000 would then be cancelled.

(b) Operating lease commitments

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases in respect of properties, plant and machinery which fall due as follows:

Group

	Plant		Premises		Total	
	2002	2001	**2002**	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Within one year	**—**	580	**450**	675	**450**	1,255
In the second to fifth year inclusive	**—**	1,740	**—**	450	**—**	2,190
	—	2,320	**450**	1,125	**450**	3,445

35. COMMITMENTS *(Continued)*

(b) Operating lease commitments *(Continued)*

Company

	Premises	
	2002	2001
	RMB'000	*RMB'000*
Within one year	**450**	675
In the second to fifth year inclusive	**—**	450
	450	1,125

36. 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).

37. EMPLOYEE SHARE OPTIONS

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 of Hong Kong Limited on the five trading days immediately preceding the date of offer of the options. No options have been granted since the adoption of the share option scheme.

38. RETIREMENT SCHEME

The Group joined Mandatory Provident Fund Schemes (the "Schemes") for Hong Kong employees. Contributions to the Schemes (not more than HK$1,000) are based on 5% of the relevant income of the relevant staff in accordance with the requirements of the Mandatory Provident Fund Schemes Ordinance and related guidelines. Contribution paid or payable to the Schemes are charged to the income statement.

The employees of the Group's subsidiaries in Mainland China are members of a state-sponsored retirement plan operated by the local government in Mainland China and these subsidiaries make mandatory contributions to the state-sponsored retirement plan to fund the employees' retirement benefits. The retirement contributions paid by the Mainland China subsidiaries are based on 19% of the basic salary of its employees in accordance with the relevant regulations in Mainland China and are charged to the income statement as incurred. The Group discharges its retirement obligations upon payment of the retirement contributions to the state-sponsored retirement plan operated by the local government in Mainland China.

Details of the pension contribution made by the Group were as follows:

	2002 ***RMB'000***	2001 *RMB'000*
Contributions to retirement scheme	**652**	456

39. ULTIMATE PARENT ENTERPRISE

The directors regard Process Logistics Limited, a company incorporated in the British Virgin Islands, as the ultimate parent enterprise.

40. POST BALANCE SHEET EVENTS

(a) Litigations

(i) In June 2003, a writ of summons was issued by a creditor against the Company, demanding immediate repayment of professional fees.

(ii) In July 2003, two writs of summons were issued by a financial institution against the Company and two of its subsidiaries, demanding immediate repayment of loans.

40. POST BALANCE SHEET EVENTS *(Continued)*

(a) Litigations *(Continued)*

(iii) In September 2003, a writ of summons was issued by a creditor against the Company, demanding immediate payment of dishonoured cheques.

Since the above amounts have been already reflected in the consolidated financial statements and the associated costs of the litigations were considered insignificant, the directors are of the opinion that there is no significant unprovided liability at the balance sheet date and the litigations would not have a material adverse impact on the financial position of the Group.

(b) In February 2003, the Group entered into the agreements to cancel all the machines purchase and installation contracts in respect of spandex project, ultra fine pre-oriented yarn and island staple projects. Prepayments and construction-in-progress made for those projects amounting to RMB339 million and RMB39 million respectively were refunded in cash and by transferring the ownership of a company in Mainland China which holds properties in Mainland China. According to the cancellation agreements, RMB10 million was confiscated by one of the suppliers and provision for bad debts of RMB119 million has been made as the amount has not been refunded by the supplier up to the date of this report. Furthermore, the market value of the properties is below the prepayments previously made, RMB96 million of prepayments for property, plant and equipment has been written off and impairment loss of RMB23 million has been made against construction-in-progress.

(c) On 15 August 2003, Central Harvest Holdings Limited, a wholly-owned subsidiary of the Company, as buyer entered into a sale and purchase agreement with Changle City Shunshi Group Co., Ltd., as seller for the acquisition of the remaining 38% equity interest in Foshan Dongli, a sino-foreign equity joint venture company incorporated under the laws of the People's Republic of China, for a consideration of RMB95,000,000.

41. 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 transaction. Accordingly, comparative figures have been reclassified to conform to the current year's presentation.