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

(Incorporated in Bermuda with limited liability)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2003

INTERIM RESULTS

The board of directors (the "Board") of China Specialised Fibre Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (together, the "Group") for the six months ended 30 June 2003 together with comparative figures for the corresponding period in 2002 as follows. The unaudited interim financial statements for the six months ended 30 June 2003 have been reviewed by the Company's audit committee.

		Six months ended 30 June	
		2003	2002
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Turnover	*2*	**221,124**	356,735
Cost of sales		**(187,464)**	(255,588)
Gross profit		**33,660**	101,147
Other income		**869**	2,847
Selling and distribution expenses		**(1,542)**	(842)
General and administrative expenses		**(14,957)**	(14,479)
Operating profit		**18,030**	88,673
Finance costs		**(16,014)**	(12,188)
Profit before taxation	*3*	**2,016**	76,485
Taxation	*4*	**(770)**	(9,929)
Profit after taxation		**1,246**	66,556
Minority interests		**487**	73
Profit attributable to shareholders		**1,733**	66,629
Transfer to reserves		**—**	—
Earnings per share — basic	*5*	**RMB0.001**	RMB0.036

Notes:

1. **Basis of preparation**

   As at 30 June 2003, the Group had net current liabilities of RMB438,992,000. 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 interim 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 were a syndicated bank loan and loans from other financial instructions of RMB90,217,000 and RMB16,362,000 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 had become technically repayable on demand and had 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 interim 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.

2. Turnover and segment information

Turnover for the periods represented the invoiced value of goods sold, net of discounts and returns.

The Group's turnover for the relevant periods were derived from Mainland China, and accordingly, no geographical analysis of turnover and gross profit is presented. In addition, the Group's only business activities during the period under review were production and sales of differential chemical fibre products, and accordingly, no business segment analysis is presented.

3. Profit before taxation

Profit before taxation was determined after crediting and charging the following:

	For the six months ended 30 June	
	2003	2002
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
After crediting:		
Interest income	**659**	67
After charging:		
Depreciation	**25,373**	23,645
Interest expenses	**16,014**	12,188

4. Taxation

Hong Kong profits tax has not been provided for as the Group had no assessable profits arising in Hong Kong during the relevant periods. Provision for taxation of subsidiaries operating in Mainland China has been calculated at the rates applicable, based on existing laws, interpretations and practice, in the relevant periods.

During the relevant periods, the Group had no significant deferred taxation.

5. Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2003 is based on the profit attributable to shareholders of approximately RMB1,733,000 (30 June 2002: RMB66,629,000) and on shares of 1,860,000,000 (30 June 2002: 1,860,000,000) in issue during the period.

Diluted earnings per share for the six months ended 30 June 2003 and 2002 were not presented because there were no dilutive potential ordinary shares in existence during the relevant periods.

6. Comparative figures

Within a review of the interim financial statements' presentation, certain items in the interim 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.

DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2003 (30 June 2002: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Review of operations

For the six months ended 30 June 2003, 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 the period under review, a total of 16,389 tonnes (30 June 2002: 20,881 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 2,635 tonnes (30 June 2002: 25,818 tonnes) of polyester chips during the period under review.

Sales and processing volume of POY, DTY and FDY were 16,253 tonnes (30 June 2002: 20,339 tonnes) and 669 tonnes (30 June 2002: Nil) respectively. In addition, the Group recorded sales of polyester chips of 2,635 tonnes (30 June 2002: 10,842 tonnes) which contributed approximately RMB16 million (30 June 2002: RMB61 million) sales revenue during the period under review.

Consolidated turnover for the period under review decreased significantly by 38% when compared with that of last period. This is mainly due to decrease in sales of all kinds of products. For the six months ended 30 June 2003, the Group's gross profit margin was 15.2% (30 June 2002: 28.4%), representing a drop of 13.2%. The decrease in gross profit margin was mainly due to:

(i) the price of DTY and FDY was decreased when compared to corresponding period in 2002;

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

(iii) as a result of SARS incident, the demand of the chemical fibre products decreased substantially. In response to such situation, the Group has lowered the selling prices of the Group's products, thus making decrease in unit selling prices of the Group's products. The lowering of the selling prices of the Group's products could only partially offset against the impact of SARS. The Group's sales volume still decreased a lot during the SARS period; and

(iv) in response to sudden decrease in demand in the Group's products during the SARS period, the Group has strategically shut down a portion of the Group's production lines. As a result, production volume decreased during the period under review and made the average unit cost of the Company's products higher than that of the corresponding period in 2002.

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 30 June 2003, the Group employed a total of 585 (30 June 2002: 593) employees. Most of the employees were based in Mainland China. They were remunerated according to the nature of job and market conditions in which they were employed. Other staff benefits included a mandatory provident fund scheme for all the eligible employees, medical compensation and a year-end bonus.

FINANCIAL REVIEW

Financial resources

As at 30 June 2003, the Group's cash and bank balances were approximately RMB111 million (31 December 2002: RMB118 million). The Group's current ratio as at 30 June 2002 was 44% (31 December 2002: 43%). Current assets and current liabilities were approximately RMB339 million (31 December 2002: RMB345 million) and RMB778 million (31 December 2002: RMB812 million) respectively.

As at 30 June 2003, the Group had bank and other loans in an aggregate amount of RMB594 million (31 December 2002: RMB608 million), of which 72% (31 December 2002: 73%) was denominated in Renminbi, 10% (31 December 2002: 9%) in US dollars and 18% (31 December 2002: 18%) in Hong Kong dollars respectively. In addition, 68% (31 December 2002: 67%) of the total borrowings was charged at fixed interest rates and the rest was charged at floating interest rates.

For the six months ended 30 June 2003, the Company did not issue any new shares or other securities. As at 30 June 2003, the Company has issued 1,860 million (31 December 2002: 1,860 million) shares. The gearing ratio of the Group (total of short-term and long-term bank loans over the shareholders' equity) was 83% (31 December 2002: 85%).

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 foreign currency borrowings and other hedging instruments.

Pledges of assets

As at 30 June 2003, certain land and buildings, plant and machinery and motor vehicles of the Group with net book value of RMB553 million (31 December 2002: RMB569 million) were pledged as securities for borrowings from other creditor, banks and financial institutions.

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.

Contingent liabilities

At 30 June 2003, the Group had issued guarantees of approximately RMB297 million (31 December 2002: RMB295 million) to bankers to secure general banking facilities granted to certain subsidiaries of which approximately RMB282 million was utilised at 30 June 2003 (31 December 2002: RMB281 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. In addition, the Group has shifted to increase the activities of sub-contracting work in the second half year of 2003. Although the gross profit from sub-contracting work would be much lower, the required funds to operate in such are also much lower.

PUBLICATION OF DETAILED RESULTS ANNOUNCEMENT ON THE EXCHANGE'S WEBSITE

A detailed results announcement containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") will be published on the Stock Exchange's website in due course.

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.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

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

AUDIT COMMITTEE

The audit committee has reviewed with directors the accounting principles and practices used by the Group and discussed internal controls and financial reporting matters related to the preparation of the unaudited interim financial statements for the six months ended 30 June 2003.

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

Foshan, the People's Republic of China, 18 December 2003

* *for identification purpose only*

Please also refer to the published version of this announcement in The Standard.