# CHINA SPECIALISED FIBRE HOLDINGS LIMITED

# 中國特種纖維控股有限公司*

(Incorporated in Bermuda with limited liability)

* For identification purpose only

2002

Interim Report

## INTERIM FINANCIAL STATEMENTS

The Board of Directors (the "Directors") of China Specialised Fibre Holdings Limited (formerly known as Heshun Specialised Fibre Holdings Limited) (the "Company") is pleased to present the unaudited condensed consolidated financial statements of the Company and its subsidiaries (together, the "Group") for the six months ended 30 June 2002. The unaudited interim financial statements for the six months ended 30 June 2002 have been reviewed by the Company's Audit Committee.

## CONDENSED CONSOLIDATED INCOME STATEMENT

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2002** | 2001 |
| | *Notes* | ***RMB'000*** | *RMB'000* |
| | | **(Unaudited)** | (Unaudited) |
| Turnover | *3* | **356,735** | 305,933 |
| Cost of sales | | **(255,588)** | (197,802) |
| Gross profit | | **101,147** | 108,131 |
| Selling and distribution expenses | | **(842)** | (903) |
| General and administrative expenses | | **(14,479)** | (14,895) |
| Other income | | **2,780** | 1,930 |
| Operating profit | | **88,606** | 94,263 |
| Finance costs, net | | **(12,121)** | (10,361) |
| Profit before taxation | *3, 4* | **76,485** | 83,902 |
| Taxation | *5* | **(9,929)** | (11,057) |
| Profit after taxation but before minority interests | | **66,556** | 72,845 |
| Minority interests | | **73** | (306) |
| Profit attributable to shareholders | | **66,629** | 72,539 |
| Earnings per share — basic | *6* | **RMB0.036** | RMB0.039 |

There were no recognized gains or losses other than the profit attributable to shareholders during the relevant periods.

## CONDENSED CONSOLIDATED BALANCE SHEET

| | Notes | 30 June 2002 RMB'000 (Unaudited) | 31 December 2001 RMB'000 (Audited) |
|---|---|---|---|
| Non-current assets | | | |
| Fixed assets | | **853,136** | 855,238 |
| Construction-in-progress | | **87,996** | 91,784 |
| Prepayments for fixed assets | | **376,922** | 301,922 |
| Minority interests | | **3,174** | 3,101 |
| | | **1,321,228** | 1,252,045 |
| Current assets | | | |
| Inventories | | **59,403** | 25,041 |
| Due from a director | | **—** | 56,000 |
| Accounts receivable | *7* | **49,686** | 48,991 |
| Deposits, prepayments and other receivables | | **13,880** | 44,505 |
| Cash and bank deposits | | **36,133** | 39,252 |
| Pledged bank deposits | | **3,908** | 5,978 |
| | | **163,010** | 219,767 |
| Current liabilities | | | |
| Accounts payable | *8* | **(30,274)** | (23,575) |
| Prepayments from customers | | **(7,030)** | (529) |
| Other payables and accruals | | **(94,502)** | (83,224) |
| Taxes payable | | **(15,101)** | (11,672) |
| VAT payable | | **—** | (4,997) |
| Short-term borrowings | | **(269,072)** | (303,914) |
| Obligation under finance lease | | **(341)** | (303) |
| Current portion of long-term borrowings | | **(53,285)** | (118,657) |
| | | **(469,605)** | (546,871) |
| Net current liabilities | | **(306,595)** | (327,104) |
| Total assets less current liabilities | | **1,014,633** | 924,941 |
| Long-term liabilities | *9* | **(87,749)** | (64,686) |
| Net assets | | **926,884** | 860,255 |
| Capital and reserves | | | |
| Share capital | | **197,290** | 197,290 |
| Reserves | *10* | **74,616** | 74,616 |
| Retained profits | | **654,978** | 588,349 |
| | | **926,884** | 860,255 |

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

| | Six months ended 30 June | |
|---|---|---|
| | **2002** | 2001 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| Net cash inflow from operating activities | **127,352** | 71,725 |
| Net cash outflow from returns on investments and servicing of finance | **(12,121)** | (10,360) |
| Net cash outflow from taxation | **(6,500)** | (18,697) |
| Net cash outflow from investing activities | **(90,740)** | (74,236) |
| Net cash inflow/(outflow) before financing | **17,991** | (31,568) |
| Net cash inflow/(outflow) from financing activities | **(14,754)** | 29,956 |
| Increase/(decrease) in cash and cash equivalents | **3,237** | (1,612) |
| Cash and cash equivalents at beginning of the period | **32,896** | 37,607 |
| Effect of foreign exchange rate change | **0** | (2) |
| Cash and cash equivalents at end of the period | **36,133** | 35,993 |
| Analysis of cash and cash equivalents | | |
| Cash and bank deposits | **36,133** | 37,921 |
| Bank overdrafts | **—** | (1,928) |
| | **36,133** | 35,993 |

*Notes:*

1. **Basic of Preparation**

As at 30 June 2002, the Group had net current liabilities of approximately RMB469,605,000. The Directors are of the opinion that the Group's financial position and tight cash flows are mainly attributable to the Group's investing activities.

On 10 January 2002, Mr Chen Shunli, one of the guarantors of a loan, was involved in a personal civil litigation. This led to a breach of certain terms of the deed of guarantee which in turn led to a breach of certain terms of the loan agreement. As a result, the loan has become technically repayable on demand. The personal civil litigation of Mr Chen was dismissed by a consent order sealed by the Hong Kong court on 16 July 2002, and consequently, a portion of the loan has been reclassified to long term as at 30 June 2002 according to the original terms of the loan agreement.

Included in the current portion of long-term borrowings are two term loans in an aggregate amount of approximately RMB22,787,000. Their loan agreements contain certain financial covenants. The publication of these interim financial statements discloses the fact that the Group has not complied with the 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. The Directors are of the opinion that they are able to negotiate successfully with the financial institutions and to repay the loans in accordance with the original terms of the loan agreements. As at the date of approval of the interim financial statements, the financial institutions have not demanded repayment of loans.

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. Accounting Policies**

The unaudited interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice No.25, "Interim Financial Reporting", issued by the Hong Kong Society of Accountants, and Appendix 16 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The accounting policies used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2001, except for the adoption of the following Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants 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 25 (revised) | : | Interim financial reporting |
| SSAP 33 | : | Discontinuing operations |
| SSAP 34 | : | Employee benefits |

The adoptlon of the above SSAPs has no material effect on the prior year financial statements.

3. **Turnover and Segment Information**

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

The Group's turnover for the relevant periods were rendered in Mainland China, and accordingly, no geographical analysis of turnover and gross profit is presented. The segment information for the relevant periods is presented as below:

| | **For the six months ended 30 June 2002** | | | For the six months ended 30 June 2001 | | |
|---|---|---|---|---|---|---|
| | **Continuing operations sale of goods** | **Discontinued operations construction contracts** | **Total** | Continuing operations sale of goods | Discontinued operations construction contracts | Total |
| | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** | *RMB'000* | *RMB'000* | *RMB'000* |
| | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** | (Unaudited) | (Unaudited) | (Unaudited) |
| Segment Revenue | **356,735** | **0** | **356,735** | 275,524 | 30,409 | 305,933 |
| Segment results | **91,574** | **0** | **91,574** | 89,856 | 6,603 | 96,459 |
| Unallocated costs | | | **(5,748)** | | | (4,126) |
| Other income | | | **2,780** | | | 1,930 |
| Operating profit | | | **88,606** | | | 94,263 |
| Finance costs, net | | | **(12,121)** | | | (10,361) |
| Profit before taxation | | | **76,485** | | | 83,902 |
| Taxation | | | **(9,929)** | | | (11,057) |
| Profit after taxation | | | **66,556** | | | 72,845 |
| Minority interests | | | **73** | | | (306) |
| Profit attributable to shareholders | | | **66,629** | | | 72,539 |

## 4. Profit before Taxation

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

| | For the six months ended 30 June | |
|---|---|---|
| | **2002** | 2001 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| After crediting: | | |
| Interest income | **67** | 91 |
| After charging: | | |
| Depreciation | **23,645** | 17,054 |
| Interest expenses | **12,188** | 10,452 |

## 5. 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 the People's Republic of China (the "PRC") 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.

## 6. Earnings per Share

The calculation of basic earnings per share for the six months ended 30 June 2002 is based on the profit attributable to shareholders of approximately RMB66,629,000 (30 June 2001: RMB72,539,000) and on shares of 1,860,000,000 (30 June 2001: 1,860,000,000) in issue during the period.

Diluted earnings per share for the six months ended 30 June 2002 and 2001 were not presented because there were no dilutive potential ordinary shares in existence during the relevant periods.

## 7. Accounts Receivable

The sales of the individual companies of the Group are usually settled by "delivery upon payment" with certain customers with credit period of one month. The aging analysis of accounts receivable was as follows:

| | **30 June 2002** | 31 December 2001 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| Within 30 days | **49,685** | 48,991 |
| Over 30 days but within 180 days | **1** | — |
| | **49,686** | 48,991 |

## 8. Accounts Payable

The aging analysis of accounts payable was as follows:

| | **30 June 2002** | 31 December 2001 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| Within 1 year | **29,538** | 21,351 |
| Over 1 year but within 2 years | **256** | 1,799 |
| Over 2 years | **480** | 425 |
| | **30,274** | 23,575 |

## 9. Long-Term Liabilities

| | **30 June 2002** *RMB'000* **(Unaudited)** | 31 December 2001 *RMB'000* (Audited) |
|---|---|---|
| Due to a minority shareholder (a) | **2,100** | 52,723 |
| Due to a director (b) | **24,220** | 10,748 |
| Long-term borrowings | **61,220** | 1,215 |
| Obligation under finance lease | **209** | — |
| | **87,749** | 64,686 |

(a) The balance due to a minority shareholder is unsecured, non-interest bearing and not demand for repayable in the next twelve months.

(b) The balance due to a director, Mr Chen Shunli, is unsecured, non-interest bearing and not demand for repayable in the next twelve months.

## 10. Reserves

There are no movements in reserves during the six months ended 30 June 2002.

## 11. Contingent Liabilities

At 30 June 2002, the Group had issued guarantees of approximately RMB157 million (31 December 2001: RMB226 million) to bankers to secure general banking facilities granted to certain subsidiaries of which approximately RMB145 million was utilised at 30 June 2002 (31 December 2001: RMB184 million).

**12. Commitments**

*(a) Capital Commitments*

As at 30 June 2002, the capital commitments of the Group on the purchase of properties, plant and equipment were as follows:

| | 30 June 2002 RMB'000 (Unaudited) | 31 December 2001 RMB'000 (Audited) |
|---|---|---|
| Contracted but not provided for | **790,570** | 814,730 |

*(b) Operating Lease Commitments*

As at 30 June 2002, the commitments payable under non-cancellable operating lease agreement were as follows:

| | 30 June 2002 RMB'000 (Unaudited) | 31 December 2001 RMB'000 (Audited) |
|---|---|---|
| Amount payable | | |
| — within one year | **1,255** | 1,255 |
| — between one year and two years | **693** | 1,030 |
| — between two years and five years | **870** | 1,160 |
| | **2,818** | 3,445 |

## DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2002 (30 June 2001: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

**Review of operations**

For the six months ended 30 June 2002, 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 20,881 tons (30 June 2001: 18,496 tons) of pre-oriented yarn ("POY"), drawn and textured yarn ("DTY") and fully-drawn yarn ("FDY") were produced by the Group.

The productivity of the polyester chips production line increased during the period under review. This production line operated at approximately 65% of its designed capacity which produced 25,818 tons of polyester chips during the six months ended 30 June 2002 (30 June 2001: Nil). The management anticipates that the ultilisation rate of this production line will continue to be improved in the second half of year 2002.

Sales of POY, DTY and FDY were 20,339 tons (30 June 2001: 18,074 tons) for the six months ended 30 June 2002. There was no processing activity in the first half of year 2002 (30 June 2001: 721 tons) as the Group ceased the processing business in last year. In addition, the Group recorded sales of polyester chips of 10,842 tons (30 June 2001: Nil) which contributed approximately RMB61 million (30 June 2001: Nil) sales revenue during the period under review.

For the six months ended 30 June 2002, the Group's gross profit margin was 28.4% (30 June 2001: 35.3%), representing a drop of 6.9%. The decrease in gross profit margin was mainly due to:

(i) the increase in sales of polyester chips, which contributed a gross profit margin lower than that of DTY and FDY, the Group's major products;

(ii) the increase in raw material costs, such as purified terephthalic acid ("PTA") and mono-ethylene glycol ("MEG"), during the first quarter of year 2002; and

(iii) the implementation of a major maintenance programme for the Group's plant and machinery in February 2002, thus making the average unit cost of the Group's products in that month increased.

The Group also implemented certain measures to reduce the above impacts during the period under review:

(i) Firstly, the Group successfully passed a substantial portion of increase in raw material costs to its customers;

(ii) The Group initiated certain procedures to reduce its general and administrative expenses in the second quarter of year 2002 and the results of this strategy would reflect by the end of this year; and

(iii) The major maintenance programme carried out in February 2002 would surely increase the production efficiency of our existing plant, thus lowering the average unit cost of the Group's products in long run. In addition, this could avoid sudden breakdown of the machinery for which the economic loss would be more substantial.

**Acquisition of fixed assets and factory premises of Foshan Dongli factory**

In anticipation of the higher demand in differential fibre, the Group decided to expand its production capacity through merger and acquisition. 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. The Group has an interest of 62% in this Foshan Dongli factory.

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 and the management expects that the factory will contribute a net profit attributable to its shareholders of RMB20 million for year 2002.

**Spandex project and production line of ultra fine POY**

The progress of the spandex project and the production line of ultra fine POY were satisfactory and were in accordance with the timetable. The trial production of spandex project was still targeted at in the fourth quarter of year 2003 while for the production line of ultra fine POY, trial production would commence in middle of year 2003. The Group is currently arranging banking facilities and other financing for the above projects.

### Change of Company 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 manufactures in the PRC and to enable investors to have easy recognition of the Group's business operation and market being focused in the PRC.

### Employees and remuneration policies

As at 30 June 2002, the Group employed a total of 593 (30 June 2001: 729) employees. Most of the employees were based in the PRC. 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 2002, the Group's cash and bank balances were approximately RMB40 million (31 December 2001: RMB45 million). The Group's current ratio as at 30 June 2002 was 35% (31 December 2001: 40%). Current assets and current liabilities were approximately RMB163 million (31 December 2001: RMB220 million) and RMB470 million (31 December 2001: RMB547 million) respectively.

As at 30 June 2002, the Group had bank and other loans in an aggregate amount of RMB384 million (31 December 2001: RMB424 million), of which 54% (31 December 2001: 50%) was denominated in Renminbi, 15% (31 December 2001: 13%) in US dollars and 31% (31 December 2001: 37%) in Hong Kong dollars respectively. In addition, 69% (31 December 2001: 63%) of the total borrowings was charged at fixed interest rates and the rest was charged at floating interest rates.

Included in current liabilities, there were short-term bank loans amounted to RMB254 million (31 December 2001: RMB289 million). It is the normal practice of the PRC banks to grant short-term loans which are renewed on a yearly basis, and consequently, the short-term bank loans of the Group account for 66% (31 December 2001: 68%) of the total borrowings. Although there is no assurance that these short-term loans will be extended in the future upon maturity within a year, however, the Directors are in the opinion that the Group would be able to renew these loans on a yearly basis taking into the long-term relationship between the banks and the Group.

For the six months ended 30 June 2002, the Company did not issue any new shares or other securities. As at 30 June 2002, the Company has issued 1,860 million (31 December 2001: 1,860 million) shares. The gearing ratio of the Group (total of short-term and long-term bank loans over the shareholders' equity) was 40% (31 December 2001: 48%).

At present, the Group is negotiating with certain banks in Hong Kong and the PRC to raise funds for spandex project and the production line of ultra fine POY and the management will closely monitor the level of gearing of the Group as a whole.

**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 currency borrowings and other hedging instruments.

**Pledges of assets**

As at 30 June 2002, land and buildings, plant and machinery and motor vehicles of the Group with net book value of RMB411 million (31 December 2001: RMB414 million) were pledged as securities for bank and other loans and finance lease granted to the Group.

**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.

**Capital commitments**

A significant portion of capital commitments is attributable to spandex project. The Group will finance the construction of factory and production facilities of spandex project and ultra fine POY in the coming years from the cash inflows from operation, bank and other financing.

## FUTURE PLAN AND PROSPECTS

**Market review**

In the first half of year 2002, the global economic has been recovered. As a result of the incident of 911, the price of crude oil increased and remained at a relative high level in the first quarter of year 2002, thus making the price of raw materials, such as PTA and MEG, increased. Starting from May 2002, the price of PTA and MEG experienced a drop. Looking forward, the management expects that the market for differential fibre will more or less remain stable. With the entry of China into the World Trade Organisation, the management expects to see Chinese garment exports to grow strongly as a result of the removal of the quota system in textile and garment industry. Orders are expected to flow from high-cost production base to low-cost production base, such as China. The anticipated expansion in China's garment industry will surely boost the demand in garments inside China, as well as all forms of fibres, including differential fibre.

In addition, the PRC government has already planned, through structural reform and technology innovation, to increase the penetration rate of differential fibre to 40% by 2005. These will inevitable lead to higher demand for differential fibre to satisfy high-quality garment demand for both exports and domestic consumption.

**Spandex project**

The spandex project (75%-owned) is one of the key growth driver for the Group in the future. Spandex is another type of synthetic fibre with the characteristics of being stretchy, durable, lightweight and soft. It is now widely used in high-quality garment, such as swimwear and sportswear. Demand for high-grade garment is expected to grow strongly to fulfill both the export market and domestic consumption. The management believes that with the completion of the spandex project by the end of year 2003, the Group's profit attributable to shareholders will increase substantially.

**Summary**

In summary, with (i) the acquisition of Foshan Dongli factory in June 2002; (ii) the completion of the spandex project in 2003; and (iii) the expected growth of demand of garment industry, the management optimistically anticipates that the Group could maintain a steady growth in the foreseeable future.

The management believes that due to market competition, the marketability of brand names and types of products are becoming increasingly important, and accordingly, the Group will commit itself to develop new types of products and is aiming to become one of the manufacturers that have the ability to produce a wide range of products, including polyester chips, ultra fine POY, differential and spandex fibre in the PRC.

## DIRECTORS' INTERESTS IN SHARES

As at 30 June 2002, 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:

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

*Note:*

The 1,196,000,000 shares of the Company 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.

## 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 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 30 June 2002, no option has been granted under the share option scheme.

Save as disclosed above, at no time during the period 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.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2002, 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:

| Shareholder | 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 of the Company 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.

## 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 2002.

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

Fuzhou, the People's Republic of China, 29 September 2002