

**CHINA SPECIALISED FIBRE HOLDINGS LTD:
ANOTHER STOCK EXCHANGE ANNOUNCEMENT MUST BE FORTHCOMING, SOON**

The Chairman of publicly listed China Specialised Fibre Holdings Ltd (Code: 285, Main Board, The Stock Exchange of Hongkong Ltd), Mr Chen Shun Li, appears to be in serious financial trouble.

According to TOLFIN (TARGET's Computerised Online Financial Intelligence Service and Credit-Checking Provider) Chairman Chen Shun Li is alleged to owe not less than \$HK127 million to a number of parties, all of which, it would appear, lent money to the Chairman, or his private company, based on his holdings in China Specialised Fibre Holdings.

The latest claim against this gentleman has been lodged by AIG Private Bank Ltd, which is claiming about \$HK21 million from Gigalink Group Ltd, with Chairman Chen Shun Li, alleged to be the guarantor of this privately held company.

Gigalink Group is mentioned in the 2001 Annual Report of Heshun Specialised Fibre Holdings Ltd (the former name of China Specialised Fibre Holdings before its name was changed on June 12, 2002) as being the holder of about 64.30 percent of the Issued and Fully Paid-Up Share Capital. (Page 16)

Chairman Chen Shun Li was stated as being the beneficial owner of all of the shares of Gigalink Group

According to the Indorsement of Claim, attached to the Writ of Summons, AIG Private Bank is making the following allegations against Gigalink Group and Chairman Chen Shun Li:

'1. The Plaintiff claims against the 1st Defendant (Gigalink Group):-

- (a) the sum of US\$2,688,511.45 due as at 7 February 2003 under a Revolving Credit Facility granted by the Plaintiff in favour of the 1st Defendant by way of a letter of Credit signed by the 1st Defendant on 27 September 2002 and a Pledge and Assignment Agreement signed by the 1st Defendant on 9 July 2002;*
- (b) the sum of HK\$50,017.47 due as at 7 February 2003 under the said Revolving Credit Facility;*
- (c) further interest on the sums of US\$2,688,511.45 and HK\$50,017.47 at the contractual rate of 3% above the Plaintiff's cost of finance from 7 February 2003 up to the date of full repayment as stipulated in the said Letter of Credit*
- (d) further and in the alternative interest on the sums of US\$2,688,511.45 and HK\$50,017.47 pursuant to sections 48 and 49 of the High Court Ordinance (Cap 4) at such rate and for such period as the Court shall think fit*
- (e) further and/or other relief; and*
- (f) costs of this action.*

2. The Plaintiff claims against the 2nd Defendant (Mr Chen Shun Li):

(a) *the sum of US\$2,688,511.45 being the money owed by the 2nd Defendant to the Plaintiff as at 7 February 2003 as principal debtor and guarantor pursuant to a Letter of Guarantee signed by the 2nd Defendant on 23 August 2002 ...*’.

According to **TOLFIN**, on December 19, 2002, China Specialised Fibre Holdings made this announcement:

‘The shareholding of Gigalink in the Company (China Specialised Fibre Holdings) decreased from 64.3% to 63.0% on 26 November 2002, as a result of the margin cuts exercised by two mortgagees.

‘Out of the remaining 1,171,092,000 Shares held by Gigalink, 1,108,000,000 Shares are still pledged with eight mortgagees, including Top Net Finance Ltd 63,092,000 Shares are free from securities or any forms of encumbrance.

‘As a consequence of the subject matter, certain provisions in the agreements with seven mortgagees, including Top New, have been triggered and these mortgagees shall have the rights to exercise their margin cuts to dispose of up to a total of 1,107,000,000 Shares in accordance with the agreements.

‘Gigalink or its representative is now negotiating with the mortgagees to obtain their support to Gigalink or hold their margin cuts or seeking alternative to solve the problem. These negotiations are not yet finalised and these mortgagees may or may not exercise their margin cuts upon resumption of trading in the securities of the Company ...’.

Summarising the above, it would appear that Mr Chen Shun Li mortgaged most, or all, of his shares in China Specialised Fibre Holdings and, when the share price fell, the legal holders of these shares determined to ask Mr Chen Shun Li to top up the kitty – or the mortgagees would sell the shares in order to cover their exposed positions.

This would appear to be the position in respect of AIG Private Bank, too.

According to **TOLFIN**’s records, the following table lists the Claims against Mr Chen Shun Li in the High Court of the Hongkong Special Administrative Region of the People’s Republic of China over the past year:

Defendant	Plaintiff	Nature of Claim	Amount of Claim	Date of Claim
Gigalink Group Ltd and Mr Chen Chun Li	Sun Hung Kai Investment Services Ltd	Money Due and Owing	\$HK4,056,062.41	January 17, 2003
Gigalink Group Ltd and Mr Chen Chun Li	Hing Wai Allied Securities Ltd	Money Due and Owing	\$HK4,337,011.54	January 16, 2003
Gigalink Group Ltd and Mr Chen Chun Li	Young Champion Securities Ltd	Money Due and Owing	\$HK4,391,052.68	December 12, 2002
Mr Chen Shun Li	Young Champion Finance Ltd	Money Due and Owing	\$HK37,028,051.87	January 10, 2002

It seems clear that the ownership of the block of shares, formerly held by Gigalink Group and representing control of China Specialised Fibre Holdings, has changed hands.

Logically, one would think that this should trigger a response from China Specialised Fibre Holdings, which would, then, be passed to The Stock Exchange of Hongkong Ltd for public dissemination.

When China Specialised Fibre Holdings announced its Interim Results, for the period, ended June 30, 2002, it was stated that the Net Profit Attributable to Shareholders was about 66.63 million renminbi.

The company announced, however, that cash was tight '*mainly attributable to the Group's investing activities.*'

It would appear, according to the 2001 Annual Report of China Specialised Fibre Holdings, that Chairman Chen Shun Li has been funding some of his private operations – by borrowing money from his publicly listed company.

At Page 49 of the 2001 Annual Report, it is stated that Chairman Chen Shun Li owed his company \$HK56 million.

In some areas of the Western World, it is frowned upon for Chairmen of publicly listed companies to borrow such relatively large sums of money from the public company(ies) in which they hold a duty of fidelity.

Chairman Chen Shun Li's borrowings from China Specialised Fibre Holdings in the 2001 Financial Year was equivalent to about 9 percent of the Turnover.

Trading in the shares of this company has been suspended since November 26, 2002.

-- E N D --

***While TARGET makes every attempt to ensure accuracy of all data published,
TARGET cannot be held responsible for any errors and/or omissions.***

If readers feel that they would like to voice their opinions about that which they have read in TARGET, please feel free to e-mail your views to editor@targetnewspapers.com or targnews@hkstar.com. TARGET does not guarantee to publish readers' views, but reserves the right so to do subject to the laws of libel.