SHENZHEN TEXTILE (HOLDINGS) CO., LTD.

2001 ANNUAL REPORT (B)

Important Declaration: The Board of Directors of the Company hereby guarantees that there are no misstatement, misleading representation or important omissions in this report and shall assume joint and several liability for the authenticity, accuracy and completeness of the contents hereof.

Shenzhen Pengcheng Certified Public Accountants and Ho and Ho & Company issued qualified auditors' report for the Company. The Board of Directors and the Supervisory Committee of the Company made detailed explanation about relevant matters. Investors are advised to read carefully.

I. Brief Introduction of the Company

(I) Statutory Name of the Company

In Chinese : 深圳市　　（集　）股份有限公司

In English : SHENZHEN TEXTILE (HOLDINGS) CO., LTD.

Short form in English: STHC

(II) Legal Representative : Guan Tongke

General Manager: Liu Junhou

(III) Secretary of the Board of Directors : Chao Jing

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(IV) Registered Address: 6/F, Shenfang Building, No.3 Huaqiang North Road, Futian District, Shenzhen

Office Address: 6/F, Shenfang Building, No.3 Huaqiang North Road, Futian District, Shenzhen

Post Code: 518031

E-mail : sztext@szonline.net

(V) Newspapers for Information Disclosure:

Securities Times, Hong Kong Commercial Daily

Internet Web Site for Publishing the Annual Report:

http://www.cninfo.com.cn

The Place Where the Annual Report is Prepared and Placed: the Office of the Company

(VI) Stock Exchange with Which the Company's Stocks Are Listed: Shenzhen Stock Exchange

Short Form of the Stock : SHEN TEXTILE A SHEN TEXTILE B

Stock Code : 000045 200045

II. Financial Highlights (adjusted pursuant to international accounting standards, RMB ' 000)

1. Main financial data and indicators

Item	2001	1999
Income	342,606	292,896
Before-tax profit	28,324	16,032
Net profit of the year	28,199	15,748
Earnings per share (RMB)	0.173	0.096
Net asset income ratio (%)	9.25	5.63
Net cash flows from operating activities(RMB)	0.09	0.37
Total assets	682,384	692,843
Shareholders' equity (not including minority interests)	307,195	279,563
Net assets per share (RMB)	1.88	1.71

2. The influence of adjustment pursuant to international accounting standard on the profit attributable to shareholders and net assets is stated as follows (Unit: RMB' 000)

	Profits attributable to shareholders		Net assets	
	2001	2000 (Restated)	2001	2000 (Restated)
Stated pursuant to Chinese accounting standards	25,202	22,831	303,645	278,438
Negative goodwill	567	567	-	-

amortization				
Reversing the entry of over-provided reserve for real estate investment depreciation	2,346	2,346	13,452	11,106
Amortization of initial expenditure	(2,410)	2,410	-	2,410
Not consolidating the depreciation reserve of subsidiaries	(2,854)	-	(2,854)	-
Under-provided reserve for the losses of subsidiaries in the previous year	(505)	(1,281)	(1,786)	(1,281)
Proprietary technology amortization	788	(6,050)	(5,262)	(6,050)
Bad debt reserve	5,075	(5,075)	-	(5,075)
Others	(10)	-	-	15
Restated pursuant to IAS	28,199	15,748	307,195	279,563

III. Changes of Share Capital and Shareholders

(I) Statement of the changes of share capital

(in shares)

	Before change	Increase/decrease this time (+ , -)	After change

		Share allotment	Bonus shares	Capitalization of common reserve fund	New shares	Others	Sub-total	
(Ⅰ) Non-negotiable Shares								
1.Promoters' shares	108, 240, 000							108, 240, 000
Of which:								
State-owned shares	108, 240, 000							108, 240, 000
Domestic corporate shares								
Foreign corporate shares								
Others								
2. Raised corporate shares								
3. Staff shares								
4. Preferred shares or others								
Total non-negotiable shares	108, 240, 000							108, 240, 000
Ⅱ. Negotiable Shares								
1. RMB common shares	22, 176, 000							22, 176, 000
2. Domestically listed foreign investment shares	33, 000, 000							33, 000, 000
3. Overseas listed foreign investment shares								
4. Others								
Total negotiable shares	55, 176, 000							55, 176, 000
Ⅲ. Total shares	163, 416, 000							163, 416, 000

(II) Shareholders

1. As of December 31, 2001, the Company had 20,146 shareholders in total including one shareholder of state-owned shares, 11,609 shareholders of A shares and 8,536 shareholders of B shares.

2. Particulars of the top ten shareholders as of December 31, 2001

Name of shareholders	Type of shares	No. of shares	Proportion of total shares (%)
1. Shenzhen Investment Management Co.	State-owned shares	108, 240, 000	66.24
2. Top Form China Holdings Ltd. N/A	B	938, 000	0.57
3. Victor Onward Printing & Dyeing (HK) Co., Ltd.	B	370, 000	0.22
4. Zhou Xiang	A	327, 601	0.20
5. Dai Tonggen	A	313, 094	0.19
6. Wen Haigen	B	211, 200	0.13
7. Tupo Trade Co., Ltd.	B	210, 200	0.12
8. Li Fan	A	193, 500	0.12
9. Zhang Yan	A	187, 060	0.11
10. Jin Pinggui	A	186, 362	0.11

Among the above shareholders, the one holding shares on behalf of the state is Shenzhen Investment Management Co. No.2, 3, 6 and 7 shareholders are the ones holding foreign investment shares.

Among the above shares, except that 108,240,000 state-owned shares are non-negotiable shares, all other shares are negotiable shares.

3. The shares held by Shenzhen Investment Management Co. account for 66.24% of the total share capital of the Company. Its legal representative: Li Heihu. Date of establishment: February 10, 1988. Main business: Management and supervision of state-owned assets, finance and property right representatives, share participation in various municipal enterprises and turnover investment, provision of loan guarantee, levy of occupation fee of after-tax profit and assets of state-run enterprises, other businesses

authorized by the municipal government. Registered capital: RMB 2 billion. It is a solely state-owned company in Shenzhen.

4. The controlling shareholder of the Company did not change in the report period. Except Shenzhen Investment Management Co., the Company has no other legal person shareholders holding more than 10% (including 10%) shares of the Company.

IV. Directors, supervisors, senior executives and employees

(I) Basic information

Name	Sex	Age	Position	Starting and ending date of term of office	No. of shares held at year beginning	No. of shares held at year end
Guan Tongke	Male	54	Chairman of the Board of Directors	1999.7.1-2002.6.30	37200	37200
Liu Junhou	Male	43	Director & GM	1999.7.1-2002.6.30	0	0
Sun Furen	Male	58	Director	1999.7.1-2002.6.30	9360	9360
Li Jingqiang	Male	49	Director & Deputy GM	1999.7.1-2002.6.30	30000	30000
Hua Yongshi	Male	70	Independent director	1999.7.1-2002.6.30	3060	3060
Lu Yitong	Male	58	Chairman of Supervisory Committee	1999.7.1-2002.6.30	0	0
Guo Jianhua	Female	46	Supervisor	1999.7.1-2002.6.30	0	0
Zhou Dadong	Male	55	Deputy GM	1999.7.1-2002.6.30	0	0
Zhu Dahua	Male	34	Financial controller		0	0

(II) Annual remuneration

In the report period, the annual remuneration of the directors, supervisors and senior executives receiving salary from the Company shall be paid according to the Provisional Regulations on the Annual Salary System for the Operators of Shenzhen Municipal State-owned Enterprises and the wage management system of the Company.

The total number of the current directors, supervisors and senior executives of the Company is 9. Seven of them receive salary from the Company, whose total annual salary is RMB 1.283 million. Annual remuneration of RMB 0.21M-0.23M: 2 persons;

Annual remuneration of RMB 0.17 M-0.2 M: 3 persons; Annual remuneration of RMB 0.14 M-0.16 M: 2 persons. The total remuneration of the top three directors receiving the remuneration of the highest amount is RMB 0.615 million. The remuneration of one senior executive is RMB 0.159 million. In the report period, the independent director did not receive remuneration from the Company. Mr. Zhu Dahua (candidate for director), the financial controller, did not receive remuneration from the Company. He receives remuneration from Shenzhen Investment Management Co., the controlling shareholder of the Company.

(III) The resignation, appointment and removal in the report period

The directors, supervisors and senior executives of the Company neither left their posts nor were dismissed in the report period.

Shenzhen Investment Management Co., the controlling shareholder of the Company, appointed Mr. Zhu Dahua as the financial controller of the Company in the report period.

V. The Control Structure of the Company

(I) The particulars of the control structure of the Company

The Company formulated standardized management systems including Articles of Association, the Rules of Procedure of the Board of Directors, the Rules of Procedure of the Supervisor Committee, Detailed Work Rules of Managers, Internal Control System, Information Disclosure Management System and the Rules of Procedure of Shareholders' General Meeting strcitly according to relevant laws and regulations and the standardized documents issued by CSRC in respect of the control of listed companies and constantly improved its legl person control structure. The particulars are as follows:

1. Shareholders and shareholders' general meeting: The Company is able to ensure all shareholders, especially medium and small shareholders, enjoy equal position and can fully exercise their own rights. The Company has formulated the rules of procedure of the shareholders' general meeting and is able to convene and hold shareholders' general meeting as required by the Standard Opinions on the Shareholders' General Meeting of the Listed Companies to ensure the right exercise of shareholders' rights. The Company has sound and effective internal control system to ensure the safety of its assets. The Company is amending the Articles of Association of the Company according to the control standards.
2. Controlling shareholder and the Company: The controlling shareholder of the Company is a state-owned asset management company. The Company has been separated from its controlling shareholder in respect of business,

personnel, assets, structure and finance. The board of directors, supervisory committee and the management of the Company are able to operate independently. As the controlling shareholder holds 66.24% of the total shares of the Company, it is the absolute controlling shareholder and may exert influence on the important decisions of the Company to certain extent through the shares held by it. Therefore, the Company will further standardize its operation, disclose information in timely and standardized manner and deal with matters strictly according to laws, regulations and the Articles of Association, take the opinions of medium and small shareholders into full account, strictly implement the system that related shareholders should avoid voting on related transactions and give full play to the functions of the independent directors.

3. The directors and the board of directors: The Company operates in standardized manner strictly according to the Company Law and relevant national laws and r egulations, the Articles of Association of the Company and the Rules of Procedure of the Board of Directors. The procedure of selecting and appointing directors and the personnel comply with the provisions of laws and regulations. All directors are able perform their duties seriously and perseveringly. The Company now has one independent director and is seeking other candidates for independent shareholders. The Company has established independent director system according to relevant regulations.
4. Supervisors and the supervisory committee: Taking the spirit of being responsible for all shareholders, the supervisory committee of the Company is able to seriously perform its duties, supervise the legality and regulation conformity of the Company' s finance of the duty performance of the directors, managers and other senior executives of the Company and express its opinions independently.
5. Performance appraisal and stimulation and restriction mechanism: The Company' s appraises and stimulates its senior executives mainly according to Annual Salary System for the Operators of Shenzhen Municipal State-owned Enterprises and is actively set about establishing fair and transparent performance appraisal standard and stimulation and restriction mechanism for directors, supervisors and executives.
6. Interested parties: The Company is able to fully respect and safeguard the legal rights and interests of the interested parties including banks, creditors, employees and customers and conduct business intercourse according to the principles of mutual benefit and good faith.

7. Information disclosure and transparency: The Company designates the secretary to the board of directors to be responsible for information disclosure and reception of shareholders and investors and set up special email mailbox to strengthen the good communication between the Company and its shareholders. The Company has formulated Information Disclosure Management System to ensure true, accurate, complete and timely disclosure of relevant information and is able to keep secrets before information disclosre.

(II) In the report period, the independent director of the Company is able to perform his duties seriously, attend board meetings and shareholders' general meeting and express independent opinions on the investment decision, operation management and standardized operation of the Company.

(III) The Company has been separated from its controlling shareholder in respect of business, personnel, assets, structure and finance. The Company has independent and complete business and the ability of independent operation.

VI. Brief Introduction of Shareholders' General Meeting

(I) The notice of holding 2000 Shareholders' General Meeting was published on Securities Times and Hong Kong Commercial Daily on May 29, 2001. The meeting was held at the meeting room of the Company at 6/F of Shenfang Building on June 29, 2001. 9 shareholders and their proxies attended the meeting, holding 108,333,720 shares that accounted for 66.29% of the total shares of the Company. 7 shareholders of A Shares attended the meeting, representing 108,322,220 shares that accounted for 66.286 % of the total shares of the Company. 2 shareholders of B Shares attended the meeting, representing 11,500 shares that accounted for 0.001% of the total shares of the Company. The holding of the meeting complied with the provisions of the Company Law and the Articles of Association of the Company.

(II) 2000 Shareholders' General Meeting of the Company examined and adopted the following resolutions:

1.2000 Working Report of the Board of Directors

2.2000 Working Report of the Supervisory Committee

3.2000 Final Accounting Report

4. 2000 Profit Distribution Preplan:

The net profit earned by the Company in 2000 was RMB 22.717 million. As the retained profit of the Company was RMB – 94.249 million, the Board of Directors, in accordance with the provisions of the Company Law and the Articles of Association, decided that the net profit of the Company in 2000 would not be allocated to statutory common reserve fund and statutory public welfare fund and would be fully utilized to make up the losses of the previous years and that it would not capitalize any common reserve fund.

5. The proposal for the amendment of the Articles of Association of the Company

6. Proposal for the Engagement of Auditing Organ of the Company.

The above resolutions of the meeting were published on Securities Times and Hong Kong Commercial Daily on June 30, 2001.

VII. Report of the Board of Directors

(I) Operation of the Company

1. The Scope of the Company's key business and its operation:

The Company is mainly engaged in the production and trading of textile products, garments, electronic products and in the lease and management of properties. The income and net profit earned by the Company in 2001 were respectively RMB 342.606 million and RMB 28.199 million

Industry: In the report period, the wholly-owned and share-held industrial subsidiaries of the Company earned income of RMB 63.26 million, total profit of RMB –4.13 million and income of RMB –1.88 million from equity investment, which was mainly caused by the loss of the share-held subsidiaries. In the report period, for giving full play to its advantages of establishing factories at overseas places and enlarging the scale and strength of its overseas garment branches, the Company timely made use of the market opportunities of international garment trade and policy conditions and established the third overseas garment processing factory in Jordan (the first two in Saiban and Cambodia respectively), i.e., Yehui (Jordan) Garment Co., Ltd. The company was put into trial production in October 2001. The Company increased the share capital of Jiangxi Xuanli Embroidery Line Co., Ltd. and supported it to enlarge the knitwear project. The share capital of the company increased from RMB 10 million to RMB 20 million. It earned profit of RMB 2.92 million. Under the circumstance of reduced international market demand, overseas garment subsidiaries produced and processed 4.51 million pieces of garments and earned income of USD 10 million.

Trading: In the report period, the income from trading was RMB 252.14 million. The total profit from trading was RMB 6.95 million, an increase of 1.70 million over the same period of the previous year.

Property lease and hotel business: The Company owns Shenfang Building and other properties including commercial berths, factory buildings, office buildings and warehouses, etc. for lease. In 2001, the average lease rate of the Company's properties increased by 23% over the same period of the previous year. The Company's income from property lease increased by RMB 1.34 million over the same period of the previous year. The Company earned income of RMB 43.96 million in total from property lease, warehousing and hotel business in the report period.

2. Main suppliers and customers

The total amount of purchase from the top five suppliers accounted for 26.4% of the total purchase amount of the year. The total amount of sales to the top five customers accounted for 41.1% of the total sales amount of the Company.

(II) The investment of the Company

1. The utilization of raised funds

The Company did not raise funds in the report period.

2. Other investment

In the report period, the Company invested RMB 2.45 million in Shenzhen Shenfang Import and Export Co., Ltd., which accounts for 49% of the equity of the invested company. The invested company is mainly engaged in import and export business.

(III) Financial Status of the Company and the analysis of operating result

As of December 31, 2001, the total assets of the Company was RMB 682.38 million, a decrease of 1.5% over the same period of the previous year mainly due to debts.

The non-current liabilities were RMB 0.5 million, a decrease of RMB 6.87 million over the same period of the previous year mainly due to the repayment of bank loan.

Its shareholders' equity was RMB 307.20 million, an increase of 9.8% mainly due to the increase of profit.

Its profit from key business was RMB 7.174 million, a decrease of 7.9% over the same period of the previous year mainly due to the losses of share-held subsidiaries.

Its net profit was RMB 28.20 million, an increase of 79.1% over the same period of the previous year mainly due to the reversed entry of bad debt reserve of RMB 5.07 million apart from the improvement of the operation performance of the Company in the report period.

(IV) Explanation to the auditors' report

Shenzhen Pengcheng Certified Public Accountants and Ho and Ho & Company issued qualified auditors' report for the Company. The Board of Directors made the following explanation: In the opinion of the Board of Directors, the creditor banks did not sue the Company in respect of the matter of guaranteeing Laiyingda Co. Therefore, the guarantee has not constituted the current obligation of the Company. Meanwhile, due to the historical reason for the formation of this guarantee, the Company is negotiating with its controlling shareholder and creditor banks for solving the said matter. Once an agreement is reached, the Company may be exempted from liabilities. Under such circumstances, the Company is unable reasonably estimate and accurately measure the joint and several liabilities that it may bear. According to the requirements of accounting standards, the Company thinks it is appropriate to take such matter as one of contingencies.

(V) Business Development Plan for the New Year

After adjustment for several consecutive years, the Company has had steady economic basis. In 2002, the Company will concentrate the main financial and human resource to quicken the pace of development, develop new enterprises and consolidate its key business, i.e., textile industry through enterprise integration. First, with its advantages of rich experience in international market operation accumulated through the development of overseas enterprises in past years, steady international customer network and the management personnel that are familiar with international practices, the Company will further enhance the overall level of its overseas garment branches in respect of collaboration in the international market. Second, it will quicken the renovation of its domestic garment enterprises and other textile enterprises according to the production requirements of international practices, integrate related enterprises to reasonably allocate resources and enlarge production scale as far as possible so as to form overseas and domestic production bases that have different characteristics and satisfy the demands of different international markets and customers and make preparations for the connection of its overseas garment business and its domestic enterprises. Thirdly, it will quicken the construction of new textile projects, develop new channels for economic growth, form a complete garment and textile product chain with garment processing as the leading business and covering spinning, weaving and fabrics, promote the optimized allocation of its internal resources and improve comprehensive efficiency. Meanwhile, it will promote the development of series, functional and high-class products and gradually change from processing to brand operation based on characteristic products including thread product with high added value and high-class full-fashioned knitwear.

The Company will focus on the following work in 2001: (1) To quicken the construction key projects including high-class full-fashioned no-seam underwear project, high-class singed mercerized wool project and the acquisition of relevant textile projects to strengthen its key business and economic power; (2) To continue to adjust industrial structure and integrate part of enterprises with related business according to its development strategy, reasonably allocate resources, enlarge production scale and improve economic results as soon as possible; (3) To continue to strengthen the management of overseas garment enterprises and further enhance their production capacity and the ability of Hong Kong Yehui Co. to receive orders; (4) To quicken the technical renovation, enhance the level of production and technology and strengthen standardized management; (5) To continue to effectively recruit and train capable personnel; (6) To continue to liquidate creditors' rights and debts and enhance the efficiency of asset operation.

(V) The Profit Distribution Preplan

As audited, the net profit of the Company in 2001 was RMB25,201,666.88. As the retained profit of the Company was RMB – 71,418,733.46, the Board of Directors, in accordance with the provisions of the Company Law and the Articles of Association, decided that the net profit of the Company in 2001, totaling RMB 25,201,666.88, would be fully utilized to cover the losses of the previous years and that it would use surplus common reserve fund of RMB 5,326,454.77 and capital common reserve fund of RMB 40,890,611.81 to cover the losses of the previous years. This profit distribution preplan is to be submitted to 2001 Shareholders' General Meeting for examination.

VIII. Report of the Supervisory Committee

In the report period, the Supervisory Committee duly performed their duties and conducted the supervision over the procedure of making important decisions and the main operating activities and financial status and fund utilization of the Company in accordance with the Company Law, the Securities Law and the Articles of Association of the Company.

1. The meetings of the Supervisory Committee: The Supervisory Committee held two meetings in the report period. The resolutions of the meeting were respectively published on Securities Times and Hong Kong Commercial Daily on April 10 and August 10, 2001.

2. The operation of the Company according to law. The important decisions and operating activities of the Company in the report period complied with relevant policies, regulations and the Articles of Association of the Company. The Company had soundsystem and conducted standardized operation. The directors and managers of the Company honest and clean in performing their duties, worked diligently and practiced self discipline. No act that violated laws and regulations and harmed the interests of the Company and shareholders was found.

3. The financial status of the Company. The Company strictly implemented financial system, whose financial statements were complete and true and complied with regulations. The operating result of the Company was good and the fund turnover was normal.

4. The auditors' report issued by Shenzhen Pengcheng Certified Public Accountants and Ho and Ho & Company for 2000 financial statements of the Company objectively and truly reflected the financial status and operating results of the Company.

5. The Company neither raised funds nor was involved in acquisition activities in the report period.

6. Notes to 2001 auditors' report: The formation of the guarantee for Laiyingda Co. has historical reasons. The Company is actively negotiating with its controlling shareholder and creditor banks and likely to work out solution that will make the Company avoid bearing liabilities. The negotiation is under progress. The guarantee has not constituted the current obligation of the Company. Therefore, the Supervisory Committee deems it appropriate to take the aforementioned guarantee as one of contingencies. The Company should quicken the negotiation with related parties and try to work out satisfactory solution.

IX. Important Events

(I) Material lawsuits and arbitration

1. The Company was not involved in any material lawsuits and arbitration in the report period.

2. Other lawsuits

(1) The Company paid RMB 10,600,272.72 for guaranteeing the loan of Shenzhen Gangwen Electronic Industrial Co., Ltd. (Gangwen Electronics) in 1998. Pursuant to the civil judgment made by Shenzhen Intermediate People's Court on December 20, 2001 with (2001) SZFJ-CZ No. 304 Judgment, the Company won the case of suing Gangwen Electronics and China Huawen Development Corporation (Huawen Co.) in respect of the dispute over compensation for guarantee contract. The court judged Gangwen Electronics should pay RMB 10,600,272.72 and interests to the Company and Huawen Co. should bear joint and several liability for the settlement of the said debts. The handling fee of the case in the first instance was RMB 71,499.68. The Company should bear RMB 499.68 and Gangwen Electronics should bear RMB 71,000. Huawen Co. should bear joint and several liability for the lawsuit fee to be borne by Gangwen Electronics. The Company is actively collecting this payment.

(2) As the Company guaranteed the loan of Shenzhen Laiyingda Group Co., Ltd. and this company was in default on the loan, the Company bore joint and several liability. Pursuant to the judgment of Guangzhou Intermediate People's Court with (2001) SZFZZ No. 224 Civil Judgment, 10 million corporate shares of Shenzhen Victor Onward Textile Industrial Co., Ltd. held by the Company were to be frozen. China Securities Registration and Settlement Co., Ltd. Shenzhen Branch Company froze the aforementioned shares on September 5, 2001 and defroze the same on March 5, 2002.

(3) Pursuant to the civil judgment made by Shenzhen Intermediate People's Court on January 10, 2002 with (2001) SZFZSZ No. 43 Civil Judgment, the objection raised by the Company to the (1999) SZFZZ No. 12-51 Civil Judgments that included the Company in the persons against whom the judgments were

executed was established. The court judged that the Company should bear the liability for debt settlement within the scope of the properties received from Ronghui Co. with value of RMB 265,377.77 and its interests. This case was closed.

(II) Acquisition, sales of assets, absorption and merger

The Company neither acquired nor sold assets nor was involved in any absorption or merger in the report period.

(III) Important related transactions

The Company was not involved in any material related transaction. Refer to the financial report for the details of other related transactions.

(IV) Important contracts and their performance

1. Trust, contracting and lease

(1) The Company was not involved in any material trust, contracting or lease in the report period.

(2) Other trust

The Company signed equity trust agreement with China Pushi Electronics Co., Ltd. and Jiujiu Industrial Co., Ltd. on December 14, 2001 to trust the 12,274,495 ordinary shares of Jintian Industrial (Group) Co., Ltd. held by it to the aforementioned two companies for management. The trust period is one year and the effective date was January 11, 2002.

2. Important guarantee

The Company signed an agreement on mutual guarantee for loans with amount up to RMB 0.1 billion with Shenzhen Laiyingda Group Co., Ltd. As of December 31, 2001, the total amount of the loan guarantee provided by the Company to Shenzhen Laiyingda Group Co., Ltd. decreased from RMB 94.45 million in the same period of the previous year to RMB 86.45 million. The above loan has been overdue.

3. Entrustment of cash asset management

The Company did not entrust others to manage its cash assets in the report period.

(V) Commitments

The 2001 profit distribution policy formulated by the Board of Directors of the Company in the report period: The net profit earned by the Company in 2001 will not be distributed before the losses of the previous years are fully covered. The Board of Directors has implemented this policy.

(VI) Appointment and removal of certified public accountants

The Company appointed Shenzhen Pengcheng Certified Public Accountants and Ho and Ho & Company as the auditing organs for the A shares and B shares of the Company in the report period. The remuneration paid by the Company to the above accountants' firms in 2001 was respectively RMB 0.35 million and RMB 0.15 million, including traveling expenses. The Company appointed Shenzhen Dahua Tiancheng Certified Public Accountants and K C Oh & Company) as the auditing organs for the A shares and B shares of the Company in 2000. The remuneration paid by the Company to the above accountants' firms was respectively RMB 0.39 million and RMB 0.14 million, including traveling expenses.

(VII) Supervision over the Company and its directors and senior executives

The Company and its directors and senior executives were not investigated by CSRC, administratively punished or publicly criticized by CSRC or publicly condemned by stock exchange.

(VIII) Influence of China's entry to WTO on the operating activities of the Company.

China's entry to WTO will bring new opportunities to the development of the Company. The Company will mainly benefit from the enlargement of export market. According to the regulations of ATC, the quota restriction imposed by other countries on China will be gradually reduced and finally cancelled in 2005, which will provide good opportunities to the Company for enlarging the export of textile and garment product. The Company will develop and establish new textile enterprises through integrating the existing ones and form competitive textile industry chain to quicken its development.

X. Financial Reports

(I) Consolidated profit statement (enclosed hereinafter)

(II) Consolidated balance sheet (enclosed hereinafter)

(III) Consolidated cash flow statement (enclosed hereinafter)

(IV) Auditors' report

XI. Documents Available for Inspection

1. Financial statements bearing the seal and signature of legal representative, financial controller and accounting personnel in charge.
2. The original of the auditors' report bearing the seal of the certified public accountants and the seal and signature of C.P.A.
3. The original of all Company's documents and the original manuscripts of announcements publicly disclosed on Hong Kong Commercial Daily and Securities Times in the report period.

The above documents were completely placed at the Office of the Company.

This report has been prepared in both Chinese and English. In case of any discrepancy, the Chinese version shall prevail.

The Board of Directors of Shenzhen Textile (Holdings) Co., Ltd.

March 26, 2002

REPORT OF THE AUDITORS

TO THE HOLDERS OF B SHARES OF
SHENZHEN TEXTILE (HOLDINGS) CO., LTD.
(Incorporated in the People's Republic of China with limited liability)

We have audited the financial statements on page 2 to 30. The preparation of these financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

However, the evidence available to us was limited as follows. As explained in note 29 of the notes to the accounts, no provision has been made for the guarantees given for the banking facilities granted for Shenzhen Lionda Holdings Company Limited ("Lionda") amounting to RMB86,450,000 and the associated interest and expenses. However, we were unable to obtain sufficient information and explanations regarding the financial position of Lionda and the amounts of the associated interest payable and expenses so as to enable us to assess the amounts to be provided for the loss arising from the guarantees. Any provision found to be necessary would reduce the net assets of the Group at 31 December 2001 and its profit for the year then ended.

Except for any adjustments might have been found to be necessary had we been able to obtain sufficient evidence concerning the guarantees and the provision for associated interest payable and expenses, in our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2001 and the results of its operations and its cash flows for the year then ended, in accordance with International Accounting Standards.

Ho and Ho & Company
Certified Public Accountants

Hong Kong

26 March 2002

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2001

	NOTES	2001	2000
		RMB' 000	RMB' 000 (As restated)
Revenue	5	342,606	292,896
Cost of Sales		(270,871)	(215,007)
Gross profit		71,735	77,889
Other revenue		10,060	3,350
Distribution and administrative expenses		(56,894)	(50,889)
Profit from operations	7	24,901	30,350
Amortization of negative goodwill		567	567
Income/(loss) from investments	8	17,873	(545)
Share of (loss)/profit of associates		(502)	2,076
Finance costs	9	(14,515)	(16,416)
Profit before tax		28,324	16,032
Taxation	10	83	(415)
Profit after tax		28,407	15,617
Minority interests		(208)	131
Net profit for the year		28,199	15,748
Dividend	11	-	-
Earnings per share	12	RMB0.173	RMB0.096

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2001

	NOTES	2001 RMB' 000	2000 RMB' 000 (As restated)
ASSETS			
Non-current assets			
Property, plant and equipment	13	164,886	166,214
Investment properties	14	101,372	101,372
Construction in progress	15	11,504	1,199
Pre-operating expenses		-	4,158
Other non-current assets	16	-	11,002
Investments in subsidiaries	17	7,025	10,195
Investments in associates	18	9,157	43,351
Other investment	19	30,946	31,058
		324,890	368,549
Current assets			
Inventories	20	41,755	47,062
Accounts receivable		46,176	36,698
Prepayments, deposits and other receivables		71,169	49,021
Investments in securities	21	4,507	8,506
Cash and bank balances		193,887	183,007
		357,494	324,294
Total assets		682,384	692,843
EQUITY AND LIABILITIES			
Capital and Reserves			
Share capital	22	163,416	163,416
Reserves	23	143,779	116,147
		307,195	279,563
Minority interests		43,186	44,378
Non-current liabilities			
Borrowings due over one year	26	500	7,372
Current liabilities			
Borrowings payable on demand or due within one year	26	188,514	196,570
Accounts payable		26,009	42,260
Other payables and accrued expenses		97,952	103,101
Dividend payable	27	18,732	18,732
Provision for taxation		296	867
		331,503	361,530
Total equity and liabilities		682,384	692,843

The financial statements on pages 2 to 30 were approved by the board of directors and were authorised for issue on 26 March 2002 and are signed on its behalf by:

DIRECTOR　　　　　DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2001

	Share capital	Negative goodwill	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Properties revaluation reserve	Accumulated losses	Total
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
Balance at 1 January 2000	163,416		86,195	4,951	13,636	81,639	(85,506)	264,331
Negative goodwill arising from consolidation		8,508						8,508
Amortization of negative goodwill		(567)						(567)
Revaluation deficit			(8,457)					(8,457)
Reclassification				375	(375)			-
Net profit for the year								
- as previously reported							25,630	25,630
- prior year adjustments (note 24)							(9,882)	(9,882)
As restated							15,748	15,748
Balance at 31 December 2000	163.416	7,941	77,738	5,326	13,261	81,639	(69,758)	279,563
Amortization of negative goodwill		(567)						(567)
Net profit for the year							28,199	28,199
Balance at 31 December 2001	163,416	7,374	77,738	5,326	13,261	81,639	(41,559)	307,195

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2001

	NOTE	2001	2000
		RMB' 000	RMB' 000 (As restated)
CASH GENERATED FROM OPERATIONS	25	15,509	61,247
Income taxes paid		(437)	(415)
NET CASH INFLOW FROM OPERATING ACTIVITIES		15,072	60,832
INVESTING ACTIVITIES			
Interest received		4,031	4,055
Additions to construction in progress		(10,305)	-
Acquisition of property, plant and equipment		(3,989)	(5,505)
Proceeds from disposal of property, plant and equipment		363	-
(Increase) / decrease in amount due from associates		(4,750)	7,335
Increase in amount due to associates		38,391	1,970
Proceeds from disposal of other investment		6,888	19,361
Acquisition of other non-current assets		(2,387)	(8,671)
Decrease / (increase) in investments in securities		2,709	(8,000)
Proceeds from disposal of investment in a subsidiary		(5,521)	-
Decrease in investments in associates		-	(2,801)
NET CASH INFLOW FROM INVESTING ACTIVITIES		25,430	7,744
NET CASH INFLOW BEFORE FINANCING ACTIVITIES		40,502	68,576
FINANCING ACTIVITIES			
Interest expenses		(13,294)	(16,311)
(Decrease)/increase in minority interests		(1,400)	31,284
Decrease in borrowings		(14,928)	(19,217)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES		(29,622)	(4,244)
INCREASE IN CASH AND CASH EQUIVALENTS		10,880	64,332
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		183,007	118,675
CASH AND CASH EQUIVALENTS AT END OF YEAR		193,887	183,007

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2001

1. CORPORATE INFORMATION

Shenzhen Textile (Holdings) Co., Ltd. (the "Company") was established in the People's Republic of China (the "PRC") as a joint stock limited company. The ultimate holding company of the Company is Shenzhen Investment Administrative Company, a state-owned enterprise established in the PRC. The principal activity of the Company is investment holding and the principal activities of its subsidiaries are set out in note 17 of the notes to the accounts.

2. PRESENTATION OF FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with International Accounting Standards (IAS).

These financial statements are presented in Renminbi ("RMB") since that is the currency in which the majority of the Group's transactions are denominated.

3. ADOPTION OF INTERNATIONAL ACCOUNTING STANDARDS

In the current year, the Group has adopted the following International Accounting Standards for the first time:

IAS 39 Financial Instruments: Recognition and Measurement

IAS 40 Investment Property

Revisions to a number of other IAS also took effect in 2001. Those revisions concerned matters of detailed application which have no significant effect on amounts reported for the current or prior accounting periods.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared on the historical cost basis, except for the revaluation of land and buildings and certain financial instruments. The principal accounting policies adopted are set out below.

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and enterprises controlled by the Company (its "subsidiaries") made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

4. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES - continued

(a) Basis of consolidation - continued

On acquisition, the assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

The results of subsidiaries 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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group.

All significant intercompany transactions and balances between group enterprises are eliminated on consolidation.

(b) Investments in associates

An associate is an enterprise over which the Group is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investee.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. The carrying amount of such investments is reduced to recognise any impairment in the value of individual investments.

Where a group enterprise transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

(c) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is recognised as an asset and amortised on a straight-line basis following an assessment of its useful life.

4. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES - continued

(c) Goodwill - continued

Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries and jointly controlled entities is presented separately in the balance sheet.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

(d) Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition over the cost of acquisition. Negative goodwill is released to income based on an analysis of the circumstances from which the balance resulted. To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognized as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognized in income immediately.

Negative goodwill arising on the acquisition of an associate is deducted from the carrying value of that associate. Negative goodwill arising on the acquisition of subsidiaries or jointly controlled entities is presented separately in the balance sheet as a deduction from assets.

(e) Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Rental income is recognised when the rental is due and receivable.

Hotel services income is recognised when the services are rendered.

(f) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

4. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES - continued

(f) Leasing - continued

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

The Group as lessee

Assets held under finance leases are recognized as assets of the Group at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

(g) Foreign currencies

Transactions in currencies other than Renminbi are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognized as income or as expenses in the period in which the operation is disposed of.

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2001 - continued

4. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES - continued

(h) Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit plan.

(i) Taxation

The charge for current tax is based on the results for the year as adjusted for items which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substaritively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

4. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES - continued

(i) Taxation - continued

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(j) Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at their revalued amounts, being the fair value on the basis of their existing use at the date of revaluation, less any subsequent accumulated depreciation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially for that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the properties revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of land and building is charged as an expense to extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the revaluation reserve is transferred to accumulated profits.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any identified impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

4. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES - continued

(j) Property, plant and equipment - continued

Depreciation is charged so as to write off the cost or valuation of assets, other than construction in progress, over their estimated useful lives, using the straight-line method.

	Useful lives
Land and buildings	35-40years
Leasehold improvement	20 years
Plant and machinery	10 years
Office equipment	8 years
Motor vehicles	8 years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Certain above assets are stated at valuation. Independent valuation is performed periodically with the last valuation performed in 1993. In the intervening years, the directors review the carrying value of these assets and adjustment is made where in the directors' opinion there has been a material change in value.

(k) Investment property

Investment property, which is property hold to earn rentals and/or capital appreciation, is stated at its fair value at the balance sheet date. Gains or losses arising from change in the fair value of investment property are included in net profit or loss for the period in which they arise.

4. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES - continued

(l) Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset it land or buildings at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at the revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(m) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marking, selling and distribution.

(n) Trade receivables

Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

4. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES - continued

(o) Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as either held for trading or available-for-sale and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For available-for-sale investments, unrealised gains and losses are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period.

(p) Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

(q) Trade payables

Trade payables are stated at their nominal value.

(r) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reasonably estimated.

4. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES - continued

(s) Cash equivalents

Cash equivalents represents short-term, highly liquid investments that have insignificant risk of changes in value.

5. REVENUE

An analysis of the Group's revenue is as follows:

	2001	2000
	RMB'000	RMB'000
Sales of goods	301,251	250,093
Property rental income	37,182	38,026
Hotel operations	4,173	4,777
	342,606	292,896

6. BUSSINESS AND GEOGRAPHICAL SEGMENTS

Business Segments

2001

Segment information about these businesses is presented below :-

	For the year ended 31 December 2001				
	Sales of goods RMB' 000	Leasing RMB' 000	Hotel operations RMB' 000	Eliminations RMB' 000	Consolidated RMB' 000
REVENUE					
External sales	301,251	37,182	4,173	-	342,606
Intra-group sales	15,836	-	912	(16,748)	-
Total revenue	317,087	37,182	5,085	(16,748)	342,606
RESULT					
Segment result	19,060	28,512	208		47,780
Unallocated corporate expenses					(22,879)
Profit from operations					24,901
Finance costs					(14,515)
Share of loss of associates					(502)
Income from investments					17,873
Amortization of negative goodwill					567
Profit before tax					28,324
Taxation					83
Profit after tax					28,407

BALANCE SHEET	As at 31 December 2001			
	RMB' 000	RMB' 000	RMB' 000	RMB' 000
ASSETS				
Segment assets	480,242	119,898	10,937	611,077
Investments in associates				9,157
Unallocated corporate assets				62,150
Consolidated total assets				682,384
LIABILITIES				
Segment liabilities	127,867	8,672	1,232	137,771
Unallocated corporate liabilities				194,232
Consolidated total liabilities				332,003

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2001 - continued

6. BUSSINESS AND GEOGRAPHICAL SEGMENTS - continued

2000	For the year ended 31 December 2000			
	Sales of goods RMB' 000	Leasing RMB' 000	Hotel Operations RMB' 000	Consolidated RMB' 000
REVENUE				
External sales	250,093	38,026	4,777	292,896
RESULT				
Segment result	22,529	29,634	191	52,354
Unallocated corporate expenses				(22,004)
Profit from operations				30,350
Finance costs				(16,416)
Share of profit of associates				2,076
Income from investments				(545)
Amortization of negative goodwill				567
Profit before tax				16,032
Taxation				(415)
Profit after tax				15,617
BALANCE SHEET	As at 31 December 2000			
	RMB' 000	RMB' 000	RMB' 000	RMB' 000
ASSETS				
Segment assets	445,589	123,272	10,867	579,728
Investments in associates				43,351
Unallocated corporate assets				69,764
Consolidated total assets				692,843
LIABILITIES				
Segment liabilities	144,162	12,646	1,362	158,170
Unallocated corporate liabilities				210,732
Consolidated total liabilities				368,902

6. BUSSINESS AND GEOGRAPHICAL SEGMENTS - continued

Geographical Segments

The Group's operations are located in PRC, United States of America ("USA") and Canada.

The following is an analysis of the Group's revenue by geographical market, irrespective of the origin of the good/services:-

	Revenue by geographical market	
	Year ended 31/12/2001	Year ended 31/12/2000
	RMB'000	RMB'000
PRC	238,770	248,923
USA and Canada	103,836	43,973
	342,606	292,896

The following is an analysis of carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	31/12/2001	31/12/2000	31/12/2001	31/12/2000
	RMB'000	RMB'000	RMB'000	RMB'000
PRC	651,195	649,626	3,822	5,061
USA and Canada	31,189	43,217	167	444
	682,384	692,843	3,989	5,505

7. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging/(crediting):

	2001	2000
	RMB'000	RMB'000
Written off of pre-operating expenses	4,158	-
Increase / (decrease) in provision for inventories	47	(5,322)
Depreciation and amortization	15,203	21,258
Loss on disposal of property , plant and equipment	2,226	126
Impairment loss on property, plant and equipment	489	-
Decrease in provision for bad debts	(3,265)	(5,705)
Staff costs	22,544	16,673

8. INCOME/(LOSS) FROM INVESTMENTS

	NOTE	2001 RMB'000	2000 RMB'000
Understatement of loss on investment in subsidiaries in prior year		(505)	-
Profit on disposal of a subsidiary	28	3,214	-
Subcontracting income from associates		2,799	-
Impairment loss for associates		-	4,310
(Increase)/decrease in impairment loss on investment in securities		(1,290)	198
(Increase)/decrease in impairment loss on investment in subsidiaries		(3,170)	21,843
Decrease/(increase) in impairment loss on other investment		6,776	(14,832)
Other investment income / (loss)		10,049	(12,064)
		17,873	(545)

9. FINANCE COSTS

	2001 RMB'000	2000 RMB'000
Interest expenses	13,294	16,311
Bank charges	956	78
Exchange loss	265	27
	14,515	16,416

10. TAXATION

	2001 RMB'000	2000 RMB'000
Income tax:	(134)	293
- the Company and its subsidiaries	51	122
- associates	(83)	415

Income tax in the PRC has been provided at the prevailing rates of 15%-33% rate on the estimated assessable profit applicable to each individual company within the Group in PRC.

Hong Kong profit tax has been provided at 16% (2000 : 16%) on the estimated assessable profits for the year of the relevant member of the Group in Hong Kong.

11. DIVIDEND

The directors of the Group do not propose and declare the payment of a dividend for the year.

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2001 - continued

12. EARNINGS PER SHARE

Earnings per share is based on the Group's net profit attributable to shareholders of RMB28,199,000 (2000: RMB15,748,000) and on 163,416,000 (2000: RMB163,416,000) shares RMB 1 each in issue.

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Leasehold Improvement	Plant and machinery	Office equipment	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST OR VALUATION						
At 1 January 2001	161,805	-	58,162	12,134	6,082	238,183
Transfer from other non-current assets	-	16,318	-	-	-	16,318
Additions	-	-	2,087	705	1,197	3,989
Disposals	(2,377)	-	(827)	(1,207)	(474)	(4,885)
Disposal of a subsidiary	(551)	-	-	(172)	(242)	(965)
At 31 December 2001	158,877	16,318	59,422	11,460	6,563	252,640
ACCUMULATED DEPRECIATION						
At 1 January 2001	40,874	-	22,178	5,656	3,261	71,969
Transfer from other non-current assets	-	6,458	-	-	-	6,458
Charge for the year	5,049	-	4,760	1,023	842	11,674
Written back on disposals	(1,335)	-	(557)	(26)	(378)	(2,296)
Disposal of a subsidiary	(136)	-	-	(162)	(242)	(540)
Impairment loss	-	-	-	-	489	489
At 31 December 2001	44,452	6,458	26,381	6,491	3,972	87,754
NET BOOK VALUE						
At 31 December 2001	114,425	9,860	33,041	4,969	2,591	164,886
At 31 December 2000	120,931	-	35,984	6,478	2,821	166,214
At cost	63,931	16,318	36,959	11,460	4,164	132,832
At revaluation	94,946	-	22,463	-	2,399	119,808
	158,877	16,318	59,422	11,460	6,563	252,640

Certain of the above assets of the Group were appraised by Zhonghua (Shekou) Certified Public Accountants, professional valuers in 1993. They were appraised on the open market basis and carried in the consolidated balance sheet at valuation. As a result of the appraisal, an increase in value of the Group's assets by approximately RMB44,294,000 as at 31 December 1994 was credited to property revaluation reserve. The directors were of the opinion that the carrying value of these revalued assets as at 31 December 2001 approximated the open market value since 1994.

14. INVESTMENT PROPERTIES

Certain of the investment properties of the Group were appraised by Zhonghua (Shekou) Certified Public Accountants, professional valuers in 1993. These properties were appraised on the open market basis and carried in the consolidated balance sheet at valuation. As a result of the appraisal, an increase in value of the Group's investment properties by approximately RMB37,345,000 as at 31 December 1994 was credited to property revaluation reserve. The directors were of the opinion that the carrying value of the investment properties as at 31 December 2001 approximated the open market value since 1994.

The property rental income earned by the Group from its investment property, all of which is leased out under operating lease, amounted to RMB37,182,000 (2000: RMB 38,026,000). Direct operating expenses arising on the investment property for the year amounted to RMB8,180,000 (2000: RMB6,419,000).

15. CONSTRUCTION IN PROGRESS

	RMB'000
Cost	
At 1 January 2001	1,199
Additions	10,305
At 31 December 2001	11,504

16. OTHER NON-CURRENT ASSETS

	RMB'000
Cost	
At 1 January 2001	13,931
Additions	2,387
Transfer to property, plant and equipment	(16,318)
At 31 December 2001	-
Amortisation	
At 1 January 2001	2,929
Charge for the year	3,529
Transfer to property, plant and equipment	(6,458)
At 31 December 2001	-
Net book value	
As at 31 December 2001	-
As at 31 December 2000	11,002

Other non-current assets represent leasehold improvements.

17. INVESTMENT IN SUBSIDIARIES

As at 31 December 2001, the details of the principal subsidiaries are as follows:

Subsidiaries	Place of establishment/ operation	Attributable equity interest	Principal activity
Consolidated Subsidiaries			
Shenfang Building Estate Management Co., Ltd.	PRC	100%	Property management
Shenzhen Feng Sheng Garments Co., Ltd.	PRC	100%	Manufacturing of clothing, cloth and material
Shenzhen Jinlan Decorative Products Ind. Co.	PRC	100%	Manufacturing of bedding and decorating products
Shenzhen Huaqiang Hotel	PRC	100%	Hotel operations, catering and business center operations
Shenzhen Lisi Industrial & Development Co., Ltd.	PRC	100%	Material supplies
Shenzhen Zhong Xing Fibre Products Co., Ltd.	PRC	75%	Manufacturing and trading of fibre products
Shenzhen Jing Guang Shoes and Hose Co., Ltd.	PRC	100%	Manufacturing and trading of sporting shoes and socks
Shenzhen Shenfang-Lucky Photoelectronic Materials Co., Ltd.	PRC	55%	Manufacturing of digital monitor and relevant consumables and parts
Jiangxi Xuanli Thread Co., Ltd.	PRC	50.1%	Manufacturing and trading of synthetic fibre
Shenzhen Shenfang Import and Export Co., Ltd.	PRC	49% #	Import and export trading of textile
Business Faith International Co., Ltd.	Hong Kong	17.86% #	Trading
Unconsolidated Subsidiaries			
Darwin International Co., Ltd.	Hong Kong	100%	Import and export trading *
Shenzhen Dahong Textile Co., Ltd.	PRC	100%	Manufacturing and trading of textile products *
Shenzhen Risen Textile Technology Development Co., Ltd.	PRC	100%	Manufacturing of dyeing materials *
Shenzhen Textile (Holding) Moscow Diana Co., Ltd.	Moscow	100%	Trading *
Shenzhen Fenghua Zhi Dai Factory Co., Ltd.	PRC	75%	Manufacturing of fasteners *
Shenzhen Lifeng Jeineng Equipment Co., Ltd.	PRC	100%	Manufacturing of energy saving equipment*

17. INVESTMENT IN SUBSIDIARIES - continued

* Not required to be consolidated as the subsidiaries have ceased their business, under liquidation and / or are unable to transfer funds to the holding company because of operations under long-term restrictions.

\# The Group has the majority of voting rights in the meetings of the board of directors.

	2001 RMB'000	2000 RMB'000
Investment in unconsolidated subsidiaries, at cost	10,847	10,847
Impairment loss	(3,822)	(652)
	7,025	10,195

18. INVESTMENTS IN ASSOCIATES

	2001 RMB'000	2000 RMB'000
Unlisted investment:		
Share of net assets	43,087	43,640
Amount due therefrom	7,726	2,976
Amount due thereto	(41,656)	(3,265)
	9,157	43,351

At 31 December 2001, details of the principal associates are as follows:

Name	Place of establishment/ operation	Attributable equity interest	Principal activity
Shenfang China East Electronics Co., Ltd	PRC	50%	Manufacturing of electronic toys
Shehzhen Label Weaving Factory Co., Ltd.	PRC	50%	Manufacturing and trading of label tags
Shenzhen Tianlong Industrial Trading Co.	PRC	50%	Manufacturing and trading and of health balls, food, and textile related products
Shenzhen Xieli Automobile Co., Ltd.	PRC	50%	Motor vehicle repair and maintenance services
Shenzhen Kunhwa Dyeing Co., Ltd.	PRC	45%	Dyeing
Longwell Development Printing and Dyeing Co., Ltd.	PRC	40.25%	Processing of corduroy
Mirage (Saipan) Co., Ltd.	Commonwealth of Northern Mariana Islands	35%	Manufacturing and trading of ladies undertake of knitting apparel
Shenzhen Top Form Underwear Co., Ltd.	PRC	30%	Manufacturing and trading of ladies underwear
Jiujiang Hong Fa Real Estates Development Co., Ltd.	PRC	30%	Real property development
Shen Hu Textile Co., Ltd.	PRC	20%	Textile products
Shenzhen Hualian Fangzhi (Holding) Co., Ltd.	PRC	20%	Investment holding
Shenzhen Xin Fang Textile Factory Co., Ltd	PRC	20%	Textile products

19. OTHER INVESTMENT

	2001 RMB' 000	2000 RMB' 000
Unlisted investment, at cost	73,317	80,205
Impairment loss	(42,371)	(49,147)
	30,946	31,058

20. INVENTORIES

	2001 RMB' 000	2000 RMB' 000
Raw materials	10,826	8,769
Work in progress	6,480	-
Finished goods	24,449	38,293
	41,755	47,062

Included above are raw materials of RMB405,000 (2000 : RMB1,162,000), work in progress of RMB682,000 (2000 : Nil) and finished goods of RMB7,973,000 (2000 : RMB15,026,000) carried at net realisable values.

21. INVESTMENTS IN SECURITIES

	2001 RMB' 000	2000 RMB' 000
Listed equity securities, cost less impairment loss	4,403	8,402
PRC government bonds	104	104
	4,507	8,506
Market value of listed equity securities at the balance sheet date	4,403	8,402

22. SHARE CAPITAL

	2001 RMB' 000	2000 RMB' 000
Registered, issued and fully paid:		
108,332,000 domestic shares of RMB 1 each	108,332	108,332
22,084,000 "A" shares of RMB 1 each	22,084	22,084
33,000,000 "B" shares of RMB 1 each	33,000	33,000
	163,416	163,416

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2001 - continued

23. RESERVES

	Negative goodwill	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Property revaluation reserve	Accumulated loss	Total
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
Balance at 1 January 2000	-	86,195	4,951	13,636	81,639	(85,506)	100,915
Negative goodwill arising from consolidation	8,508						8,508
Amortization of negative goodwill	(567)						(567)
Revaluation deficit		(8,457)					(8,457)
Reclassification			375	(375)			-
Net profit for the year							
- as previously reported						25,630	
- prior year adjustments (note 24)						(9,882)	
- as restated						15,748	15,748
Balance at 31 December 2000	7,941	77,738	5,326	13,261	81,639	(69,758)	116,147
Amortization of negative goodwill	(567)						(567)
Net profit for the year						28,199	28,199
Balance at 31 December 2001	7,374	77,738	5,326	13,261	81,639	(41,559)	143,779

According to the Company' s Articles of Association and the PRC' s relevant laws and policies, after setting off of the Company' s accumulated losses, the Company is required to make a transfer at the rate of 10% from the profit after tax, determined in accordance with the PRC accounting standards, of the Company to the statutory surplus reserve until the reserve balance has reached 50% of the registered capital of the Company. In addition, after setting off of the accumulated losses, the Company is also required to transfer 5% to 10% from the profit after tax to the statutory public welfare fund.

The statutory surplus reserve and the capital reserve may be applied for the following purposes:

i the statutory surplus reserve may be used to set off against loss; and
ii a reserve may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, but the remaining statutory surplus reserve be no less than 25% of the enlarged registered capital.

The statutory public welfare fund shall only be applied for the collective welfare of the Company' s employees; and upon utilization, an amount equal to the expenditure spent on the collective staff welfare shall be transferred from the statutory public welfare fund to discretionary surplus reserve.

Prior to off-setting the Company' s accumulated losses and the relevant appropriations to the statutory surplus reserve and the statutory public welfare fund, no dividend would be declared.

24. PRIOR YEAR ADJUSTMENTS

Prior year adjustments have been made to correct the following fundamental errors in previous years :-

(i) Underprovision of impairment loss on other investment in Girtian Industry (Group) Co., Ltd. totalling RMB14,832,000.

(ii) Underprovision of share of loss by minority interests for impairment loss on intangible assets totalling RMB4,950,000.

As a result, prior year adjustments were made to reduce the profit for the year ended 31 December 2000 and increase the accumulated losses at 31 December 2000.

25. RECONCILIATION OF PROFIT BEFORE TAX TO CASH GENERATED FROM OPERATIONS

	2001 RMB' 000	2000 RMB' 000 (As restated)
Profit before tax	28,324	16,032
Interest income	(4,031)	(4,055)
Interest expenses	13,294	16,311
Written off of pre-operating expenses	4,158	-
Depreciation and amortisation	15,203	21,528
Loss on disposal of property, plant and equipment	2,226	126
Increase/(Decrease) in impairment loss		
- Subsidiaries	3,170	(21,843)
- Associates	-	(4,310)
- Other investment	(6,776)	14,832
- Investment in securities	1,290	(198)
- Property, plant and equipment	489	-
Gain on disposal of a subsidiary (note 28)	(3,214)	-
Increase/(decrease) in provision for inventories	47	(5,322)
Decrease in provision for bad debts	(3,265)	(5,705)
Amortisation of negative goodwill	(567)	(567)
Share of loss/(profit) of associates	502	(2,076)
Operating cash flows before movements in working capital	50,850	24,753
Decrease in inventories	5,218	1,366
Increase in accounts receivable	(4,464)	(8,050)
(Increase)/decrease in prepayments, deposits and other receivables	(24,369)	11,967
Decrease in accounts payable	(7,655)	(4,407)
(Decrease)/increase in other payables, and accrued expenses	(4,071)	35,618
Cash generated from operations	15,509	61,247

26. BORROWINGS

	2001 RMB' 000	2000 RMB' 000
Bank loans – secured	121,720	133,000
– unsecured	54,000	63,570
Other loans – unsecured	13,294	7,372
	189,014	203,942

The loans are repayable as follows:

	2001 RMB' 000	2000 RMB' 000
On demand or within one year	188,514	196,570
In the second to fifth year inclusive	500	7,372
	189,014	203,942
Less: amount repayable on demand or due within one year shown under current liabilities	(188,514)	(196,570)
Amount due after one year	500	7,372

The interest was charged at various rates ranging from 5.3952% to 6.435% (2000: from 5.36% to 6.34%).

27. DIVIDEND PAYABLE

Dividend payable includes an amount due to the Company's ultimate holding company, Shenzhen Investment Administrative Company, totalling RMB18,483,000 (2000 : RMB18,483,000).

28. GAIN ON DISPOSAL OF A SUBSIDIARY

	RMB' 000
Prepayments, deposits and other receivables	472
Inventories	42
Property, plant and equipment	425
Accounts payable	(8,596)
Other payables and accrued expenses	(1,078)
	(8,735)
Cash and bank balances	5,521
Net liabilities	3,214
Proceeds from disposal of the subsidiary	-
Profit on disposal	3,214

29. CONTINGENT LIABILITIES

At the balance sheet date, the Group had the following contingent liabilities:

	2001 RMB' 000	2000 RMB' 000
Guarantees to bankers in favor of:		
- A fellow subsidiary	86,450	94,450
- A related party	-	2,017
	86,450	96,467

The Group had given guarantees for banking facilities granted to Shenzhen Lionda Holdings Company Limited ("Lionda"), a subsidiary of Shenzhen Investment Administrative Company, amounting to RMB92,000,000 (2000 : RMB100,000,000) of which RMB86,450,000 (2000 : RMB94,450,000) had been utilized at the balance sheet date.

Due to the serious financial difficulties of Lionda, the Company would have been liable to repay the indebtedness arising from the guarantees given.

As at 31 December 2001, the corresponding lending banks had requested in writing the Company to repay the bank indebtedness due by Lionda together with the associated interest payable and expenses. However, no legal actions have yet been taken to recover the amount due. Since the Directors were unable to obtain sufficient information for ascertaining with reasonable grounds whether the Group would have ultimate obligations under the guarantees, including the amounts of the associated interest payable and expenses, the Group does not make any provision for loss in respect of these contingent liabilities.

30. CAPITAL COMMITMENTS

At the balance sheet date, the Group had the following capital commitments:

	2001 RMB' 000	2000 RMB' 000
Contracted for but not yet provided for:		
Acquisition of property and plant	699	-

31. PLEDGE OF ASSETS

The Group had pledged its bank fixed deposit of RMB4,255,000 (2000:RMB12,161,000) and investment properties and buildings of RMB124,277,000 (2000: RMB162,863,000) as security for general banking facilities granted.

32. OPERATING LEASE COMMITMENT

At the balance sheet date, the Group had outstanding commitments under non-cancellable operating lease, which fall due as follows:

	2001 RMB' 000	2000 RMB' 000
In second to fifth year inclusive	589	961

33. RETIREMENT BENEFIT SCHEME ARRANGEMENTS

The Group participates in a retirement benefit scheme arrangement which is managed by 深圳市社會保險事務管理局 ("SABSI"). The Group has obligations to make monthly contributions to the scheme, which the SABSI is responsible for the retirement benefit scheme in all other aspects. For the year, the Group paid for the contribution of the benefit retirement scheme totalling RMB797,000 (2000: RMB835,000).

34. RELATED PARTY TRANSCATIONS

(i) During the year, the Group entered into the following transactions and balances with related parties :

	For the year ended 31 December							
	Trade sales		Trade purchase		Amount due therefrom		Amount due thereto	
	2001 RMB' 000	2000 RMB' 000	2001 RMB' 000	2000 RMB' 000	2001 RMB' 000	2000 RMB' 000	2001 RMB' 000	2000 RMB' 000
Shenzhen Investment Administrative Company	-	-	-	-	-	-	37,468	37,157
Associates	15,705	13,007	28,463	44,479	7,726	2,976	41,656	3,265

34. RELATED PARTY TRANSACTIONS - continued

As disclosed in note 29 of the notes to the accounts, the Group had given guarantees for banking facilities granted to Lionda. During the year, one of the lending banks had taken legal actions requesting the Group to undertake the joint and several liabilities in respect of the guarantees given of RMB8,000,000. According to the final agreement with the bank, during the year, the Group had paid the principal sum of RMB8,000,000 together with the associated interest of RMB2,000,000 due by Lionda for full and final settlement of the claim.

As at 31 December 2001, the amount due by Lionda was RMB6,073,000 after partial settlement, full provision has been made for this amount.

35. IMPACT OF IAS ADJUSTMENTS ON PROFIT ATTRIBUTABLE TO SHAREHOLDERS AND ON NET ASSETS

	Profit attributable to shareholders		Net Assets	
	2001	2000	2001	2000
	RMB' 000	RMB' 000	RMB' 000	RMB' 000
		(As restated)		(As restated)
Under PRC accounting standards :-	25,202	22,831	303,645	278,438
Adjustments to conform with IAS:				
Amortization of negative goodwill	567	567	-	-
Overprovision for depreciation of investment properties	2,346	2,346	13,452	11,106
Written off of pre-operating expenses	(2,410)	2,410	-	2,410
Impairment loss on unconsolidated subsidiaries	(2,854)	-	(2,854)	-
Underprovision for loss of subsidiaries in previous year	(505)	(1,281)	(1,786)	(1,281)
Written off of intangible assets	788	(6,050)	(5,262)	(6,050)
Provision for bad debts	5,075	(5,075)	-	(5,075)
Others	(10)	-	-	15
As restated in conformity with IAS	28,199	15,748	307,195	279,563

36. COMPARATIVE FIGURES

Certain comparative figures have been reclassified so as to conform with the current year's presentation.