

Shenzhen Textile (Holdings) Co., Ltd.

**(a joint stock limited company incorporated
in the People's Republic of China)**

**Auditors' report and financial statements
for the year ended December 31, 2003**

Shenzhen Textile (Holdings) Co., Ltd.
(a joint stock limited company incorporated
in the People's Republic of China)

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Report of the auditors to the members of

Shenzhen Textile (Holdings) Co., Ltd.

(A joint stock limited company incorporated in the People's Republic of China)

We have audited the accompanying balance sheet of the Group as of December 31, 2003 and the related statements of income, cash flows and changes in equity for the year then ended. 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2003 and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

K. C. Oh & Company
Certified Public Accountants

Hong Kong : April 20, 2004

Shenzhen Textile (Holdings) Co., Ltd.

Consolidated income statement for the year ended December 31, 2003

	Notes	2003 RMB'000	2002 RMB'000
Turnover	(5)	451,965	457,480
Cost of sales		<u>(357,645)</u>	<u>(365,091)</u>
Gross profit		94,320	92,389
Other revenue		<u>4,253</u>	<u>10,197</u>
		98,573	102,586
Distribution and administrative expenses		<u>(58,833)</u>	<u>(77,923)</u>
Operating profit		39,740	24,663
Income from investments	(7)	10,822	20,712
Provision for loss on guarantees	(8)	(702)	(24,000)
Finance costs	(9)	(7,219)	(11,443)
Loss on deemed disposal of subsidiaries	(28)	(1,697)	-
Amortisation of negative goodwill		568	567
Share of profit from associates		<u>688</u>	<u>1,352</u>
Profit before taxation	(10)	42,200	11,851
Taxation	(11)	<u>(5,244)</u>	<u>(2,745)</u>
Profit after taxation		36,956	9,106
Minority interests		<u>(595)</u>	<u>338</u>
Net profit for the year		<u>36,361</u>	<u>9,444</u>
Earnings per share		<u>RMB0.223</u>	<u>RMB0.058</u>

Earnings per share is calculated by dividing the net profit for the year of RMB36,361,000 (2002 - RMB9,444,000) attributable to shareholders by 163,416,000 shares (2002 - 163,416,000 shares) in issue during the year concerned.

Shenzhen Textile (Holdings) Co., Ltd.

Consolidated balance sheet as at December 31, 2003

	Notes	2003 RMB'000	2002 RMB'000
Non-current assets			
Property, plant and equipment	(12)	218,107	166,618
Investment properties	(13)	101,372	101,372
Construction-in-progress	(14)	7,907	11,565
Intangible assets	(15)	38	58
Interests in associates	(16)	28,262	58,346
Other investments	(17)	82,728	79,170
		<u>438,414</u>	<u>417,129</u>
Current assets			
Inventories	(18)	38,753	55,745
Accounts receivable	(19)	24,375	46,820
Prepayments, deposits and others receivable	(20)	82,201	70,116
Investments in securities	(21)	3,023	6,089
Cash and bank balances		128,166	156,384
		<u>276,518</u>	<u>335,154</u>
Total assets		<u><u>714,932</u></u>	<u><u>752,283</u></u>
Capital and reserves			
Share capital	(22)	163,416	163,416
Reserves		188,449	152,656
		<u>351,865</u>	<u>316,072</u>
Minority interests	(23)	<u>78,787</u>	<u>61,456</u>
Non-current liability			
Long-term loans, non-current portion	(24)	<u>4,200</u>	<u>4,200</u>
Current liabilities			
Long-term loans, current portion	(24)	119,100	140,300
Accounts payable		17,549	56,037
Others payable and accrued expenses		120,407	131,678
Dividend payable	(25)	18,483	18,483
Provision for loss on guarantees	(26)	-	24,000
Provision for taxation		4,541	57
		<u>280,080</u>	<u>370,555</u>
Total equity and liabilities		<u><u>714,932</u></u>	<u><u>752,283</u></u>

The financial statements on pages 2 to 31 were approved and authorised for issue by the board of directors on April 20, 2004 and are signed on its behalf by :

Director

Director

Shenzhen Textile (Holdings) Co., Ltd.

Consolidated statement of changes in equity for the year ended December 31, 2003

	Share capital RMB'000	Negative goodwill RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Statutory surplus reserve RMB'000	Property revaluation reserve RMB'000	Proposed final dividend RMB'000	Accumulated profit/(loss) RMB'000	Total RMB'000
Balance as at January 1, 2002	163,416	7,374	77,738	5,326	13,261	81,639	-	(41,559)	307,195
Amortisation of negative goodwill	-	(567)	-	-	-	-	-	-	(567)
Make-up of accumulated loss	-	-	(39,190)	(5,326)	-	-	-	44,516	-
Net profit for the year	-	-	-	-	-	-	-	9,444	9,444
Appropriations to statutory surplus reserve and statutory public welfare fund	-	-	-	118	59	-	-	(177)	-
Balance as at December 31, 2002	<u>163,416</u>	<u>6,807</u>	<u>38,548</u>	<u>118</u>	<u>13,320</u>	<u>81,639</u>	<u>-</u>	<u>12,224</u>	<u>316,072</u>
Balance as at January 1, 2003	163,416	6,807	38,548	118	13,320	81,639	-	12,224	316,072
Amortisation of negative goodwill	-	(568)	-	-	-	-	-	-	(568)
Net profit for the year	-	-	-	-	-	-	-	36,361	36,361
Appropriations to statutory surplus reserve and statutory public welfare fund	-	-	-	3,409	1,704	-	-	(5,113)	-
Proposed final dividend	-	-	-	-	-	-	29,415	(29,415)	-
Balance as at December 31, 2003	<u>163,416</u>	<u>6,239</u>	<u>38,548</u>	<u>3,527</u>	<u>15,024</u>	<u>81,639</u>	<u>29,415</u>	<u>14,057</u>	<u>351,865</u>

According to the Company's Articles of Association and the PRC's relevant laws and policies as well as after making up the Company's loss, the Company is required to make a transfer at the rate of 10% from the profit after taxation, 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. Again, after making up the loss, the Company is also required to transfer 5% from the profit after taxation to the statutory public welfare fund.

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

- i may be used to make up loss; and
- ii 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 when the statutory surplus reserve is converted into share capital, the amount remaining in the reserve shall be no less than 25% of the newly increased registered capital.

The directors recommend a final dividend of RMB0.18 per share to the shareholders and a bonus share issue of 5 shares per 10 shares each.

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

Prior to making up the Company's loss and the relevant appropriations to the statutory surplus reserve and the statutory public welfare fund, no dividend shall be payable.

Shenzhen Textile (Holdings) Co., Ltd.

Consolidated cash flow statement for the year ended December 31, 2003

	2003	2002
	RMB'000	RMB'000
Cash flow from operating activities		
Operating profit before taxation	42,200	11,851
Adjustment items :		
Depreciation and amortisation	18,690	17,686
Provision for loss on guarantees	-	24,000
Profit on disposal of property, plant and equipment	(565)	(188)
Loss on deemed disposal of subsidiaries	1,697	-
Share of profit from associates	(688)	(1,352)
Profit on disposal of other investments	(3,475)	(3,377)
Provision for impairment loss made/(reversed)		
- property, plant and equipment	-	(20)
- unconsolidated subsidiaries	554	448
- other investments	(2,960)	(4,950)
- investments in securities	12	841
Provision for diminution in value of inventories made/(reversed)	303	(1,395)
Provision for doubtful debts made/(reversed)	(8,520)	2,424
Amortisation of negative goodwill	(568)	(567)
Interest income	(1,860)	(1,623)
Interest expense	7,012	9,973
Net operating cash inflow before movements in working capital	51,832	53,751
Increase in inventories	(1,887)	(12,595)
Increase in accounts receivable	(3,427)	(1,873)
Increase in prepayments, deposits and others receivable	(6,546)	(19,531)
Increase/(decrease) in accounts payable	(17,696)	30,028
Increase in others payable and accrued expenses	15,594	35,111
Decrease in loss on guarantees	(24,000)	-
Cash inflow from operating activities before interest and tax payments	13,870	84,891
Income tax paid	(1,449)	(2,984)
Interest paid	(6,688)	(7,758)
Net cash inflow from operating activities c/f	5,733	74,149

(to be cont'd)

Shenzhen Textile (Holdings) Co., Ltd.

Consolidated cash flow statement for the year ended December 31, 2003

(cont'd)

	Notes	2003 RMB'000	2002 RMB'000
Net cash inflow from operating activities b/f		5,733	74,149
Investing activities			
Interest received		1,860	1,623
Purchases of property, plant and equipment	(	21,905)	(20,257)
Increase in construction-in-progress	(	741)	(2,486)
Proceeds from disposal of property, plant and equipment		791	3,492
Increase in investments in associates		-	(25,000)
Returns from associates received		1,814	2,059
Decrease in amounts due from associates		3,796	1,779
Increase/(decrease) in amounts due to associates		382	(40,595)
Increase in other investments	(	1,175)	(7,241)
Proceeds from disposal of other investments and investments in securities		10,303	6,719
Increase in investments in securities	(	1,033)	(1,990)
Net cash outflow from investing activities		(5,908)	(81,897)
Net cash outflow before financing activities		(175)	(7,748)
Financing activities	(27)		
Decrease in bank and other loans	(	21,200)	(44,514)
Increase/(decrease) in minority interests	(	1,380)	14,759
Net cash outflow from financing activities		(22,580)	(29,755)
Decrease in cash and cash equivalents		(22,755)	(37,503)
Effect on deemed disposal and acquisition of subsidiaries	(28)	(5,463)	-
Cash and cash equivalents as at beginning of the year		156,384	193,887
Cash and cash equivalents as at end of the year		128,166	156,384
Cash and cash equivalents as at end of the year are represented by :			
Cash and bank balances		128,166	156,384

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended December 31, 2003

1. Corporate information

Shenzhen Textile (Holdings) Co., Ltd. (the "Company") is 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 Administration Company, a state owned enterprise established in the PRC. The principal activity of the Company is investment holding and the principal activities of the subsidiaries are set out in note 3.

2. Basis of presentation of the financial statements

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS"). These accounting standards differ from those used in the preparation of the PRC statutory financial statements, which are prepared in accordance with the PRC Accounting Standards. To conform to IFRS, adjustments have been made to the PRC statutory financial statements. Details of the impact of such adjustments on the net asset value as at December 31, 2003 and on the operating results for the year then ended are included in notes 33 and 34 to the financial statements. In addition, apart from property, plant and equipment, investment properties and investments in securities that are valued on valuation less accumulated depreciation or a fair basis, the financial statements have been prepared under the historical cost convention.

3. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and of its subsidiaries (the "Group") made up to December 31 each year. Except for those subsidiaries not consolidated for the reasons stated below, all significant inter-company transactions and balances within the Group have been eliminated on consolidation.

(a) Subsidiaries

A subsidiary is a company in which the Company holds, directly or indirectly, more than 50% of the equity interest as a long-term investment or has the power to cast the majority of votes at meetings of the board of directors/management committee. As at December 31, 2003, the subsidiaries owned by the Company are listed out as follows :

i) *Subsidiaries consolidated*

<u>Company name</u>	<u>Place of establishment/ operation</u>	<u>Effective equity held by the Group</u>	<u>Principal activities</u>
Shenzhen Jinlan Decorative Products Ind. Co.	PRC	100%	Manufacturing of bedding and decorating products
Shenzhen Lisi Industrial & Development Co., Ltd.	PRC	100%	Material supplies

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

3. Basis of consolidation (cont'd)

(a) Subsidiaries (cont'd)

i) *Subsidiaries consolidated (cont'd)*

<u>Company name</u>	<u>Place of establishment/ operation</u>	<u>Effective equity held by the Group</u>	<u>Principal activities</u>
Shenzhen Huaqiang Hotel Ltd.	PRC	100%	Hotel, catering, and business centre operations
Shenfang Building Estate Management Co.	PRC	100%	Property management
Shenzhen Jing Guang Shoes and Hose Co., Ltd.	PRC	100%	Manufacturing and trading of sporting shoes and socks
Shenzhen Zhong Xing Fibre Products Co., Ltd.	PRC	75%	Manufacturing and trading of fibre products
Jiangxi Xuanli Thread Co., Ltd.	PRC	63.87%	Manufacturing and trading of synthetic fibre threads
Shenzhen Mei Bai Nian Garments Co., Ltd.	PRC	60%	Knitting and clothing
Anhui Huapeng Textile Co., Ltd.	PRC	50%	Textile products
Shenzhen Shenfang Import and Export Co., Ltd.	PRC	49%*	Import and export trading of textile
Shenzhen Shenfang-Lucky Photoelectronic Materials Co., Ltd.	PRC	47.95%*	Manufacturing of digital monitor and relevant consumables and parts

* The Group has the power to cast the majority of votes at meetings of the board of directors

ii) *Subsidiaries not consolidated*

<u>Company name</u>	<u>Place of establishment/ operation</u>	<u>Effective equity held by the Group</u>	<u>Principal activities</u>
Shenzhen Dahong Textile Co., Ltd.	PRC	100%	Manufacturing and trading of textile products
Darwin International Co., Ltd.	Hong Kong	100%	Import and export
Shenzhen Feng Sheng Garments Co., Ltd.	PRC	100%	Manufacturing of clothing

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

3. Basis of consolidation (cont'd)

ii) *Subsidiaries not consolidated (cont'd)*

<u>Company name</u>	<u>Place of establishment/ operation</u>	<u>Effective equity held by the Group</u>	<u>Principal activities</u>
Shenzhen Fenghua Zhi Dai Factory Co., Ltd.	PRC	75%	Manufacturing of fasteners

In the opinion of the directors, the above unconsolidated subsidiaries have ceased the business, are under liquidation or are unable to transfer funds to the parent because of the long-term restrictions over their operations. As their operating results and net assets have no significant effect on the Group as a whole, they have not been included in the consolidation. After taking into consideration the expected impairment loss, the investments in above companies are accounted for at cost less provision for diminution in value that is other than temporary.

(b) Associates

An associate is a company, not being a subsidiary, in which the Company holds, directly or indirectly, not less than 20% and not more than 50% equity interest as a long-term investment and is able to exercise significant influence on this company. The associates held by the Company as at December 31, 2003 are shown in note 16 to the financial statements. Except for the associates that are shown in note 17 to the financial statements, investments in associates are accounted for by the Group using the equity method of accounting.

4. Summary of significant accounting policies

(a) Revenue recognition

Revenue is recognised when it is probable that the benefits will flow to the Group and the revenue can be measured reliably, with bases as follows :

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

Rental income : Rental income from investment properties in recognised when the rental is due and receivable.

Hotel service income : Income from hotel services is recognised when services are rendered.

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

4. Summary of significant accounting policies (cont'd)

(b) Property, plant, equipment and depreciation

Such assets are stated at cost/valuation less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, are charged to the consolidated income statement in the period in which they are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditures are capitalised as an additional cost of the assets.

When assets are sold or retired, their cost/valuation and accumulated depreciation are eliminated from the accounts and any profit or loss resulting from their disposal is included in the consolidated income statement.

Depreciation is provided to write off the cost/valuation of depreciable assets, after taking into account of their estimated residual values, over their estimated useful lives on a straight-line basis.

Their estimated useful lives are as follows :

Leasehold lands	Period of land use right
Buildings	35 to 40 years
Leasehold improvements	5 years
Plant and machinery	10 to 14 years
Office equipment	8 years
Transport equipment	8 years

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

Any increase in valuation is credited to the property revaluation reserve; any decrease is first offset against an increase on earlier valuation in respect of the same property and is thereafter charged to operating result.

Upon the disposal of revalued property, the relevant portion of the revaluation surplus realised in respect of previous valuation is released from the property valuation surplus as part of the profit or loss on disposal of such property.

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

4. Summary of significant accounting policies (cont'd)

(c) Investment properties

Investment properties are interests in land and buildings that are held for rental purposes or for their long-term investment potential. In 1993, certain investment properties had been revalued. The directors review their carrying value periodically. Adjustment is made where in the directors' opinion there has been a material change in their fair value. The profit or loss arising from the change in the fair value of the relevant investment properties is dealt with in the consolidated income statement in the period in which it arises.

(d) Construction-in-progress

Construction-in-progress represents the factory and office buildings under construction and is stated at cost. This includes costs of construction, machinery and furniture as well as interest charges and exchange differences arising from borrowings that are used to finance the construction during the construction period. No depreciation is provided on construction-in-progress prior to its completion. However, for construction-in-progress that is pending for further process and is functionally or technologically obsolete, its carrying amount is reduced to its recoverable amount by reference to the impairment loss.

(e) Intangible assets

The cost of trademark and technical know-how is amortised on a straight-line basis over their expected useful lives.

(f) Other investments

Long-term investments are stated at cost less provision for diminution in value that is other than temporary.

(g) 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 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.

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

4. Summary of significant accounting policies (cont'd)

(g) Investments in securities (cont'd)

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.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises direct materials, direct labour and an attributable proportion of production overheads. Net realisable value is determined on the basis of estimated selling prices less further costs expected to be incurred to completion and the related selling and distribution expenses.

(i) Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of these assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from borrowing costs capitalised.

(j) Foreign currency transactions

The PRC group companies maintain their books and records in Renminbi. Foreign currency transactions are translated into Renminbi at the applicable rates of exchange prevailing on the first of January every year. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the applicable rates of exchange prevailing as at the balance sheet date. Exchange differences arising from changes of exchange rates subsequent to the dates of transactions are included in the determination of the current year's results.

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

4. Summary of significant accounting policies (cont'd)

(k) 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 subsidiary or associate 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 of 10 years.

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

(l) Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of subsidiary or associate 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 is 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 recognised 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 recognised as income immediately.

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

(m) Cash equivalents

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

(n) Impairment loss

At each balance sheet date, the Group reviews the carrying amounts of its 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 is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Any impairment loss arising is recognised as an expense immediately.

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

4. Summary of significant accounting policies (cont'd)

(n) Impairment loss (cont'd)

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

(o) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation subsequent to a past event, which will result in a probable outflow of economic benefits that can be reasonably estimated.

(p) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit 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) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that 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.

The carrying amount of deferred tax assets is reviewed as at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

4. Summary of significant accounting policies (cont'd)

(p) Taxation (cont'd)

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

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.

5. Operating income

The analysis of the Group's operating income is as follows :

	2003 RMB'000	2002 RMB'000
Turnover		
Sales of goods	398,336	415,880
Property rental income	38,187	36,495
Hotel operations	5,042	5,105
Property development	10,400	-
	<u>451,965</u>	<u>457,480</u>

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

6. Business and geographical segments

Business segments

Segment information about businesses in 2003 is presented below :

	Sales of goods RMB'000	Leasing RMB'000	Hotel operations RMB'000	Property development RMB'000	Elimination RMB'000	Consolidated RMB'000
External sales	398,336	38,187	5,042	10,400	-	451,965
Intragroup sales	7,110	-	-	-	(7,110)	-
Revenue	<u>405,446</u>	<u>38,187</u>	<u>5,042</u>	<u>10,400</u>	<u>(7,110)</u>	<u>451,965</u>
Gross profit segment result	<u>42,008</u>	<u>38,187</u>	<u>5,042</u>	<u>9,083</u>		<u>94,320</u>

Segment information about businesses in 2002 is presented below :

	Sales of goods RMB'000	Leasing RMB'000	Hotel operations RMB'000	Property development RMB'000	Elimination RMB'000	Consolidated RMB'000
External sales	415,880	36,495	5,105	-	-	457,480
Intragroup sales	2,248	-	-	-	(2,248)	-
Revenue	<u>418,128</u>	<u>36,495</u>	<u>5,105</u>	<u>-</u>	<u>(2,248)</u>	<u>457,480</u>
Gross profit segment result	<u>50,789</u>	<u>36,495</u>	<u>5,105</u>	<u>-</u>		<u>92,389</u>

Geographical segments

The Group's operations are located in PRC, USA and Canada.

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

	2003 RMB'000	2002 RMB'000
PRC	205,791	128,176
USA and Canada	<u>253,284</u>	<u>331,552</u>
	459,075	459,728
Intragroup sales	<u>(7,110)</u>	<u>(2,248)</u>
	<u>451,965</u>	<u>457,480</u>

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

7. Income from investments

	2003 RMB'000	2002 RMB'000
Returns from associates not accounted for under equity method	4,953	9,033
Provision for impairment loss on investments in unconsolidated subsidiaries reversed	-	4,193
Provision for impairment loss on other investments reversed	2,406	4,950
Profit on disposal of other investments	1,743	2,944
Provision for impairment loss on investments in securities	(12)	(841)
Profit on disposal of investments in securities	1,732	433
	<u>10,822</u>	<u>20,712</u>

8. Provision for loss on guarantees

	2003 RMB'000	2002 RMB'000
Provision for loss on guarantees	<u>702</u>	<u>24,000</u>

The Company has given guarantees to certain banks in favour of a subsidiary held by Shenzhen Investment Administration Company, namely Guangdong Sunrise Holdings Company Limited (formerly known as Shenzhen Lionda Holdings Company Limited) in respect of the utilised banking facilities. As the financial position of Guangdong Sunrise Holdings Company Limited is worsening and the relevant loans are overdue, it is uncertain if this company will be able to settle the aforesaid loans in full. The Company is held responsible for the repayment obligations and has therefore made payment or provision on such loss.

9. Finance costs

	2003 RMB'000	2002 RMB'000
Interest expense	7,012	9,973
Bank charges	207	1,376
Exchange loss	-	94
	<u>7,219</u>	<u>11,443</u>

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

10. Profit before taxation

The Group's profit before taxation is arrived at after charging and after crediting :

	2003	2002
	RMB'000	RMB'000
After charging :		
Interest expense	7,012	9,973
Depreciation and amortisation	18,690	17,686
Provision for doubtful debts	-	2,424
Provision for diminution in value of inventories	303	-
Provision for impairment loss on investments in securities	12	841
Staff costs	40,851	31,389
Exchange loss	-	94
	<u> </u>	<u> </u>
And after crediting :		
Interest income	1,860	1,623
Profit on disposal of property, plant and equipment	565	188
Provision for impairment loss on property, plant and equipment reversed	-	20
Profit on disposal of other investments	1,743	2,944
Provision for impairment loss on other investments reversed	2,406	4,950
Provision for diminution in value of inventories reversed	-	1,395
Provision for doubtful debts reversed	8,520	-
Profit on disposal of investments in securities	1,732	433
Exchange gain	33	-
Amortisation of negative goodwill	568	567
	<u> </u>	<u> </u>

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

11. Taxation

PRC income tax has been provided at the applicable rates based on the assessable profit in the PRC for the year as calculated in accordance with Accounting Principles and Tax Law of PRC.

	2003	2002
	RMB'000	RMB'000
Income tax		
Company and subsidiaries	5,244	2,745
Deferred taxation	-	-
	<u>5,244</u>	<u>2,745</u>

The reconciliation between tax expense and accounting profit is as follows :

	2003	2002
	RMB'000	RMB'000
Profit before taxation	<u>42,200</u>	<u>11,851</u>
Tax at the income tax rate of 15% (2002 - 15%)	6,330	1,778
Tax effect of disallowable expenses	-	109
Tax effect of non-taxable revenue	(1,888)	(1,240)
Effect of different tax rates of subsidiaries operating in different jurisdictions	<u>802</u>	<u>2,098</u>
Actual tax expense	<u>5,244</u>	<u>2,745</u>

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

12. Property, plant and equipment

	Land and buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Transport equipment RMB'000	Total RMB'000
Cost/valuation						
Balance as at January 1, 2003	158,184	19,701	71,423	9,215	7,022	265,545
Deemed acquisition of a subsidiary	-	-	47,667	1,127	248	49,042
Transfer from construction-in-progress	4,227	-	-	-	-	4,227
Additions	5,849	2,114	12,951	821	170	21,905
Deemed disposal of subsidiaries	(3,806)	-	(948)	(1,139)	(474)	(6,367)
Disposals	(12)	-	-	-	(290)	(302)
Balance as at December 31, 2003 (*)	164,442	21,815	131,093	10,024	6,676	334,050
Accumulated depreciation						
Balance as at January 1, 2003	(47,750)	(10,755)	(30,398)	(5,683)	(4,341)	(98,927)
Deemed acquisition of a subsidiary	-	-	(1,676)	(14)	(7)	(1,697)
Charged for the year	(6,899)	(4,563)	(6,341)	(170)	(697)	(18,670)
Deemed disposal of subsidiaries	1,673	-	710	583	309	3,275
Disposals	-	-	-	-	76	76
Balance as at December 31, 2003	(52,976)	(15,318)	(37,705)	(5,284)	(4,660)	(115,943)
Net book value						
Balance as at December 31, 2003	111,466	6,497	93,388	4,740	2,016	218,107
Balance as at December 31, 2002	110,434	8,946	41,025	3,532	2,681	166,618
(*) Representing						
At cost	69,496	21,815	108,630	10,024	4,277	214,242
At revaluation	94,946	-	22,463	-	2,399	119,808
	164,442	21,815	131,093	10,024	6,676	334,050

Certain 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 December 31, 1994 was credited to property revaluation reserve. The directors are of the opinion that the carrying value of these revalued assets as at December 31, 2003 approximates the open market value since 1994.

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

13. Investment properties

	2003 RMB'000	2002 RMB'000
Cost/valuation	<u>101,372</u>	<u>101,372</u>

Certain investment properties 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 investment properties by approximately RMB37,345,000 as at December 31, 1994 was credited to property revaluation reserve. The directors are of the opinion that the carrying value of the investment properties as at December 31, 2003 approximates to the market value since 1994.

14. Construction-in-progress

	2003 RMB'000	2002 RMB'000
Cost		
Balance as at January 1, 2003	11,565	11,504
Deemed acquisition of a subsidiary	1,145	-
Additions	741	2,486
Transfer to property, plant and equipment	(4,227)	(2,425)
Transfer to other assets	(1,317)	-
Balance as at December 31, 2003	<u>7,907</u>	<u>11,565</u>

15. Intangible assets

	2003 RMB'000	2002 RMB'000
Trademark and technical know-how, at cost	118	118
Amortisation	(80)	(60)
	<u>38</u>	<u>58</u>

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended December 31, 2003

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16. Interests in associates

	2003 RMB'000	2002 RMB'000
Share of net assets	24,798	50,015
Premium in associates	6,890	6,890
Amortisation of premium	(4,134)	(3,445)
	2,756	3,445
Amounts due from associates	27,554	53,460
Amounts due to associates	2,151	5,947
	(1,443)	(1,061)
Interests in associates	28,262	58,346

As at December 31, 2003, the details of the principal associates are listed out as follows :

<u>Company name</u>	<u>Place of establishment/ operation</u>	<u>Effective equity held by the Group</u>	<u>Principal activities</u>
Shenzhen China East Electronics Co., Ltd.	PRC	50%	Manufacturing of electronic toys
Shenzhen Label Weaving Factory Co., Ltd.	PRC	50%	Manufacturing and trading of label tags
Shenzhen Tianlong Industrial and Trading Co., Ltd.	PRC	50%	Manufacturing and trading of health balls, foodstuffs and textile related products
Shenzhen Xieli Automobile Co., Ltd.	PRC	50%	Motor vehicle repair and maintenance services
Longwell Development Printing and Dyeing Co., Ltd.	PRC	40.25%	Processing of corduroy
Shenzhen Top Form Underwear Co., Ltd.	PRC	30%	Manufacturing and trading of ladies underwear

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended December 31, 2003

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17. Other investments

	2003 RMB'000	2002 RMB'000
Subsidiaries not consolidated, at cost	14,425	12,683
Associates not accounted for under equity method, at cost	58,027	65,401
Listed shares, at cost	41,428	41,428
Unlisted shares, at cost	24,555	29,490
	<u>138,435</u>	<u>149,002</u>
Provision for impairment loss	(55,707)	(69,832)
	<u><u>82,728</u></u>	<u><u>79,170</u></u>

As at December 31, 2003, the details of the subsidiaries not consolidated are listed out as follows :

<u>Company name</u>	<u>Place of establishment/ operation</u>	<u>Effective equity held by the Group</u>	<u>Principal activities</u>
Shenzhen Dahong Textile Co., Ltd.	PRC	100%	Manufacturing and trading of textile products
Darwin International Co., Ltd.	Hong Kong	100%	Import and export
Shenzhen Feng Sheng Garments Co., Ltd.	PRC	100%	Manufacturing of clothing
Shenzhen Fenghua Zhi Dai Factory Co., Ltd.	PRC	75%	Manufacturing of fasteners

In the opinion of the directors, the above unconsolidated subsidiaries have ceased the business, are under liquidation or are unable to transfer funds to the parent because of the long-term restrictions over their operations. As their operating results and net assets have no significant effect on the Group as a whole, they have not been included in the consolidation. After taking into consideration the expected impairment loss, the investments in above companies are accounted for at cost less provision for diminution in value that is other than temporary.

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

17. Other investments (cont'd)

Associates not accounted for by the Group using the equity method of accounting are listed out as follows :

<u>Company name</u>	<u>Place of establishment/ operation</u>	<u>Effective equity held by the Group</u>	<u>Principal activities</u>
Shenzhen Kunhwa Dyeing Co., Ltd.	PRC	45%	Dyeing
Mirage (Saipan) Co., Ltd.	Commonwealth of Northern Mariana Islands	35%	Manufacturing and trading of apparel
Yie Hui Clothing Factory Co., Ltd.	Jordan	35%	Not yet commenced business
Chengdu Kanpeng Real Estates Development Co., Ltd.	PRC	30%	Real property development
Shenzhen Hualian Fangzhi (Holding) Co., Ltd.	PRC	20%	Investment holding
Shenzhen Xin Fang Textile Factory Co., Ltd.	PRC	20%	Textile products
Shenzhen Xiang Jiang Leather Product Co., Ltd.	PRC	20%	Leather products

As the Group cannot exercise significant influence on the above companies, they are not accounted for by the equity method of accounting. After taking into consideration the expected impairment loss, investments in above companies are accounted for at cost less provision for diminution in value that is other than temporary.

18. Inventories

	2003 RMB'000	2002 RMB'000
Raw materials	9,324	15,293
Work-in-progress	10,015	12,012
Finished goods	24,457	33,608
Provision for inventory obsolescence	(5,043)	(5,168)
	<u>38,753</u>	<u>55,745</u>

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended December 31, 2003

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19. Accounts receivable

	2003 RMB'000	2002 RMB'000
Amounts receivable	27,038	49,646
Provision for doubtful debts	(2,663)	(2,826)
	<u>24,375</u>	<u>46,820</u>

20. Prepayments, deposits and others receivable

	2003 RMB'000	2002 RMB'000
Advance payments	21,978	23,275
Prepayments	156	104
Others receivable	87,956	83,002
	<u>110,090</u>	<u>106,381</u>
Provision for doubtful debts	(27,889)	(36,265)
	<u>82,201</u>	<u>70,116</u>

21. Investments in securities

	2003 RMB'000	2002 RMB'000
Marketable securities in the PRC, at cost	3,114	8,122
PRC Government bonds, at cost	98	98
	<u>3,212</u>	<u>8,220</u>
Provision for impairment loss	(189)	(2,131)
	<u>3,023</u>	<u>6,089</u>

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended December 31, 2003

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22. Share capital

	2003	2002
	RMB'000	RMB'000
Registered, issued and fully paid capital, at par value of RMB1 each		
108,332,000 (2001 - 108,332,000) domestic shares	108,332	108,332
22,084,000 (2001 - 22,084,000) "A" shares	22,084	22,084
33,000,000 (2001 - 33,000,000) "B" shares	33,000	33,000
	<u>163,416</u>	<u>163,416</u>

23. Minority interests

	2003	2002
	RMB'000	RMB'000
Minority interests	78,396	60,071
Dividend payable to minority interests	391	1,385
	<u>78,787</u>	<u>61,456</u>

24. Short-term and long-term loans

	2003	2002
	RMB'000	RMB'000
Bank loans, secured	112,760	91,500
Bank loans, pledged	640	-
Bank loans, guaranteed	-	48,000
Bank loans, unsecured	5,000	-
Other loans, secured	4,700	4,800
Others payable	200	200
	<u>123,300</u>	<u>144,500</u>
Portion classified under current liabilities	<u>(119,100)</u>	<u>(140,300)</u>
Long-term portion	<u>4,200</u>	<u>4,200</u>

The bank loans bear interest at various rates ranging from 4.3365% to 4.8675% (2002 - from 4.8675% to 5.3625%) per annum.

The interest rate of other loans is 9.63% (2002 - 9.63%) per annum.

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended December 31, 2003

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25. Dividend payable

It represents dividend payable to the ultimate holding company, Shenzhen Investment Administrative Company with a sum of RMB18,483,000 (2002 - RMB18,483,000).

26. Contingent liabilities

As at December 31, 2003, the Group had the following contingent liabilities :

	2003 RMB'000	2002 RMB'000
Guarantees to bankers :		
in favour of a fellow subsidiary	3,991	86,100
provision for loss on guarantees	-	(24,000)
relief in accordance with agreements	(3,991)	-
	<u>-</u>	<u>62,100</u>

27. Cash flow from financing

	Bank & other loans RMB'000	Minority interests RMB'000
Balance as at beginning of the year	144,500	61,456
Cash flows from financing activities	(21,200)	(1,771)
Dividend payable to minority interests	-	391
Net increase by deemed disposal and acquisition of subsidiaries	-	18,116
Profit attributable to minority interests	-	595
	<u>123,300</u>	<u>78,787</u>
Balance as at end of the year	<u>123,300</u>	<u>78,787</u>

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended December 31, 2003

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28. Net assets value of deemed disposal and acquisition of subsidiaries

	Deemed disposal of subsidiaries RMB'000	Deemed acquisition of subsidiary RMB'000
Property, plant and equipment	3,092	47,345
Construction-in-progress	-	1,145
Inventories	21,346	1,453
Accounts receivable	30,060	4,041
Prepayments, deposits and others receivable	3,050	216
Cash and bank balances	9,231	3,768
Accounts payable	(25,478)	(4,686)
Others payable and accrued expenses	(30,535)	(3,720)
Provision for taxation	687	(2)
	<u>11,453</u>	<u>49,560</u>
Minority interests	(6,664)	(24,780)
Share of net assets	4,789	24,780
Net book value	<u>(3,092)</u>	<u>(24,780)</u>
Loss on deemed disposal of subsidiaries	<u>1,697</u>	<u>-</u>

29. Related party transactions

During the year, the Group had the material transactions with related parties with details as follows :

Related party	Transactions	2003 RMB'000	2002 RMB'000
Shenzhen Tianlong Industrial Trading Co., Ltd.	Sales	13,376	12,843
	Interest income	194	210
	Purchases	2,500	-
Mirage (Saipan) Co., Ltd.	Purchases	-	46,885
Business Faith International Co., Ltd.	Interest income	311	-
Shenzhen Xin Fang Textile Factory Co., Ltd.	Interest income	566	-
Shenzhen Xiang Jiang Leather Product Co., Ltd.	Interest income	58	77
Shenzhen Investment Administration Company	Interest expense	385	459

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended December 31, 2003

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30. Assets held under security

As at December 31, 2003, the Group had used its buildings and investment properties with a total fair value of RMB118,438,000 (2002 - RMB117,406,000) as security to the banks for the general banking facilities.

31. Financial instruments

The financial assets of the Group include cash and bank balances, investments in securities, accounts receivable, prepayments, deposits and others receivable. The financial liabilities include bank and other loans, accounts payable, others payable and accrued expenses.

(a) Credit risk

Cash and bank balances : The Group's bank balances are mainly deposited in the banks and financial institutions situated in the PRC. They do not have a significant exposure to credit risk.

Accounts receivable : As adequate provision has been made, the Group does not have a significant exposure to any individual customer or counterpart. The major concentrations of credit risk arise from exposures to a substantial number of accounts receivable that are mainly located in the PRC.

(b) Fair value

The fair value of financial assets and financial liabilities is not materially different from their carrying amount.

The carrying value of short-term borrowings is estimated to approximate its fair value based on the borrowing terms and rates of similar loans.

The fair value of long-term borrowings is estimated, by applying discounted cash flow method using the market interest rates for similar financial instruments, to approximate its carrying value.

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties on matters of significant judgement, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended December 31, 2003

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32. Ultimate holding company

In the opinion of the directors, the ultimate holding company of the Group is Shenzhen Investment Administrative Company, a state-owned enterprise established in the PRC.

33. Impact of IFRS adjustments on profit attributable to shareholders

	2003 RMB'000	2002 RMB'000
As reported by PRC Certified Public Accountants	34,086	1,180
Adjustments to conform to IFRS :		
Over-provision of depreciation of investment properties reversed	2,346	2,346
Amortisation of negative goodwill	568	567
Provision for impairment loss on unconsolidated subsidiaries reversed	166	2,854
Loss on deemed disposal of subsidiaries	(1,697)	-
Loss for subsidiaries in prior years reversed	-	1,786
Amortisation of intangible assets	788	789
Others	104	(78)
	<u>36,361</u>	<u>9,444</u>
As restated in conformity with IFRS		

34. Impact of IFRS adjustments on net asset value

	2003 RMB'000	2002 RMB'000
As reported by PRC Certified Public Accountants	338,937	304,747
Adjustments to conform to IFRS :		
Over-provision of depreciation of investment properties reversed	18,144	15,798
Provision for impairment loss on unconsolidated subsidiaries	166	-
Loss on deemed disposal of subsidiaries	(1,697)	-
Amortisation of intangible assets	(3,685)	(4,473)
	<u>351,865</u>	<u>316,072</u>
As restated in conformity with IFRS		

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended December 31, 2003

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35. Language

The translated English version of the financial statements is for reference only. Should any disagreement arise, the Chinese version shall prevail.

36. Comparative figures

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