Shenzhen Textile (Holdings) Co., Ltd.
Annual Report 2003 (B)

April ,2004

Contents

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Annual Report 2003 (B)

Important notes：The Board of Directors and the directors of the Company hereby warrant 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.

Mr. Guan Tongke, the board chairman of the Company, Mr. Liu Junhou, the general manger of Company, and Mr Liu Yi, the director of Finance Dept. represent and warrant the financial report in this annual report is true and complete.

I. Brief Introduction of the Company

(I) Statutory Name of the Company

In Chinese : ? ? ? ? ? (? ?) ? ? ? ? ? ?

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 Jin

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

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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

(VII) Other Relevant Information

The date when and the place where the Company made its first registration: August 1994

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

Registration No. of Legal Entity Business License: 4403011013060

Tax Registration No.: 44030111001108

Certified public accountants retained by the Company:

Name: Shenzhen Pengcheng Certified Public Accountants

Business address: 5/F, Baofeng Building, No. 28, Dongmen South Road, Shenzhen, China

Name: K.C. Oh & Co.

Business address: Room 1, 8/F, New Xianli Building, No. 10 Xuechang Street, Central, Hong Kong

II. Highlights of Accounting Data and Business Data

1. Main accounting data

Unit: RMB'000

	2003 (the report year)	2002 (the previous year)	Increase/decrease (%)
Turnover	451965	457480	-1.21
Before-tax profit	42200	11851	256.09
Profit for the year	36361	9444	285.0
	End of 2003 (End of report year)	End of 2002 (End of previous year)	Increase/decrease (%)
Total assets	715306	752283	-4.92
Shareholders' equity	351864	316072	11.32
Net cash inflow from operating activities	5721	74149	-92.28

2.Main financial indicators

Unit: RMB'000

	2003 (the report year)	2002 (the previous year)	Increase/decrease (%)
Earnings per share	0.223	0.058	284.48
Return on net assets	10.3 3	2.99	245.48

Net cash inflow per share from operating activities	0.04	0.45	-91.11
	End of 2003 (End of report year)	End of 2002 (End of previous year)	Increase/decrease (%)
Net assets per share	2.15	1.93	11.40

Pursuant to the financial report audited by Chinese C.P.A., the net profit of the Company is RMB 34,086,000 and its shareholders' equity is RMB 338,937,000.

III. Particulars about the Changes of Share Capital and Shareholders

I Schedule of Change in Share Capital Unit: shares

	Before this change	Increase/decrease this time (+ , -)	After this change
I. Non-negotiable shares			
1. Promoter's shares	108, 240, 000		108, 240, 000
Including：			
State-owned shares	108, 240, 000		108, 240, 000
Domestic 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) Particulars about the issuing and listing of shares

After approval on July 1994, the Company issued 13 million A shares to the public in China, 3.8 million shares to its staff and 25 million B shares to overseas investors. A shares and B shares were listed on August 15, 1994. Staff shares were approved to be listed on February 22, 1995.

After the distribution of bonus shares in 1995 and capitalization of common reserve fund in 1997, the total share capital of the Company is 163.416 million shares.

The total number and structure of the shares of the Company remained unchanged in the report period.

After approval, the Company issued 3.8 million staff shares at the price of RMB 3.9 per share in June 1994. The staff shares were approved to be listed in February 1995. As of December 31, 2002, the senior executives of the Company held 79,620 shares. The trusted organ of the staff shares is China Securities Registration Settlement Co., Ltd. Shenzhen Branch.

(III) Introduction to Shareholders

1. As of December 31, 2003, the Company had 20,822 shareholders in total including one shareholder of state-owned shares, 12, 196 shareholders of A shares and 8, 625 shareholders of B shares.

2. Particulars of the shareholding of the top ten shareholders as of December 31, 2003

No.	Name of shareholder	Change in the year	Quantity of shares held (shares)	Type of share	Quantity of shares frozen (shares)	Proportion to total share capital (%)
1	Shenzhen Investment Management Co.		108,240,000	State shares	0	66.24
2	Zhuang Meili		391,669	A	0	0.24
3	Victor Onward Printing & Dyeing (HK) Co., Ltd.		370,000	B	0	0.23
4	Shanghai Chengkai (Group) Co., Ltd.		293,445	A	0	0.18
5	Xiao Shenggen		268,660	A	0	0.16
6	Zhou Jianguo		254,541	A	0	0.16
7	Liu Jinqun		230,095	B	0	0.14
8	Chen Jundi		186,720	A	0	0.11
9	Cai Yaqin		174,665	A	0	0.11
10	Shanghai Chengjiu Investment Development Co., Ltd.		169,977	A	0	0.10

Among the above shareholders, the one holding shares on behalf of the state is Shenzhen Investment Management Co. No. 3 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.

Among the above top ten shareholders, state-owned corporate shareholder Shenzhen Investment Management Co., Ltd. is not related to other shareholders. The Company does not know whether there is related relation between social public shareholders or whether they are persons taking concerted action defined in Regulations on Disclosure of Information about Shareholding of Shareholders of Listed Companies.

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. Registered capital: RMB 2 billion. It is a solely state-owned company in Shenzhen. 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.

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.

5. Particulars of the shareholding of the top ten **Negotiable** shareholders as of December 31, 2003

No.	Name of shareholder	Quantity of shares held (shares)	Type of share
1	Zhuang Meili	391,669	A
2	Victor Onward Printing & Dyeing (HK) Co., Ltd.	370,000	B
3	Shanghai Chengkai (Group) Co., Ltd.	293,445	A
4	Xiao Shenggen	268,660	A
5	Zhou Jianguo	254,541	A
6	Liu Jinqun	230,095	B
7	Chen Jundi	186,720	A
8	Cai Yaqin	174,665	A
9	Shanghai Chengjiu Investment Development Co., Ltd.	169,977	A
10	Xiao Lizhu	167,000	B

The Company did not know whether the above shareholders had relation.

IV. Particulars about directors, supervisors, senior executives and employees

(I). Introduce

Name	**Sex**	**Age**	**Title**	**Date of starting and ending**	Shares held at year-beginning	Shares held at year-end
Guan Tongke	**Male**	**56**	Board chairman	2003.6.30—2006.6.29	37,200	37,200
Liu Junhou	**Male**	**45**	Director, General Manager	2003.6.30—2006.6.29	0	0
Li Jingqiang	**Male**	**51**	Director	2003.6.30—2006.6.29	30000	30000
Zhu Dahua	**Male**	**36**	Director,	2003.6.30—2006.6.29	0	0

			chief accountant			
Yang Jichao	**Male**	**49**	Independent director	2003.6.30—2006.6.29	0	0
Liu Xiangqing	**Male**	**42**	Independent director	2003.6.30—2006.6.29	0	0
Huang Hui	**Male**	**39**	Independent director	2003.6.30—2006.6.29	0	0
Gao Zhuofu	**Male**	**51**	Chairman of Supervisory Committee	2003.6.30—2006.6.29	0	0
Guo Jianhua	**Female**	**48**	Supervisor	2003.6.30—2006.6.29	0	0
Feng Junbin	**Male**	**41**	Supervisor	2003.6.30—2006.6.29	0	0
Zhou Dadong	Male	**57**	Deputy GM	2003.6.30—2006.6.29	0	0
Zhu Jun	Male	**40**	Deputy GM	2003.6.30—2006.6.29	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 annual remuneration of the current directors, supervisors and senior executives of the Company is RMB 2.9665 million. The total annual remuneration of the top three directors receiving the annual remuneration of the highest amount is RMB 1.445 million. The total annual remuneration of 2 senior executives is RMB 0.6672 million. The number of persons whose annual remuneration is RMB 0.5 - 0.54 million: 2; The number of persons whose annual remuneration is RMB 0.35-0.50 million: 2; The number of persons whose annual remuneration is RMB 0.3-0.35 million: 4 persons. Each independent director receives subsidy of RMB 50,000 from the Company each year.

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

In the report period, director Mr. Sun Furen and supervisor Mr. Lu Yitong did not act as director and supervisor of the Company due to retirement. Independent director Mr. Hua Yongshi did not act as independent director of the Company after reelection due to service for two consecutive terms. The supervisory committee of the Company agreed to the resignation of Mr. Feng Junbin from the position of supervisor for sake of work and the submission of the application for resignation to the next shareholders' general meeting for examination.

In the report period, the Company appointed Mr. Liu Junhou as the general manager of the Company, Mr. Zhou Dadong, Mr. Feng Junbin and Mr. Zhu Jun as the deputy general managers of the Company, Mr. Liu Yi as the manager of Finance Dept. of the Company and

Ms Chao Jin as the secretary to the board of directors of the Company.

(IV) Staff

As of December 31, 2003, the Company had 656 staff members in total, including 350 production employees, 104 sales employees, 64 technical employees, 33 financial employees and 105 administrative employees. Among the employees, 16 hold Master's degree or above, 129 are graduates of universities and junior colleges and 13 have education of technical secondary school. The number of retired staff was 80.

V. THE CONTROL STRUCTURE OF THE COMPANY

(I) Corporate administration structure

The Company has constantly improved its corporate administration structure, formulated and improved corporate system and made its operation more standardized according to the requirements of the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China and relevant laws and regulations of CSRC.

1. Shareholder and shareholders' general meeting: In the report period, the Company held a shareholders' general meeting. The convening and holding procedure, the qualification of attendees and the voting procedure complied with relevant regulations.

2. The relationship between the controlling shareholder and the Company: The controlling shareholder of the Company holds 66.24% of the total shares of the Company. In the report period, it provided strong support to the Company's work, actively coordinated relevant work, exercised shareholders' rights and assume shareholders' obligations according to law and played active role in promoting the Company's development. In the report period, the Company implemented Provisional Regulations on Management of Property Right Representative, Provisional Regulations on Management of Chairman of The Supervisory Committee and Enforcement Regulations on Management of Financial Controller formulated by the controlling shareholder. The implementation of the above regulations had no negative influence on the Company's production and operation. The Company will further standardize its operation, fully listen to the opinions of middle and small shareholders and give full play to the functions of independent directors.

3. Directors and the board of directors: In the report period, the Company reelected the board of directors according to the procedure specified in the Articles of Association of the Company. The number and composition of directors comply with relevant regulations. The members of the board of directors are able to perform their duties diligently.

4. Supervisors and the supervisory committee: In the report period, the Company reelected the supervisory committee according to the procedure specified in the Articles of Association of the Company. The number and composition of supervisors comply with relevant regulations. The members of the supervisory committee are able to independently

and effectively conduct supervision and inspection.

5. Performance appraisal and stimulation and restriction mechanism: The Company appraises and stimulates its senior executives mainly according to the Provisional Regulations on Annual Salary System for the Operators of State-owned Enterprises in Shenzhen and its regulations on wage management.

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 designated the secretary to the board of directors to be responsible for information disclosure and the reception of shareholders and investors according to Regulations on Management of Information Disclosure. The Company is able to truly, accurately, completely and timely disclose relevant information and drawn up Regulations on Management of Investors' Relationship.

(II) In the report period, the Company elected 3 independent directors, who account for 43% of the total directors of the Company. They are experts in the fields of textile, law and accounting respectively. They were able to perform their duties seriously, attended three board meetings and expressed independent opinions on the appointment and dismissal of senior executives, 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 announcement of 2002 annual shareholders’ general meeting of the Company was published on Shanghai Securities Daily and Hong Kong Commercial Daily on May 30, 2003. The meeting was held at the meeting room of the Company on 6/F of Shenfang Building of June 30, 2003.10 shareholders and their proxies attended the meeting, representing 108,362, 720 shares that account for 66.31% of the total shares of the Company. 9 shareholders of A Shares attended the meeting, representing 108,339,229 shares that account for 66.30% of the total shares of the Company.1 shareholders of B Shares attended the meeting, representing 24,220 shares that account for 0.01 % 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. The meeting was presided over by chairman of the board of directors Mr. Guan Tongke.

(II) 2002 annual shareholders' general meeting of the Company adopted the following resolutions:

1.2002 work report of the board of directors of the Company;

2.2002 work report of the supervisory committee of the Company;

3.2002 final accounting report of the Company

4.2002 profit distribution plan of the Company;

5. The resolution for engaging auditing organ for the Company in 2003;

6. The resolution for amending part of the Articles of Association of the Company;

7. The resolution concerning the subsidy of independent directors;

8. Electing Guan Tongke, Liu Junhou, Li Jingqiang and Zhu Dahua as directors of the third board of directors of the Company and Yang Jichao, Liu Xiangqing and Huang Hui as independent directors of the third board of directors of the Company;

9. Electing Gao Zuofu and Feng Junbin as the supervisors of the third supervisory committee of the Company (Guo Jianhua is a supervisor elected by the congress of workers and staff of the Company).

The above resolutions were published on Shanghai Securities Daily and Hong Kong Commercial Daily on July 1, 2003.

VII. REPORT OF THE BOARD OF DIRECTORS

(I) Operating status of the Company

1. The scope of the Company's main operation and its operating status

The income earned by the Company in 2003 was RMB 451.964 million, a decrease of 1.2% over the same period of the previous year. Its net profit was RMB 36.361 million, an increase of 285% over the same period of the previous year. With the provision of RMB 24 million for contingent liabilities in the same period of the previous year being deducted, the net profit increased by 8.7% over the same period of the previous year mainly due to the Company's strengthening of business management, expansion of marketing channels and effective expense control.

Industry: in the report period, the income of the Company from the manufacturing industry was RMB 191.273 million, an increase of 209.5% over the same period of the previous year. The total profit from manufacturing industry was RMB - 0.61 million. The loss decreased by RMB 4.05 million over the same period of the previous year.

Trade: In the report period, the income and total profit of the Company from trade were RMB 214.173 million and RMB 8.47 million respectively, which decreased by 39% and 11.9% respectively over the same period of the previous year mainly due to the exclusion of the statements of Yehui International Co., Ltd. from the consolidation scope.

Property lease and hotel business: The Company owns Shenfang Building and other properties including commercial stalls, factory buildings, office buildings and warehouses for lease. In the report period, the income of the Company from property lease, warehousing and hotel business was RMB 43.229 million, which increased by RMB 2.879 million over the same period of the previous year.

Real estate industry: In the report period, the Company developed Shenzhen Yinlu Apartment through cooperation and earned income of RMB 10.40 million.

2. Operating status and results of main controlled subsidiaries and joint ventures

With registered capital of RMB 20 million and total assets of RMB 32.87 million, Shenzhen Beauty Century Garment Co., Ltd. is engaged in production entirely-electronic figured full-shaped knitted garments. It earned net profit of RMB 1.37 million in 2003.

With registered capital of RMB 50 million and total assets of RMB 57.50 million, Anhui Huapeng Textile Co., Ltd. is mainly engaged in production, bleaching, printing, dyeing and sales of yarns. It earned net profit of RMB 0.82 million in 2003.

With registered capital of RMB 20 million and total assets of RMB 29.70 million, Jiangxi Xuanli Yarn Industry Co., Ltd. is engaged in production of various stitch yarns and knitted garments. It earned net profit of RMB 0.39 million in 2003.

With registered capital of RMB 5 million and total assets of RMB 23.24 million, Shenzhen Shenfang Import and Export Co., Ltd. is engaged in export and import business. It earned net profit of RMB 1.23 million in 2003.

With registered capital of RMB 1.6 million and total assets of RMB 4.06 million, Shenfang Property Management Co., Ltd. is mainly engaged in property lease and management. In 2003, the property occupancy rate was 95% and it earned income of RMB 5.74 million from management fee.

With registered capital of RMB 3.54 million and total assets of RMB 16.13 million, Shenzhen Jinlan Decorative Articles Industrial Co., Ltd. is mainly engaged in production of bedroom articles series. It earned net profit of RMB 0.1 million in 2003.

With registered capital of RMB 2.14 million and total assets of RMB 13.46 million, Shenzhen Lisi Industrial Co., Ltd. is mainly engaged in property lease and management. In 2003, the property occupancy rate was 100% and it earned net profit of RMB 0.69 million.

With registered capital of RMB 10 million and total assets of RMB 11.86 million, Shenzhen Huaqiang Hotel is mainly engaged in guest room and restaurant business. In 2003, the average occupancy rate was 65% and it earned net profit of RMB 0.22 million.

With registered capital of RMB 1.68 million and total assets of RMB 2.12 million, Shenzhen Zhongxing Fibre Folds Cotton Clothing Ornament Co., Ltd. is engaged in producing fiber fold cotton and relevant products. In 2003, it suffered loss of RMB 1.52 million mainly due to the disposal of inventories.

With registered capital of RMB 7.2 million and total assets of RMB 10.98 million, Shenzhen Jingguang Footwear Co., Ltd. is engaged in producing footwear products. In 2003, it suffered loss of RMB 0.76 million mainly due to the disposal of inventories.

With registered capital of RMB 68 million and total assets of RMB 73.66 million, Shenzhen Shenfang Lekai Photoelectronic Materials Co., Ltd. is engaged in producing polarizer sheet products for LCD. In 2003, it suffered loss of RMB 1.01 million. The loss decreased by RMB 3.29 million over the same period of the previous year.

With registered capital of RMB 1.6 million and total assets of RMB 4.06 million, Shenfang Property Management Co., Ltd. is mainly engaged in property lease and management. In 2003, the property occupancy rate was 95% and it earned income of RMB 5.74 million from management fee. The income and expenses were basically balanced.

3. Main suppliers and customers

The total amount of purchase from the top five suppliers accounted for 26.93% of the total purchase amount of the year. The total amount of sales to the top five customers accounted for 36.58% of the total sales amount of the Company.

4. Problems and difficulties occurred in operation and their solutions

Due to the influence of SARS, the foreign customers of the Company postponed the placing of production orders and property tenants terminated contracts in advance or required termination of lease or rent reduction while the occupancy rate of hotels lowered in the operation period. The operation of the Company was adversely affected. To settle the above problems, the Company took the following measures: (1) It dealt with SARS with positive attitude and assisted related enterprises in strengthening market development and sales management. (2) It sought various channels of letting and shortened the time of vacancy to minimize the influence of SARS. (3) It practiced budget management and strengthened expense control. The selling expenses, financial expenses and administrative expenses decreased by 27% over the same period of the previous year.

(II) The investment of the Company

1. The Company did not raise funds in the report period.

2.In the report period, the Company invested RMB 5.76 million in acquiring additional 28.8% equity of Jiangxi Xuanli Yarn Industry Co., Ltd. After the acquisition, the Company held 63.8% equity of this company (35% before the acquisition). The Company invested RMB 6 million in constructing phase-II project of Shenzhen Beauty Century Garment Co., Ltd. The production and operation of the above two enterprises were normal in the report period.

(III) Analysis of the financial position and operating results of the Company

1. Analysis of the financial position and operating results of the Company

As of December 31, 2003, total assets of the Company were RMB 715.306 million, which decreased by 4.92% over the same period of the previous year mainly due to the repayment of bank loans, repayment of borrowings of others as a result of performing guarantee liability and payment of arrears.

Its shareholders' equity was RMB 351.865 million, an increase of 11.32% over the same period of the previous year mainly due to the increase of profit.

The net profit for the report year was RMB 36.361 million, an increase of 285.02% over the same period of the previous year. With the provision of RMB 24 million for contingent liabilities in the same period of the previous year being deducted, the net profit increased by 8.7% over the same period of the previous year mainly due to the Company's strengthening of business management, expansion of marketing channels and effective expense control.

The net decrease of cash and cash equivalents was RMB 22.755 million, which was mainly caused by the settlement of debts including bank loans in the report period.

2. The reason for the change of profit structure in the report period as compared with the same period of the previous year:

(1) In the report period, the Company earned income of RMB 10.40 million and gross profit of RMB 9.08 million from real estate, which are the proceeds of its cooperative development of Shenzhen Yinlu Apartment;

(2) The net profit for the previous year was affected by the provision of RMB 24 million for estimated liabilities.

3. The reason for and influence of the change of accounting estimate:

In the report period, the Company held the opinion that the original estimate of the useful life of textile machinery and equipment was not very reasonable after considering the actual conditions of the use of textile machinery and equipment and referring to the specific regulations of other textile enterprises on the useful life of machinery and equipment. Upon examination by the 15th meeting of the second board of directors of the Company, the Company decided to adjust the useful life of its textile machinery and equipment from the original 10 years to 14 years. The change of the depreciation period of the above textile machinery and equipment affected the net profit of the Company for 2003 by RMB 1.952 million.

(IV) Focal point of work in the new year

The Company will focus on the following work in 2004:

(1) To enhance the production capacity and sales ability of newly established enterprises as soon as possible and further develop its key business.

(2) To promote the development of new products and the construction of phase-II projects of Shenfang Lekai Photoelectronic Materials Co., Ltd.

(3) To improve the mode of property management, enhance property management level and increase property income.

(4) To create new brand image of the Company with the popularization of the products of new project as a point of breakthrough.

(5) To steadily conduct effective production and operation management and seek efficiency through good management.

(V) Routine work of the board of directors

1. Board meetings and resolutions in the report period

The 14th meeting of the second board of directors of the Company was held on April 28, 2003. 6 directors were supposed to attend the meeting and all of them were actually present. The meeting examined and adopted the following resolutions: the Resolution for Adopting the 2002 Work Report of the Board of Directors, the Resolution for Adopting 2002 Annual Report of the Company and its Summary, the Resolution for Adopting Final Accounting Report for 2002, the Resolution for Adopting Profit Distribution Preplan for 2002, the Resolution for Adopting the Profit Distribution Policy of the Company for 2003 and the Resolution for Engaging the Audit Body of the Company for 2003. The meeting adopted the report of the Company for the first quarter of 2003.

The 15th meeting of the second board of directors of the Company was held on May 29, 2003. 6 directors were supposed to attend the meeting and all of them were actually present. The meeting examined and adopted the following resolutions: the Resolution for Amending Part of Articles of Association of the Company, the Resolution for Approving the Remuneration of Independent Directors, the Resolution for Adopting the Proposal Concerning the Reelection of the Board of Directors of the Company and the Resolution for Adjusting the Useful Life of Textile Machinery and Equipment. The meeting adopted the agenda of 2002 annual shareholders' general meeting of the Company.

The 1st meeting of the third board of directors of the Company was held on June 30, 2003. 7 directors were supposed to attend the meeting and all of them were actually present.

The meeting elected Mr. Guan Tongke as the chairman of the third board of directors and adopted the following resolutions: the Resolution for Appointing Mr. Liu Junhou as General Manager, the Resolution for Appointing the Manager of Finance Dept. of the Company and the Resolution for Appointing the Board Secretary of the Company.

The 2nd meeting of the third board of directors of the Company was held on July 30, 2003. 7 directors were supposed to attend the meeting and all of them were actually present. The meeting examined and adopted the following resolutions: the Resolution for Adopting 2003 Semiannual Report of the Company and its summary and the Resolution for Appointing the Deputy General Manager of the Company.

The 3rd meeting of the third board of directors of the Company was held on October 23, 2003. 7 directors were supposed to attend the meeting and all of them were actually present. The meeting examined and adopted the report the Company for the third quarter of 2003.

The board of directors also studied the matters including strengthening business management, developing new projects and quickening the Company's development and made corresponding decisions.

In the report period, the board of directors organized directors and senior executives to seriously study the speech made the director of Shenzhen Securities Regulatory Office at the working meeting in respect of the standards of administration of listed companies, look for the problems of the Company by referring to the speech and make rectification. It also conducted self inspection and made rectification in respect of the status of good faith of the Company and senior executives in the recent three years.

2. Implementation by the board of directors of the resolutions of the shareholders' general meeting

In the report period, the board of directors of the Company seriously implemented all resolutions of the shareholders' general meeting according to relevant provisions of the Company Law and the Articles of Association of the Company.

(VI) Profit distribution preplan for 2003:

As audited by Shenzhen Pengcheng Certified Public Accountants, the net profit of the Company for 2003 is RMB 34,086,332.84. As audited by K.C. Oh & Co. pursuant to international accounting standards, the net profit of the Company for 2003 is RMB 36,361,000.00. As required in the articles of association of the Company, the Company is to appropriate 10% and 5% of its net profit for 2002 (RMB 34,086,332.84), i.e., RMB 3,408,633.28 and RMB 1704316.64, respectively for statutory common reserve fund and statutory public welfare fund. With the existing total share capital of the Company, i.e., 163,416,000 shares, as the base, the Company is to pay dividend of RMB 1.8 (including tax) to all shareholders for every 10 shares. After this distribution, the balance of the undistributed profit of the Company is RMB 564,445.12.

The accumulative capital surplus of the Company at the end of 2003 was RMB 126,994,259.45. It is suggested to capitalize part of capital surplus on five-for-ten basis to all shareholders with the total share capital at the end of 2003, i.e., 163,416,000 shares, as the base. After the implementation of the proposal for capital surplus capitalization, the balance of the capital surplus of the Company is to be RMB 45,286,259.45.

(VII) Other matters

1. The special statement of certified public accountants on the fund occupation by the controlling shareholder and other related parties of the Company:

1. The special statement of certified public accountants on the fund occupation by the controlling shareholder and other related parties of the Company:

Special Audit Statement on Fund Occupation by the Controlling Shareholder and Related Parties of Shenzhen Textile (Holding) Co., Ltd. and Its Regulation-violating Guarantee

Shenzhen Securities Supervision Office under China Securities Regulatory Commission:

According to the requirements of SSBH (2003) No. 13 Document and its supplementary notes issued by Listed Companies Supervision Dept. of China Securities Regulatory Commission, we carried out special audit of the status of fund occupation by the controlling shareholder and related parties of Shenzhen Textile (Holding) Co., Ltd. (hereinafter referred to as "the Company") and the regulation-violating guarantee provided by the Company while auditing the financial statements of the Company for 2003. We hereby give the following statement:

I. The particulars of the fund occupation by the controlling shareholder and related parties in 2003

Name of the controlling shareholder and related parties	Relationship with the Company	Balance at beginning of year	Transaction amount on debit side	Transaction amount on credit side	Balance at end of year	Nature of occupation
Guangdong Sun Rise Group Co., Ltd.	Controlled by the same parent company	6,073,487.36	---	4,000,000.00	2,073,487.36	Non-operating
Shenzhen Tianlong Industrial and Trading Co., Ltd.	Affiliated company of the Company	4,886,397.44	15,843,528.55	20,021,777.54	708,148.45	Operating
Shenzhen Shenhu Knitting Co., Ltd.	Affiliated company of the Company	2,674,556.36	---	---	2,674,556.36	Operating

Shenzhen Xiangjiang Leather Product Co., Ltd.	Affiliated company of the Company	930,000.00	57,861.95	297,861.95	690,000.00	Operating
Hong Kong Yehui International Co., Ltd.	Affiliated company of the Company	---	4,811,349.00	199,821.00	4,611,528.00	Operating
Total		14,564,441.16	20,712,739.50	24,519,460.49	10,757,720.17	

II. The particulars of repayment of funds by the controlling shareholder and related parties in 2003

Name of the controlling shareholder and related parties	Balance at beginning of year	Increase in current year	Amount of repayment in current year	Manner of repayment
Guangdong Sun Rise Group Co., Ltd.	6,073,487.36	---	4,000,000.00	Cash repayment
Shenzhen Tianlong Industrial and Trading Co., Ltd.	4,886,397.44	15,843,528.55	20,021,777.54	Setoff with current accounts
Shenzhen Shenhu Knitting Co., Ltd.	2,674,556.36	---	---	Setoff with current accounts
Shenzhen Xiangjiang Leather Product Co., Ltd.	930,000.00	57,861.95	297,861.95	Cash repayment
Hong Kong Yehui International Co., Ltd.	---	4,811,349.00	199,821.00	Cash repayment
Total	14,564,441.16	20,712,739.50	24,519,460.49	

III. The particulars of the occupation of newly increased funds by the controlling shareholder and related parties in 2003

Name of the controlling shareholder and related parties	Balance at beginning of year	Balance at end of year	Net increase in current year	Reason for occupation	Manner of occupation
Guangdong Sun Rise Group Co., Ltd.	6,073,487.36	2,073,487.36	-4,000,000.00	Reimbursed expenses	Other receivables
Shenzhen Tianlong Industrial and Trading Co., Ltd.	4,886,397.44	708,148.45	-4,178,248.99	Purchase and sale business	Accounts receivable or payable
Shenzhen Shenhu Knitting Co., Ltd.	2,674,556.36	2,674,556.36	---	Purchase and sale business	Other receivables
Shenzhen Xiangjiang Leather Product Co., Ltd.	930,000.00	690,000.00	-240,000.00	Acceptance of labor service	Other receivables
Hong Kong Yehui International Co., Ltd.	---	4,611,528.00	4,611,528.00	Acceptance of labor service	Other receivables
Total	14,564,441.16	10,757,720.17	-3,806,720.99		

IV. The particulars of the guarantee provided by the Company and its controlled subsidiaries to the controlling shareholder and the subsidiaries of the controlling shareholder

According to our audit, the loan guarantee provided by the Company to the subsidiaries of the controlling shareholder as of December 31, 2003 is listed as follows:

Name of the guaranteed company	Lender	Amount of guarantee	Whether the loan is overdue
Guangdong Sun Rise Group Co., Ltd.	China Orient Asset Management Company	HKD 35.00 million	Yes

China Orient Asset Management Company Shenzhen Representative Office (Party A), Shenzhen Investment Management Co., Ltd. (Party B), Guangdong Sun Rise Group Co., Ltd. (Party C) and the Company entered into the agreement for the settlement of debts in respect of the above guarantee. According to the provisions of the agreement for settlement of debts, Party A agrees Party B shall repay principal and interest totaling RMB 39,986,062.38 for Party C. Meanwhile, Party C shall be exempted from the remaining debts and the Company shall be relieved from guarantee liability.

Shenzhen Pengcheng Certified Public Accountants

April 20, 2004

2. The special statement and independent opinions of the independent directors of the Company on the guarantee provided by the Company on accumulative basis and in current period and the status of implementation of the above-mentioned regulations:

We, i.e., Yang Jichao, Liu Xiangqing and Huang Hui, are the independent directors of Shenzhen Textile (Holding) Co., Ltd. According to the gist of the Circular on Certain Issues Relating to Standardization of Fund Transfer Between Listed Companies and Their Related Parties and Guarantees Provided by Listed Companies issued by CSRC and relevant provisions of the Articles of Association of the Company and Independent Director System, we audited the status of the guarantee provided by the Company with diligent and dutiful attitude. We hereby make relevant statement and express opinions as follows:

The Company formulated internal control regulations including the Provisional Regulations on Providing Guarantee to Enterprises' Loans, standardized its external guarantee and effectively controlled the risks of external guarantee. It laid much stress on the loan guarantee provided to Guangdong Sun Rise Group Co., Ltd. due to historic reasons, actively took actions and effectively removed the risks of guarantee. Except this, the Company provided guarantee to neither other companies nor its related parties.

3. In the report period, the newspapers selected by the Company for information disclosure were Shanghai Securities Daily and Hong Kong Commercial Daily.

VIII. Report of the Supervisory Committee

In the report period, the supervisory committee of the Company duly performed its supervision duties and carried out effective supervision strictly according to the provisions of the Company Law and the Articles of Association of the Company.

(I) In the report period, the supervisory committee of the Company held five meetings:

1. On April 28, 2003, a meeting of the second supervisory committee examined and adopted the annual report, final accounting report and profit distribution preplan of the Company for 2002, the report of the Company for the first quarter of 2003 and 2002 work report of the supervisory committee.

2. On May 29, 2003, a meeting of the second supervisory committee examined and adopted the proposal for recommending Mr. Gao Zuofu and Mr. Feng Junbin as the candidates for supervisors of the third supervisory committee of the Company.

3. On June 30, 2003, the 1st meeting of the third supervisory committee elected Mr. Gao Zuofu as the chairman of the supervisory committee of the Company.

4. On July 30, 2003, the 2nd meeting of the third supervisory committee examined and adopted 2003 semiannual report of the Company, approved the application of Mr. Feng Junbin for resignation from the position of supervisor for sake of work and submitted it to the next shareholders' general meeting for examination.

5. On October 23, 2003, the 3rd meeting of the third supervisory committee adopted the report of the Company for the third quarter of 2003.

(II) The opinions of the supervisory committee on the matters of the Company to be supervised:

1. The operation of the Company according to law: In the report year, the members of the supervisory committee attended all board meetings of the Company as nonvoting delegates. The supervisory committee held the opinion that the decision-making procedures of the Company were legal and its internal control regulations were sound. The directors and members of management of the Company worked diligently and practiced self discipline. No act that violated laws, regulations and the Articles of Association of the Company or harmed the interests of the Company was found.

2. The inspection of the financial status of the Company: The supervisory committee held the opinion that the Company was able to consciously implement national finance laws and regulations and financial statements were complete and truthful. Shenzhen Pengcheng Certified Public Accountants issued unqualified auditor's report for the Company. The financial report truly reflected the Company's financial position and operating results.

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

4. The related transactions of the Company had small volume and were carried out according to the principle of fairness in the report period.

IX. Important Events

(I) Material lawsuits and arbitration

1. The Company was not involved in any material lawsuit or arbitration in the report period.

2. Others lawsuits

(1) As for the case that the Company sued China Huawen Business Development Corporation for counter guarantee of loans, Guangdong Higher People's Court made judgment in the trial of second instance in November 2003. The Company won the case. China Huawen Business Development Corporation should bear compensation liability of RMB 10543081.72. As this company is in poor financial status, the Company has not received the above sum of money. The Company is now collecting it.

(2) On September 16, 2002, Hong Kong Xieli Maintenance and Repair Co., the Hong Kong shareholder of Shenzhen Xieli Automobile Co., Ltd. that is a subsidiary joint venture of the Company, brought an action to Shenzhen Intermediate People's Court against the Company for infringement and demanded the Company to compensate it for its losses totaling RMB 6.3 million. This case is now in the first instance of Shenzhen Intermediate People's Court.

(II) Acquisition and disposal of assets, takeover and merger

The Company neither acquired nor disposed of assets nor was involved in any takeover or merger in the report period.

(III) Important related transactions

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

(IV) Important contracts and their performance

1. Trust, contracting and lease

In the report period, the Company signed property lease contract with Shenzhen Jinsitai Investment Development Co., Ltd. The Company rent 1/F-4/F of Shenfang Building located at 3 Huaqiang North Road, Shenzhen with total floorage of 10613.95 square meters. The lease term is 10 years. The basic monthly rent is RMB 140 per square metre. The Company will give certain rent discount in the first two years of the lease term. The monthly rent will annually increase progressively by 3% based on the monthly rent of the previous year from the fourth year. The signing of this contract has and will have no material influence on the operating results of the Company for 2003 and 2004 and will have positive influence on the stable property lease income of the Company in the future.

2. Important guarantee

The Company did not provide any material guarantee in the report period.

At the end of the report period, the amount of the loan guarantee provided by the

Company to Guangdong Sun Rise Group Co., Ltd. due to historic reasons was HKD 35 million. China Orient Asset Management Company Shenzhen Representative Office (Party A), Shenzhen Investment Management Co., Ltd. (Party B), Guangdong Sun Rise Group Co., Ltd. (Party C) and the Company entered into the agreement for the settlement of debts in respect of the above guarantee. According to the provisions of the agreement for settlement of debts, Party A agrees Party B shall repay principal and interest totaling RMB 39,986,062.38 for Party C. Meanwhile, Party C shall be exempted from the remaining debts and the Company shall be relieved from guarantee liability.

3. Entrustment of cash asset management

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

(V) Commitments

In the report period, the Company or shareholders holding over 5% of the total shares of the Company did not make any commitment that may have material influence on the operating results and financial position of the Company. There was no such commitment that was made previously and lasted in the report period either.

(VI) Engagement and removal of certified public accountants

The Company engaged Shenzhen Pengcheng Certified Public Accountants and K.C. Oh & Co. as the auditing bodies respectively for the A shares and B shares of the Company in the report period. The remuneration paid by the Company to the above certified public accountants in the report year was respectively RMB 0.38 million and RMB 0.12 million, including traveling expenses. So far, Shenzhen Pengcheng Certified Public Accountants has provided services to the Company for 3 consecutive years. K.C. Oh & Co. has provided services to the Company for 2 consecutive years.

(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 in the report period.

X. Financial Report

1. Auditor's report

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

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		(357,645)	(365,091)
Gross profit		94,320	92,389
Other revenue		4,253	10,197
		98,573	102,586
Distribution and administrative expenses		(58,833)	(77,923)
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		688	1,352
Profit before taxation	(10)	42,200	11,851
Taxation	(11)	(5,244)	(2,745)
Profit after taxation		36,956	9,106
Minority interests		(595)	338
Net profit for the year		36,361	9,444
Earnings per share		RMB0.223	RMB0.058

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
		438,414	417,129
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
		276,518	335,154
Total assets		714,932	752,283
Capital and reserves			
Share capital	(22)	163,416	163,416
Reserves		188,449	152,656
		351,865	316,072
Minority interests	(23)	78,787	61,456
Non-current liability			
Long-term loans, non-current portion	(24)	4,200	4,200
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
		280,080	370,555
Total equity and liabilities		714,932	752,283

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	163,416	6,807	38,548	118	13,320	81,639	-	12,224	316,072
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	163,416	6,239	38,548	3,527	15,024	81,639	29,415	14,057	351,865

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 RMB'000	2002 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

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

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

3. Basis of consolidation (cont'd)

(a) Subsidiaries (cont'd)

i) Subsidiaries consolidated (cont'd)

Company name	Place of establishment/ operation	Effective equity held by the Group	Principal activities
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
Anhuei 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

Company name	Place of establishment/ operation	Effective equity held by the Group	Principal activities
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

3. Basis of consolidation (cont'd)

ii) Subsidiaries not consolidated (cont'd)

Company name	Place of establishment/ operation	Effective equity held by the Group	Principal activities
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.

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 to14 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.

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.

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.

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.

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.

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	-
	451,965	457,480

6. Business and geographical segments

Business segments

Segment information about businesses in 2003 is presented below :

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

Segment information about businesses in 2002 is presented below :

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

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

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
	10,822	20,712

8. Provision for loss on guarantees

	2003 RMB'000	2002 RMB'000
Provision for loss on guarantees	702	24,000

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
	7,219	11,443

10. Profit before taxation

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

	2003 RMB'000	**2002 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
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

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 RMB'000	**2002 RMB'000**
Income tax		
Company and subsidiaries	5,244	2,745
Deferred taxation	-	-
	5,244	2,745

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

	2003 RMB'000	**2002 RMB'000**
Profit before taxation	42,200	11,851
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	802	2,098
Actual tax expense	5,244	2,745

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.

13. Investment properties

	2003 RMB'000	2002 RMB'000
Cost/valuation	101,372	101,372

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	7,907	11,565

15. Intangible assets

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

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
	27,554	53,460
Amounts due from associates	2,151	5,947
Amounts due to associates	(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 :

Company name	Place of establishment/ operation	Effective equity held by the Group	Principal activities
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

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
	138,435	149,002
Provision for impairment loss	(55,707)	(69,832)
	82,728	79,170

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

Company name	Place of establishment/ operation	Effective equity held by the Group	Principal activities
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.

17. Other investments (cont'd)

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

Company name	Place of establishment/ operation	Effective equity held by the Group	Principal activities
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)
	38,753	55,745

19. Accounts receivable

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

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
	110,090	106,381
Provision for doubtful debts	(27,889)	(36,265)
	82,201	70,116

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
	3,212	8,220
Provision for impairment loss	(189)	(2,131)
Market value	3,023	6,089

22. Share capital

	2003 RMB'000	2002 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
	163,416	163,416

23. Minority interests

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

24. Short-term and long-term loans

	2003 RMB'000	2002 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
	123,300	144,500
Portion classified under current liabilities	(119,100)	(140,300)
Long-term portion	4,200	4,200

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.

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)	-
	-	62,100

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
Balance as at end of the year	123,300	78,787

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)
	11,453	49,560
Minority interests	(6,664)	(24,780)
Share of net assets	4,789	24,780
Net book value	(3,092)	(24,780)
Loss on deemed disposal of subsidiaries	1,697	-

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

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.

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)
As restated in conformity with IFRS	36,361	9,444

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)
As restated in conformity with IFRS	351,865	316,072

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.

XI. List of Documents available for Inspection

1.Financial statements bearing the seal and signature of legal representative and financial controller;

2.The original of the auditor's report bearing the seal of the certified public accountants and the signature of C.P.A.;

3.The originals of all the Company's documents and the original manuscripts of announcements publicly disclosed on the newspapers designated by China Securities Regulatory Commission 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.

APRIL 26, 2004