Shenzhen Textile (Holdings) Co., Ltd.

2004 Semiannual Report (B)

July, 2004

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Section 1 Important Notes

The board of directors and directors of the Company hereby guarantees that there are no false records, 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.. The semiannual financial and accounting report of the Company is unaudited.

Guan Tongke, the person in charge of the Company, Liu Junhou, the financial controller and Liu Yi, the person in charge of accounting organ represent and warrant the financial and accounting report in the semiannual report is true and complete.

Section II Basic Information of the Company

1. Statutory name of the Company in Chinese:**深圳市纺织（集团）股份有限公司**

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

English abbreviation: STHC

2. Stock exchange for listing: Shenzhen Stock Exchange

Stock abbreviation: Shen Textile A, Shen Textile B

Stock code : 000045, 200045

3. Registered address of the Company: 6/F, Shenfang Building, 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

4．Legal Representative: Guan Tongke

General Manager: Liu Junhou

5. Secretary of the Board of Directors : Chao Jin

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

Zip code: 518031

Tel: 0755- 83776043

Fax: 0755- 83776139

E-mail：cjane@mail.china.com

6. Newspapers selected by the Company for information disclosure: Securities Times, Hong Kong Commercial Daily

Internet website designated by CSRC for publishing the semiannual report of the Company: http://www.cninfo.com.cn

The place where the semiannual report is prepared and placed: Office of the Company

7. Highlights of financial data and indicators (Calculated pursuant to international accounting standards: RMB'000)

Item	Jan 1, 2004-June 30, 2004	Jan 1, 2003-June 30, 2003
Net profit	15,032	13,888
Earnings per share (RMB)	0.092	0.085
Return on net assets (%)	4.45	3.95
Net increase of cash and cash equivalent	13,658	(80,875)
Item	June 30, 2004	Dec. 31, 2003
Total assets	699,856	715,306
Shareholders' equity (not including minority equities)	337,482	351,865
Net assets per share (RMB)	2.07	2.15

Note: Notes to the difference between net assets and net profits calculated pursuant to domestic and international accounting standards.

The net profit calculated pursuant to international accounting standards is RMB 15.032 million, which is more than that calculated pursuant to Chinese Accounting Regulations for Business Enterprises by RMB 1.457 million. The reason for this difference is the entry reversal of depreciation of RMB 1.173 million pursuant to international accounting standards and the amortization of negative goodwill of RMB 0.284 million.

The net assets calculated pursuant to international accounting standards were RMB 337.482 million, which is more than those calculated pursuant to Chinese Accounting Regulations for Business Enterprises by RMB 14.384 million. The reason for this difference is the writeback of depreciation of RMB 19.317 million over-provided for real estate of investment nature pursuant to international accounting standards, RMB 0.166 million for the entry reversal of impairment provision of unconsolidated subsidiaries, RMB 1.697 million for the disposal of unconsolidated subsidiaries and RMB - 3.402 million for the amortization of intangible assets.

Section III Change of Share Capital and Shareholding of Principal Shareholders

1. Particulars about the shareholding of principal shareholders

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

2 Total number of shareholders

As of June 30, 2004, the Company had 18,511 shareholders in total including one shareholder of state-owned shares, 10,596 shareholders of A shares and 7,914 shareholders of B shares.

3.Particulars about the shares held by the main shareholders

Particulars of the shareholding of the top ten shareholders as of June 30, 2004

Total number of shareholders at the end of the report period	18,511					
Particulars about the shareholding of the top ten shareholders						
Name of shareholder (full	Increase or	Quantity of shares	Proportion (%)	Type of share (Negotiable or	Quantity of	Nature of shareholder

name)	decrease within the year	held at the end of year		non-negotiable)	pledged or frozen shares	
Shenzhen Investment Management Co., Ltd.	0	108240000	66.24	Non-negotiable	7000000	State-owned shareholder
Wang Bin	Unknown	374036	0.23	Negotiable	0	A
VICTOR ONWARD PRINTING—DYEING（HK）CO.，LTD	0	370000	0.23	Negotiable	0	B
Ge Ruming	Unknown	328000	0.20	Negotiable	0	B
LOK YUNG CHING	Unknown	262395	0.16	Negotiable	0	B
Chen Jingwen	Unknown	240000	0.15	Negotiable	0	B
Yang Guoxiong	Unknown	230000	0.14	Negotiable	0	B
Xu Ling	Unknown	221800	0.14	Negotiable	0	A
Jinxin Trust Investment Co., Ltd.	Unknown	210000	0.13	Negotiable	0	A
BNP P P/SECURITIES NIMINEES LTD	Unknown	207801	0.13	Negotiable	0	B

Particulars about the shareholding of the top ten shareholders

Name of shareholder (full name)	Number of shares held at the end of year (shares)	Type
Wang Bin	374036	A
VICTOR ONWARD PRINTING—DYEING（HK）CO.，LTD	370000	B
Ge Ruming	328000	B
LOK YUNG CHING	262395	B
Chen Jingwen	240000	B
Yang Guoxiong	230000	B
Xu Ling	221800	A
Jinxin Trust Investment Co., Ltd	210000	A
BNP P P/SECURITIES NIMINEES LTD	207801	B
Huabao Trust Investment Co., Ltd	204292	A

Notes to the relation between the top ten shareholders holding negotiable shares:

Notes to the specified term of share holding by strategic investors or general legal persons that participate in placing of new shares: NO

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.

Among the above shareholders, the one holding shares on behalf of the state is Shenzhen Investment Management Co. No. 3 ，4，5，6，7，and 10 shareholders are the ones holding foreign investment shares.

4．The controlling shareholder of the Company did not change in the report period.

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

1. In the report period, Shares held by directors, supervisors and senior executives of the Company remained unchanged in the report period.

2. As examined by 2003 annual shareholders' general meeting of the Company, Mr. Feng Junbin was approved to resign From the position of supervisor of the Company on May 30, 2004.

Section V Discussion and Analysis of Management

1. Main operation of the Company

The main operating status of the Company The Company is mainly engaged in the production and trading of textile products, garments and relevant products and in the lease and management of properties. In the report period，the Company made a lot of efforts in respect of enhancement of the production and sales ability and profit-making level of newly established enterprises and reversal of losses into profits and enhanced the profitability of its main operation remarkably. In the report period，the income from main operation earned by the Company was RMB 198.61 million, a decrease of 11.25% over the same period of the previous year. Its net profit was RMB 1503.2 million, an increase of 8.24% over the same period of the previous year.

(1) Industry: The income earned by the industrial subsidiaries of the Company was RMB 90.634 million, an increase of 8.12% over the same period of the previous year. Their cost was RMB 79.013 million, an increase of 2.06% over the same period of the previous year. The gross profit rate increased by 80.26% over the same period of the previous year mainly due to the enhancement of the market competitiveness of products and the growth of income. In the report period，Shenfang Lekai Photoelectronic Materials Co., Ltd. a controlled subsidiary of the Company, reversed losses into profits. The business of Shenzhen Beauty Century Garment Co., Ltd., another controlled subsidiary of the Company developed rapidly.

(2) Trade: The trade income earned by the Company was RMB 84.799 million, a decrease of 24.41% over the same period of the previous year. Trading cost was RMB 73.104 million, a decrease of 29.62% over the same period of the previous year. The gross profit rate increased by 73.01% over the same period of the previous year mainly due to the Company's adjustment of variety structure of trade in the report period.

(3) Property lease and management: The company earned income of RMB 23.178 million in total from property lease, warehousing and hotel business in the report period, which decreased by

16.56% over the same period of the previous year mainly due to the influence of the transformation of property functions on lease income. (The cost has been included in period expenses. The company did not independently state this accounting item).

2. Financial highlights of the Company

The income from main operation was RMB 198.61 million, a decrease of 11.25% over the same period of the previous year mainly due to the decrease of trade income of the Company.

The gross profit was RMB 45.182 million, an increase of 9.58% over the same period of the previous year. The net profit was RMB 14.225 million, an increase of 2.43% over the same period of the previous year mainly due to industrial enterprises' reversal of losses into profits and good business development.

The increase of cash and cash equivalents was RMB 13.658 million, which increased by RMB 94.533 million over the same period of the previous year increase mainly due to the Company's control of operating risk and decrease of non-recurring operating expenses in the report period.

The total assets were RMB 699.856 million, a decrease of 2.16% over the balance at beginning of year mainly due to the repayment of bank loans.

The shareholders' equity was RMB 337.482 million, a decrease of 4.09% over the balance at beginning of the year mainly due to the allotment of cash dividend.

3. Problems and difficulties occurred in operation

In the report period，the orders of high-class fully-shaped garments and polarizer sheet products of the Company were full. Due to the limitation of production capacity, its output failed to satisfy customer demands. For this reason, the Company took the following measures:

(1) Quickening the preparations for the phase-II project of Shenfang Lekai Photoelectronic Materials Co., Ltd. and speeding up the construction of phase-II project under the premise of ensuring the quality of equipment and project;

(2) Increasing the production equipment of Shenzhen Beauty Century Garment Co., Ltd., actively introducing technologies and talents and enhancing the production capacity of this company.

4. Investment of the Company

(1) Utilization of raised funds

The Company did not raise funds through share offering in the report period. Nor were funds previously raised carried forward for use in the report period.

(2) Other investments

In the report period，the Company invested in the phase-II project of Shenzhen Shenfang Lekai Photoelectronic Materials Co., Ltd. with self-raised funds of RMB 3.46 million and completed 16.48% of the investment plan of this company. This company turned losses into profits in the report period.

Section VI Important Events

1. Status of corporate administration:

As examined by 2003 annual shareholders' general meeting of the Company, Mr. Feng Junbin was approved to resign from the position of supervisor of the Company in the report period. The Company lacks one supervisor. The Company will choose candidates for supervisors as soon as possible and submit the list of candidates to the shareholders' general meeting of the Company for examination. The Company will continue to seriously carry out administration according to the requirements of the Company Law, the Securities Law and Guidelines for Administration of Listed Companies.

2. The distribution plan implemented by the Company in the report period:

In the report period, the Company did not have any profit distribution plan, capital surplus capitalization plan or new issue plan that were made in previous period and implemented in the report period.

In the report period, 2003 annual shareholders' general meeting of the Company adopted the following plan for distributing the net profit of the Company for 2003: Paying RMB 1.8 (including tax) for every 10 shares to all shareholders and capitalizing capital surplus on 5-for-10 basis with the total shares of the Company, i.e., 163,416,000 shares, as the base. The above plan was implemented on July 9, 2004.

3. 2004 semiannual profit distribution plan of the Company:

The Company is neither to distribute 2004 semiannual net profit nor capitalize any capital surplus.

4. The material lawsuits and arbitration of the Company:

The Company did not get involved in any material lawsuit or arbitration in the report period.

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 10,543,081.72. 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 in 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.

5. The Company was not involved in any material assets acquisition, sales or disposal in the report period.

6. The Company was not involved in material related transactions nor entrusted others with money management in the report period.

7. Guarantee:

(1) Regarding to the loan guarantee provided by the Company to Guangdong Sun Rise Group Co., Ltd. due to historic reasons, according to the debt settlement agreement entered into by Shenzhen Representative Office of China Orient Asset Management Company (Party A), Shenzhen Investment Management Co., Ltd. (Party B), Guangdong Sun Rise Group Co., Ltd. (Party C) and the Company, Party A agreed the principal and interest owed by Party C to Party A, totaling RMB 39.98 million, would be repaid by Party B on behalf of Party C. Meanwhile, Party A terminated the Company's guarantee liability. In the report period， the debt settlement agreement signed by the parties was under performance.

(2) The Company provided guarantee to its controlled subsidiary Shenzhen Beauty Century Garment Co., Ltd. (the Company holds 60% equity of this subsidiary) for the limit of RMB 10.50 million for L/C

opening applied for by this subsidiary to China Merchants Bank for equipment purchase. The amount of guarantee accounted for 3.1% of the net assets of the Company in the consolidated statements for the latest fiscal year. The assets-liabilities ratio of Shenzhen Beauty Century Garment Co., Ltd. was 34%.

8. The controlling shareholder of the Company Shenzhen Investment Management Co., Ltd. and its subsidiaries neither occupied the funds of the Company nor was involved in regulation-violating guarantee.

9. 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 regulation-violating guarantee and the implementation of relevant regulations:

We are independent directors of Shenzhen Textile Holdings Co., Ltd. According to relevant provisions of ZJF (2003) No. 56 Document - the Circular on Certain Issues Relating to Standardization of Fund Transfer Between Listed Companies and Their Related Parties and Guarantees Provided by Listed Companies, we seriously examined and verified the status of the guarantee provided by the Company on accumulative basis and in current period and the implementation of relevant regulations of ZJF (2003) No. 56 Document. The result of our examination and verification is as follows:

I. In the report period, the Company strictly implemented relevant provisions of ZJF (2003) No. 56 Document, prudently treated and strictly controlled the debt risk incurred by external guarantee, improved external guarantee system and added the articles in respect of the control of external guarantee to the Articles of Association of the Company after the examination and adoption at 2003 annual shareholders' general meeting of the Company.

II. The risk of loan guarantee provided by the Company to Guangdong Sun Rise Group Co., Ltd. due to historic reasons has been effectively eliminated. In the report period, the board of directors of the Company actively caused all parties concerned to sign the debt settlement agreement.

III. In the report period, the Company provided guarantee to its controlled subsidiary Shenzhen Beauty Century Garment Co., Ltd. (the Company holds 60% equity of this subsidiary) for the limit of RMB 10.50 million for L/C opening applied for by this subsidiary to China Merchants Bank for equipment purchase. The amount of guarantee accounted for 3.1% of the net assets of the Company in the consolidated statements for the latest fiscal year. The assets-liabilities ratio of Shenzhen Beauty Century Garment Co., Ltd. was 34%. The above guarantee was signed and approved by more than two thirds of all members of the board of directors of the Company.

IV. Except the above guarantee, the Company did not provide other guarantees.

Upon serious examination and verification, we found the Company did not provide regulation-violating guarantee and effectively safeguarded the legal rights of shareholders in the report period.

Independent directors: Yang Jichao Liu Xiangqing Huang Hui

10. The Company or the shareholders holding over 5% of the total shares of the Company did not make commitments in the report period nor did the commitments made by the Company or such shareholders in previous periods continue in the report period.

11. Engagement of certified public accountants:

As approved by 2003 annual shareholders' general meeting of the Company, the Company continued to engage Shenzhen Pengcheng Certified Public Accountants and K.C. Oh & Co. as the audit bodies respectively for its A shares and B shares in 2004, which was disclosed on Securities Times and Hong Kong Commercial Daily on June 4, 2004.

12. In the report period, the Company, its board of directors and its directors were not investigated by CSRC, administratively punished or publicly criticized by CSRC, punished by other administrative departments or publicly condemned by stock exchange.

13. In the report period，there were no other important events that had material influence on the Company.

Section VII Financial Report

(I) Financial statements (Attached hereinafter, prepared pursuant to international accounting standards and unaudited)

1. Balance sheet
2. Consolidated income statement
3. Consolidated cash flow statement

(II) Notes to financial statements

1. Compared with the report of the previous year, the accounting policies and accounting methods implemented by the Company remained unchanged in the report period.

2．Compared with the report of the previous year, the scope of consolidated statements changed as follows in the report period.

Section VIII Documents Available for Inspection

1. The text of semiannual report bearing the signature of the chairman of the board of directors

2. The text of the financial report bearing the seal and signature of the person in charge of the Company, controller of accounts and the person in charge of accounting organ;

3. The texts of all the Company's documents publicly disclosed on the newspapers and periodicals designated by China Securities Regulatory Commission in the report period;

4. The text of the Articles of Association of the Company.

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.

July 28, 2004

Shenzhen Textile (Holdings) Co., Ltd.

Consolidated Balance Sheet

As of June 30, 2004

	December 2003	June 2004
	RMB'000	RMB'000
Assets		
Non-Current assets		
Real estates, factory buildings and equipment	218107	204078
Investment in real estate	101372	101372
Construction-in-progress	7907	12234
Intangible assets	38	28
Investment in affiliates	28262	29488
Other investments	83102	86353
	438788	433553
Current assets		
Inventories	433553	36525
Accounts receivable	24375	25108
Prepayments, deposits and other receivables	82201	59434
Securities investment	3023	3412
Cash and bank balances	128166	141824
	276518	266303
Total assets	**715306**	**699856**
Liabilities and Shareholders' equity		
Capital and reserves		
Share capital	163416	163416
Reserves	188449	174066
	351865	337482
Minority interests	78787	77706
Non-Current liabilities		
Long-term loan	4200	10500

Current liabilities		
Loan at sight or due within 1 year	119100	111600
Accounts payable	17549	16270
Accruals and other payables	120781	96749
Dividends payable	18483	47898
Income tax payable	4541	1651
Total liabilities and shareholders' equity	**715306**	**699856**

Shenzhen Textile (Holdings) Co., Ltd.

Consolidated Profit and Loss Statement

As of June 30, 2004

	June 2003	June 2004
	RMB'000	RMB'000
Income	223789	198610
Cost of sales	(182556)	(153428)
Gross profit	41233	45182
Other income	536	190
Selling and administrative expenses	(29752)	(30034)
Operating profit	12017	15338
Negative goodwill amortization	284	284
Investment income (loss)	7153	3834
The profit (loss) attributable to affiliates	(1605)	1167
Financial expenses	(3339)	(2031)
Profit before taxation	14510	18592
Taxation	(724)	(1547)
Profit after taxation	13786	17045
Minority interests	102	(2013)
Net profit for the year	13888	15032
Per share Profit	RMB0.085	RMB0.092

Shenzhen Textile (Holdings) Co., Ltd.

Consolidated Cash Flow Statement

As of June 30, 2004

Cash flow from operating activities		
Operating profit before taxation		18592
Adjustment items :		
Depreciation and amortisation		10827
Loss on disposal of property, plant and equipment		5946
Loss on deemed disposal of subsidiaries		59
Share of profit from associates		(5171)
Provision for impairment loss on investments in securities		111
Provision for doubtful dabts made/(reversed)		(918)
Income of Negative goodwill amortization		(284)
Interest income		(1131)
Interest expense		2512
Net operating cash inflow before movements in working capital		**30543**
Decrease in inventories		2228
Increase in accounts receivable		(772)
Decreases in prepayments, deposits and others receivable		23724
Decrease in accounts payable		(1279)
Decrease in others payable and accrued expenses		(24032)
Net Cash inflow from operating activities before interest and tax payments		30412
Income tax paid		(4437)
Interest paid		(2783)

Net Cash inflow from operating activities		**23192**
Investing activities		
Interest received		1131
Increase of property, plant and equipment		(1514)
Increase in onstruction-in-progress		(4327)
Returns from associates received		1644
Proceeds from disposal of property, plant and equipment		1118
Increase in amounts due to associates		(6774)
Increase/decrease in Long-term investments		(700)
Net cash inflow/outflow from investing activities		**(9422)**
Financing activities		
Increase/decrease in bank and other loans		(7500)
Increase/ in minority interests		7388
Net cash outflow from financing activities		**(112)**
Increase/(decrease) in cash and cash equivalents		**13658**
Cash and cash equivalents as at beginning of the year		**128166**
Cash and cash equivalents as at end of the year		**141824**
Analysis of cash and cash equivalents		
Cash and bank balances		141824

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 June 30, 2004 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 June 30, 2004. 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 June 30, 2004, 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 June 30, 2004 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 :

	June, 2003 RMB'000	June,2004 RMB'000
Turnover		
Sales of goods	196,013	175432
Property rental income	25,712	20,151
Hotel operations	2,064	3,027
		-
	223,789	198,610

6. Business and geographical segments

Business segments

Segment information about businesses from January to June in 2004 is presented below :

	Sales of goods RMB'000	Leasing RMB'000	Hotel operations RMB'000	Property development RMB'000	Elimination RMB'000	Consolidated RMB'000
External sales	196,013	25,712	2,064		-	223,789
Revenue	196,310	25,712	2,064			223,789
Gross profit segment result	14,723	25,712	2,064			223,789

Segment information about businesses from January to June in 2004 is presented below :

	Sales of goods RMB'000	Leasing RMB'000	Hotel operations RMB'000	Property development RMB'000	Elimination RMB'000	Consolidated RMB'000
External sales	175,432	20,151	3,027	-	-	198,610
Revenue	175,432	20,151	3,027	-		198,610
Gross profit segment result	23,316	20,151	3,027	-		198,610

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 :

	June,2003 RMB'000	**June,2004 RMB'000**
PRC	107,296	104,399
USA and Canada	116,493	94,211
	223,789	198,610

7. Income from investments

	June, 2003 RMB'000	June, 2004 RMB'000
Returns from associates not accounted for under equity method	3,004	1,844
Provision for impairment loss on other investments reversed	2,406	
Profit on disposal of other investments	1,743	2,944
Provision for impairment loss on investments in securities		(111)
	7,153	3,834

8. Provision for loss on guarantees

	June, 2003 RMB'000	June, 2004 RMB'000
Provision for loss on guarantees	702	-

9. Finance costs

	June, 2003 RMB'000	June, 2004 RMB'000
Interest expense	3,196	1,844
Bank charges	89	176
Exchange loss	54	11
	3,339	2,031

10. 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.

	June, 2003 RMB'000	**June, 2004 RMB'000**
Income tax		
Company and subsidiaries	724	1,547
Deferred taxation	-	-
	724	1,547

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

	June, 2003 RMB'000	**June, 2002 RMB'000**
Profit before taxation	14,510	18,592
Tax at the income tax rate of 15% (2002 – 15%)	2,176	2,789
Tax effect of disallowable expenses	-	-
Tax effect of non-taxable revenue	(1,505)	(1,310)
Effect of different tax rates of subsidiaries operating in different jurisdictions	53	68
Actual tax expense	724	1,547

11. Investment properties

	2003 RMB'000	June, 2004 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 June 30, 2004 approximates to the market value since 1994.

12. Construction-in-progress

	2003 RMB'000	June, 2004 RMB'000
Cost		
Balance as at January 1, 2004	11,565	7,907
Deemed acquisition of a subsidiary	1,145	-
Additions	741	4,327
Transfer to property, plant and equipment	(4,227)	-
Transfer to other assets	(1,317)	-
Balance as at June 30, 2004	7,907	12,234

13. Intangible assets

	2003 RMB'000	June, 2004 RMB'000
Trademark and technical know-how, at cost	118	38
Amortisation	(80)	(10)
	38	28

14. Interests in associates

	2003 RMB'000	June, 2004 RMB'000
Share of net assets	24,798	26,024
Premium in associates	6,890	6.890
Amortisation of premium	(4,134)	(4,134)
	2,756	2,756
	27,554	28,780
Amounts due from associates	2,151	2,151
Amounts due to associates	(1,443)	(1,443)
Interests in associates	28,262	29,488

As at June 30, 2004, 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

15. Other investments

	2003 RMB'000	June, 2004 RMB'000
Subsidiaries not consolidated, at cost	15,775	15,716
Associates not accounted for under equity method, at cost	63,701	67,145
Listed shares, at cost	41,428	41,428
Unlisted shares, at cost	29,642	29,490
	150,528	153,779
Provision for impairment loss	(67,426)	(67,426)
	83,102	86,353

As at June 30, 2004, 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.

15. 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	Jordan Co., Ltd.	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.

16. Inventories

	2003 RMB'000	June, 2004 RMB'000
Raw materials	9,324	7,636
Work-in-progress	10,015	11,396
Finished goods	24,457	22,509
Provision for inventory obsolescence	(5,043)	(5,016)
	38,753	36,525

17. Accounts receivable

	2003 RMB'000	June, 2004 RMB'000
Amounts receivable	27,038	27,810
Provision for doubtful debts	(2,663)	(2,702)
	24,375	25,108

18. Prepayments, deposits and others receivable

	2003 RMB'000	June, 2004 RMB'000
Advance payments	21,978	17,385
Prepayments	156	966
Others receivable	87,956	65,942
	110,090	84,293
Provision for doubtful debts	(27,889)	(24,859)
	82,201	58,434

19. Investments in securities

	2003 RMB'000	June, 2004 RMB'000
Marketable securities in the PRC, at cost	3,114	3,614
PRC Government bonds, at cost	98	98
	3,212	3,712
Provision for impairment loss	(189)	(300)
Market value	3,023	3,412

20. Share capital

	2003 RMB'000	June, 2004 RMB'000
Registered, issued and fully paid capital, at par value of RMB1 each		
108,332,000 domestic shares	108,332	108,332
22,084,000 "A" shares	22,084	22,084
33,000,000 "B" shares	33,000	33,000
	163,416	163,416

21. Minority interests

	2003 RMB'000	June, 2004 RMB'000
Minority interests	78,396	77,706
Dividend payable to minority interests	391	-
	78,787	77,706

22. Short-term and long-term loans

	2003 RMB'000	June, 2004 RMB'000
Bank loans, secured	112,760	110,260
Bank loans, pledged	640	640
Bank loans, guaranteed	-	
Bank loans, unsecured	5,000	
Other loans, secured	4,700	4,700
Others payable	200	6,500
	123,300	122,100
Portion classified under current liabilities	(119,100)	(111,600
Long-term portion	4,200	10,500

The bank loans bear interest at various rates ranging from 4.3365% to 4.8675%. The interest rate of other loans is 9.63% per annum.

23. Dividend payable

It represents dividend payable to the ultimate holding company, Shenzhen Investment Administrative Company with a sum of RMB37,966,200 and represents cash dividend payable to the other stockholder with a sum of RMB9,931,680.

24. Related party transactions

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

Related party	**Transactions**	**June, 2003 RMB'000**	**June, 2004 RMB'000**
Shenzhen Tianlong Industrial Trading Co., Ltd.	Sales	6,465	6,178
	Interest income	103	18
	Purchases		-
Mirage (Saipan) Co., Ltd.	Purchases	-	
Business Faith International Co., Ltd.	Interest income		164
Shenzhen Xin Fang Textile Factory Co., Ltd.	Interest income		-
Shenzhen Xiang Jiang Leather Product Co., Ltd.	Interest income	31	23
Shenzhen Investment Administration Company	Interest expense		385

25. Assets held under security

As at June 30, 2004, the Group had used its buildings and investment properties with a total fair value of RMB117,406,000 as security to the banks for the general banking facilities.

26. 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.

27. 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.

28. Impact of IFRS adjustments on profit attributable to shareholders

	June, 2003 RMB'000	June, 2004 RMB'000
As reported by PRC Certified Public Accountants	12,431	13,575
Adjustments to conform to IFRS :		
Over-provision of depreciation of investment properties reversed	1,173	1,173
Amortisation of negative goodwill	284	284
Provision for impairment loss on unconsolidated subsidiaries reversed		
Loss on deemed disposal of subsidiaries		
Loss for subsidiaries in prior years reversed		
Amortisation of intangible assets		
Others		
As restated in conformity with IFRS	13,888	15,032

29. Impact of IFRS adjustments on net asset value

	2003 RMB'000	June, 2004 RMB'000
As reported by PRC Certified Public Accountants	338,937	323,098
Adjustments to conform to IFRS :		
Over-provision of depreciation of investment properties reversed	18,144	19,317
Provision for impairment loss on unconsolidated subsidiaries	166	166
Loss on deemed disposal of subsidiaries	(1,697)	(1,697)
Amortisation of intangible assets	(3,685)	(3,402)
As restated in conformity with IFRS	351,865	337,482