# 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, 2004**

**Shenzhen Textile (Holdings) Co., Ltd.**

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

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**Report of the auditors to the members of**

**Shenzhen Textile (Holdings) Co., Ltd.**

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

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We have audited the accompanying balance sheet of the Group as of December 31, 2004 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, 2004 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 16, 2005**

## Shenzhen Textile (Holdings) Co., Ltd.

## Consolidated income statement for the year ended December 31, 2004

| | Notes | 2004 RMB'000 | 2003 RMB'000 |
|---|---|---|---|
| **Turnover** | (5) | 448,393 | 451,965 |
| **Cost of sales** | | ( 348,398 ) | ( 357,645 ) |
| **Gross profit** | | 99,995 | 94,320 |
| **Other revenue** | | 5,618 | 4,253 |
| | | 105,613 | 98,573 |
| **Distribution and administrative expenses** | | ( 60,734 ) | ( 58,833 ) |
| **Operating profit** | | 44,879 | 39,740 |
| **Income from investments** | (7) | 3,880 | 10,822 |
| **Provision for loss on guarantees** | (8) | - | ( 702 ) |
| **Finance costs** | (9) | ( 7,125 ) | ( 7,219 ) |
| **Loss on deemed disposal of subsidiaries** | | - | ( 1,697 ) |
| **Profit from changes in equity interest of existing subsidiaries** | | 444 | - |
| **Amortisation of negative goodwill** | | 567 | 568 |
| **Share of profit from associates** | | 1,913 | 688 |
| **Profit before taxation** | (10) | 44,558 | 42,200 |
| **Taxation** | (11) | ( 4,774 ) | ( 5,244 ) |
| **Profit after taxation** | | 39,784 | 36,956 |
| **Minority interests** | | ( 8,684 ) | ( 595 ) |
| **Net profit for the year** | | 31,100 | 36,361 |
| **Earnings per share** | | RMB0.127 | RMB0.148 |

Earnings per share is calculated by dividing the net profit for the year of RMB31,100,000 (2003 - RMB36,361,000) attributable to shareholders by 245,124,000 shares (2003 - 245,124,000 shares as adjusted) in issue during the year concerned.

**Shenzhen Textile (Holdings) Co., Ltd.**

**Consolidated balance sheet as at December 31, 2004**

| | Notes | 2004 RMB'000 | 2003 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | (12) | 215,599 | 218,107 |
| Investment properties | (13) | 101,372 | 101,372 |
| Construction-in-progress | (14) | 18,470 | 7,907 |
| Intangible assets | (15) | 34 | 38 |
| Interests in associates | (16) | 43,697 | 28,262 |
| Other investments | (17) | 45,193 | 82,728 |
| | | 424,365 | 438,414 |
| **Current assets** | | | |
| Inventories | (18) | 55,161 | 38,753 |
| Accounts receivable | (19) | 36,931 | 24,375 |
| Prepayments, deposits and others receivable | (20) | 40,236 | 82,201 |
| Investments in securities | (21) | 2,744 | 3,023 |
| Cash and bank balances | | 121,260 | 128,166 |
| | | 256,332 | 276,518 |
| **Total assets** | | 680,697 | 714,932 |
| **Capital and reserves** | | | |
| Share capital | (22) | 245,124 | 163,416 |
| Reserves | | 107,859 | 188,449 |
| | | 352,983 | 351,865 |
| **Minority interests** | (23) | 89,590 | 78,787 |
| **Non-current liability** | | | |
| Long-term loans, non-current portion | (24) | 4,200 | 4,200 |
| **Current liabilities** | | | |
| Long-term loans, current portion | (24) | 101,323 | 119,100 |
| Accounts payable | | 22,642 | 17,549 |
| Others payable and accrued expenses | | 88,510 | 120,407 |
| Dividend payable | (25) | 18,483 | 18,483 |
| Provision for taxation | | 2,966 | 4,541 |
| | | 233,924 | 280,080 |
| **Total equity and liabilities** | | 680,697 | 714,932 |

**The financial statements on pages 2 to 29 were approved and authorised for issue by the board of directors on April 16, 2005 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, 2004**

| | Share capital RMB'000 | Negative goodwill RMB'000 | Capital reserve RMB'000 | Statutory surplus reserve RMB'000 | Statutory public welfare fund 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, 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 |
| | | | | | | | | | |
| Balance as at January 1, 2004 | 163,416 | 6,239 | 38,548 | 3,527 | 15,024 | 81,639 | 29,415 | 14,057 | 351,865 |
| Amortisation of negative goodwill | - | ( 567 ) | - | - | - | - | - | - | ( 567 ) |
| Bonus issue | 81,708 | - | ( 38,548 ) | - | - | ( 37,345 ) | - | ( 5,815 ) | - |
| Dividend paid | - | - | - | - | - | - | ( 29,415 ) | - | ( 29,415 ) |
| Net profit for the year | - | - | - | - | - | - | - | 31,100 | 31,100 |
| Appropriations to statutory surplus reserve and statutory public welfare fund | - | - | - | 2,694 | 1,347 | - | - | ( 4,041 ) | - |
| Proposed final dividend | - | - | - | - | - | - | 14,707 | ( 14,707 ) | - |
| Balance as at December 31, 2004 | 245,124 | 5,672 | - | 6,221 | 16,371 | 44,294 | 14,707 | 20,594 | 352,983 |

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 RMB0.06 per share to the shareholders.

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, 2004**

| | 2004 RMB'000 | 2003 RMB'000 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Operating profit before taxation | 44,558 | 42,200 |
| **Adjustment items :** | | |
| Depreciation and amortisation | 20,658 | 18,690 |
| Profit on disposal of property, plant and equipment | ( 509 ) | ( 565 ) |
| Loss on deemed disposal of subsidiaries | - | 1,697 |
| Profit from changes in equity interest of existing subsidiaries | ( 444 ) | - |
| Share of profit from associates | ( 1,913 ) | ( 688 ) |
| Profit on disposal of other investments | ( 779 ) | ( 3,475 ) |
| Provision for impairment loss made/(reversed) | | |
| - unconsolidated subsidiaries | 1,421 | 554 |
| - other investments | - | ( 2,960 ) |
| - investments in securities | 163 | 12 |
| Provision for diminution in value of inventories | 55 | 303 |
| Provision for doubtful debts reversed | ( 1,079 ) | ( 8,520 ) |
| Amortisation of negative goodwill | ( 567 ) | ( 568 ) |
| Interest income | ( 2,553 ) | ( 1,860 ) |
| Interest expense | 6,456 | 7,012 |
| **Net operating cash inflow before movements in working capital** | 65,467 | 51,832 |
| Increase in inventories | ( 16,463 ) | ( 1,887 ) |
| Increase in accounts receivable | ( 12,683 ) | ( 3,427 ) |
| (Increase)/decrease in prepayments, deposits and others receivable | 43,171 | ( 6,546 ) |
| Increase/(decrease) in accounts payable | 5,093 | ( 17,696 ) |
| Increase/(decrease) in others payable and accrued expenses | ( 31,653 ) | 15,594 |
| Decrease in loss on guarantees | - | ( 24,000 ) |
| **Cash inflow from operating activities before interest and tax payments** | 52,932 | 13,870 |
| **Income tax paid** | ( 6,349 ) | ( 1,449 ) |
| **Interest paid** | ( 6,700 ) | ( 6,688 ) |
| **Net cash inflow from operating activities c/f** | 39,883 | 5,733 |

*(to be cont'd)*

**Shenzhen Textile (Holdings) Co., Ltd.**

**Consolidated cash flow statement for the year ended December 31, 2004**

*(cont'd)*

| | Notes | 2004 RMB'000 | 2003 RMB'000 |
|---|---|---|---|
| **Net cash inflow from operating activities b/f** | | 39,883 | 5,733 |
| **Investing activities** | | | |
| Interest received | | 2,553 | 1,860 |
| Purchases of property, plant and equipment | | ( 23,772 ) | ( 21,905 ) |
| Increase in construction-in-progress | | ( 10,563 ) | ( 741 ) |
| Proceeds from disposal of property, plant and equipment | | 6,135 | 791 |
| Returns from associates received | | 2,248 | 1,814 |
| Decrease in amounts due from associates | | 2,151 | 3,796 |
| Increase/(decrease) in amounts due to associates | | ( 710 ) | 382 |
| Increase in other investments | | ( 1,880 ) | ( 1,175 ) |
| Proceeds from disposal of other investments and investments in securities | | 22,814 | 10,303 |
| Increase in investments in securities | | ( 1,136 ) | ( 1,033 ) |
| **Net cash outflow from investing activities** | | ( 2,160 ) | ( 5,908 ) |
| **Net cash inflow/(outflow) before financing activities** | | 37,723 | ( 175 ) |
| **Financing activities** | | | |
| Dividend paid | | ( 29,415 ) | - |
| Decrease in bank and other loans | (26) | ( 17,777 ) | ( 21,200 ) |
| Increase/(decrease) in minority interests | (26) | 2,563 | ( 1,380 ) |
| **Net cash outflow from financing activities** | | ( 44,629 ) | ( 22,580 ) |
| **Decrease in cash and cash equivalents** | | ( 6,906 ) | ( 22,755 ) |
| **Effect on deemed disposal and acquisition of subsidiaries** | | - | ( 5,463 ) |
| **Cash and cash equivalents as at beginning of the year** | | 128,166 | 156,384 |
| **Cash and cash equivalents as at end of the year** | | 121,260 | 128,166 |
| **Cash and cash equivalents as at end of the year are represented by :** | | | |
| Cash and bank balances | | 121,260 | 128,166 |

## 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, 2004 and on the operating results for the year then ended are included in notes 31 and 32 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, 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 |
|---|---|---|---|---|
| | | 2004 | 2003 | |
| Shenzhen Jinlan Decorative Products Ind. Co. | PRC | 100% | 100% | Manufacturing of bedding and decorating products |
| Shenzhen Lisi Industrial & Development Co., Ltd. | PRC | 100% | 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 |
|---|---|---|---|---|
| | | 2004 | 2003 | |
| Shenzhen Huaqiang Hotel Ltd. | PRC | 100% | 100% | Hotel, catering, and business centre operations |
| Shenfang Building Estate Management Co. | PRC | 100% | 100% | Property management |
| Shenzhen Jing Guang Shoes and Hose Co., Ltd. | PRC | 100% | 100% | Manufacturing and trading of sporting shoes and socks |
| Shenzhen Zhong Xing Fibre Products Co., Ltd. | PRC | 100% | 75% | Manufacturing and trading of fibre products |
| Jiangxi Xuanli Thread Co., Ltd. | PRC | 63.87% | 63.87% | Manufacturing and trading of synthetic fibre threads |
| Shenzhen Mei Bai Nian Garments Co., Ltd. | PRC | 50%* | 60% | Knitting and clothing |
| Anhuei Huapeng Textile Co., Ltd. | PRC | 50%* | 50%* | Textile products |
| Shenzhen Shenfang Import and Export Co., Ltd. | PRC | 49%* | 49%* | Import and export trading of textile |
| Shenzhen Shenfang-Lucky Photoelectronic Materials Co., Ltd. | PRC | 47.95%* | 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 |
|---|---|---|---|---|
| | | 2004 | 2003 | |
| Shenzhen Dahong Textile Co., Ltd. | PRC | 100% | 100% | Manufacturing and trading of textile products |

## 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 |
|---|---|---|---|---|
| | | 2004 | 2003 | |
| Darwin International Co., Ltd. | Hong Kong | 100% | 100% | Import and export |
| Shenzhen Feng Sheng Garments Co., Ltd. | PRC | 100% | 100% | Manufacturing of clothing |
| Shenzhen Fenghua Zhi Dai Factory Co., Ltd. | PRC | 75% | 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, 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 is 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 to 14 years |
| Office equipment | 8 years |
| Transport equipment | 8 years |

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

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

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

**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 :

| | **2004**<br>**RMB'000** | **2003**<br>**RMB'000** |
|---|---|---|
| **Turnover** | | |
| Sales of goods | 398,231 | 398,336 |
| Property rental income | 44,153 | 38,187 |
| Hotel operations | 6,009 | 5,042 |
| Property development | - | 10,400 |
| | 448,393 | 451,965 |

## 6. Business and geographical segments

Business segments

Segment information about businesses in 2004 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 | 398,231 | 44,153 | 6,009 | - | - | 448,393 |
| Intragroup sales | 19,087 | - | - | - | ( 19,087 ) | - |
| Revenue | 417,318 | 44,153 | 6,009 | - | ( 19,087 ) | 448,393 |
| Gross profit segment result | 49,833 | 44,153 | 6,009 | - | | 99,995 |

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 |

Geographical segments

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

| | **2004** | **2003** |
|---|---|---|
| | **RMB'000** | **RMB'000** |
| Within PRC | 262,946 | 205,791 |
| Outside PRC | 204,534 | 253,284 |
| | 467,480 | 459,075 |
| Intragroup sales | ( 19,087 ) | ( 7,110 ) |
| | 448,393 | 451,965 |

## 7. Income from investments

| | 2004 RMB'000 | 2003 RMB'000 |
|---|---|---|
| Returns from investment items | 4,685 | 4,953 |
| Provision for impairment loss on investments in unconsolidated subsidiaries reversed | ( 1,421 ) | ( 554 ) |
| Profit on disposal of other investments | - | 1,743 |
| Provision for impairment loss on other investments reversed | - | 2,960 |
| Profit on disposal of investments in securities | 779 | 1,732 |
| Provision for impairment loss on investments in securities | ( 163 ) | ( 12 ) |
| | 3,880 | 10,822 |

## 8. Provision for loss on guarantees

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

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

| | 2004 RMB'000 | 2003 RMB'000 |
|---|---|---|
| Interest expense | 6,456 | 7,012 |
| Bank charges | 644 | 207 |
| Exchange loss | 25 | - |
| | 7,125 | 7,219 |

## 10. Profit before taxation

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

| | **2004** **RMB'000** | **2003** **RMB'000** |
|---|---|---|
| After charging : | | |
| Interest expense | 6,456 | 7,012 |
| Depreciation and amortisation | 20,658 | 18,690 |
| Provision for impairment loss on other investments reversed | 1,421 | - |
| Provision for impairment loss on investments in securities | 163 | 12 |
| Provision for diminution in value of inventories | 55 | 303 |
| Staff costs | 35,879 | 40,851 |
| Exchange loss | 25 | - |
| And after crediting : | | |
| Interest income | 2,553 | 1,860 |
| Profit on disposal of property, plant and equipment | 509 | 565 |
| Profit from changes in equity interest of existing subsidiaries | 444 | - |
| Profit on disposal of other investments | - | 1,743 |
| Provision for impairment loss on other investments reversed | - | 2,406 |
| Profit on disposal of investments in securities | 779 | 1,732 |
| Provision for doubtful debts reversed | 1,079 | 8,520 |
| Exchange gain | - | 33 |
| Amortisation of negative goodwill | 567 | 568 |

## 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.

| | **2004 RMB'000** | **2003 RMB'000** |
|---|---|---|
| Income tax | | |
| Company and subsidiaries | 4,774 | 5,244 |
| Deferred taxation | - | - |
| | 4,774 | 5,244 |

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

| | **2004 RMB'000** | **2003 RMB'000** |
|---|---|---|
| Profit before taxation | 44,558 | 42,200 |
| Tax at the income tax rate of 15% (2003 - 15%) | 6,684 | 6,330 |
| Tax effect : | | |
| - disallowable expenses | 93 | 429 |
| - non-taxable revenue | ( 667 ) | ( 2,060 ) |
| - tax losses unrecognised | 129 | 492 |
| - tax losses utilised | ( 1,139 ) | - |
| - benefit from tax recession period | ( 971 ) | ( 284 ) |
| - different tax rates of subsidiaries operating in different jurisdictions | 645 | 337 |
| Actual tax expense with effective tax rate of 10.7% (2003 - 12.4%) | 4,774 | 5,244 |

**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, 2004 | 164,442 | 21,815 | 131,093 | 10,024 | 6,676 | 334,050 |
| Additions | 5,125 | 2,103 | 15,272 | 1,237 | 35 | 23,772 |
| Disposals | ( 9,149 ) | - | ( 176 ) | ( 778 ) | ( 210 ) | ( 10,313 ) |
| Balance as at December 31, 2004 (*) | 160,418 | 23,918 | 146,189 | 10,483 | 6,501 | 347,509 |
| Accumulated depreciation | | | | | | |
| Balance as at January 1, 2004 | ( 52,976 ) | ( 15,318 ) | ( 37,705 ) | ( 5,284 ) | ( 4,660 ) | ( 115,943 ) |
| Charged for the year | ( 4,920 ) | ( 2,662 ) | ( 11,254 ) | ( 1,106 ) | ( 712 ) | ( 20,654 ) |
| Disposals | 4,473 | - | 22 | 10 | 182 | 4,687 |
| Balance as at December 31, 2004 | ( 53,423 ) | ( 17,980 ) | ( 48,937 ) | ( 6,380 ) | ( 5,190 ) | ( 131,910 ) |
| Net book value | | | | | | |
| Balance as at December 31, 2004 | 106,995 | 5,938 | 97,252 | 4,103 | 1,311 | 215,599 |
| Balance as at December 31, 2003 | 111,466 | 6,497 | 93,388 | 4,740 | 2,016 | 218,107 |
| (*) Representing | | | | | | |
| At cost | 65,472 | 23,918 | 123,726 | 10,483 | 4,102 | 227,701 |
| At revaluation | 94,946 | - | 22,463 | - | 2,399 | 119,808 |
| | 160,418 | 23,918 | 146,189 | 10,483 | 6,501 | 347,509 |

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, 2004 approximates the prevailing open market value.

## 13. Investment properties

| | 2004 RMB'000 | 2003 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. The directors are of the opinion that the carrying value of the investment properties as at December 31, 2004 approximates the prevailing market value.

## 14. Construction-in-progress

| | 2004 RMB'000 | 2003 RMB'000 |
|---|---|---|
| Cost | | |
| Balance as at January 1, 2004 | 7,907 | 11,565 |
| Deemed acquisition of a subsidiary | - | 1,145 |
| Additions | 10,563 | 741 |
| Transfer to property, plant and equipment | - | ( 4,227 ) |
| Transfer to other assets | - | ( 1,317 ) |
| Balance as at December 31, 2004 | 18,470 | 7,907 |

## 15. Intangible assets

| | 2004 RMB'000 | 2003 RMB'000 |
|---|---|---|
| Trademark and technical know-how, at cost | 118 | 118 |
| Amortisation | ( 84 ) | ( 80 ) |
| | 34 | 38 |

## 16. Interests in associates

| | 2004 RMB'000 | 2003 RMB'000 |
|---|---|---|
| Share of net assets | 42,363 | 24,798 |
| Premium in associates | 6,890 | 6,890 |
| Amortisation of premium | ( 4,823 ) | ( 4,134 ) |
| | 2,067 | 2,756 |
| | 44,430 | 27,554 |
| Amounts due from associates | - | 2,151 |
| Amounts due to associates | ( 733 ) | ( 1,443 ) |
| Interests in associates | 43,697 | 28,262 |

As at December 31, 2004, the details of the principal associates are listed out as follows :

| Company name | Place of establishment/ operation | Effective equity held by the Group 2004 | Effective equity held by the Group 2003 | Principal activities |
|---|---|---|---|---|
| Shenzhen China East Electronics Co., Ltd. | PRC | 50% | 50% | Manufacturing of electronic toys |
| Shenzhen Label Weaving Factory Co., Ltd. | PRC | 50% | 50% | Manufacturing and trading of label tags |
| Shenzhen Tianlong Industrial and Trading Co., Ltd. | PRC | 50% | 50% | Manufacturing and trading of health balls, foodstuffs and textile related products |
| Shenzhen Xieli Automobile Co., Ltd. | PRC | 50% | 50% | Motor vehicle repair and maintenance services |
| Longwell Development Printing * and Dyeing Co., Ltd. | PRC | 40.25% | 40.25% | Processing of corduroy |
| Jordan Yie Hui Clothing Factory * Co., Ltd. | Jordan | 35% | 35% | Manufacturing and trading of apparel |
| Mirage (Saipan) Co., Ltd. | Commonwealth of Northern Mariana Islands | 35% | 35% | Manufacturing and trading of apparel |
| Shenzhen Top Form Underwear Co., Ltd. | PRC | 30% | 30% | Manufacturing and trading of ladies underwear |

*Commencing this year, the Group is able to exercise significant influence on these companies and accordingly these companies are accounted for by the equity method of accounting.

## 17. Other investments

| | 2004 RMB'000 | 2003 RMB'000 |
|---|---|---|
| Subsidiaries not consolidated, at cost | 14,425 | 14,425 |
| Associates not accounted for under equity method, at cost | 8,775 | 58,027 |
| Listed shares, at cost | 41,428 | 41,428 |
| Unlisted shares, at cost | 26,430 | 24,555 |
| | 91,058 | 138,435 |
| Provision for impairment loss | ( 45,865 ) | ( 55,707 ) |
| | 45,193 | 82,728 |

As at December 31, 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 2004 | Effective equity held by the Group 2003 | Principal activities |
|---|---|---|---|---|
| Shenzhen Dahong Textile Co., Ltd. | PRC | 100% | 100% | Manufacturing and trading of textile products |
| Darwin International Co., Ltd. | Hong Kong | 100% | 100% | Import and export |
| Shenzhen Feng Sheng Garments Co., Ltd. | PRC | 100% | 100% | Manufacturing of clothing |
| Shenzhen Fenghua Zhi Dai Factory Co., Ltd. | PRC | 75% | 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 2004 | 2003 | Principal activities |
|---|---|---|---|---|
| Shenzhen Kunhwa Dyeing Co., Ltd. | PRC | 45% | 45% | Dyeing |
| Shenzhen Hualian Fangzhi (Holding) Co., Ltd. | PRC | 20% | 20% | Investment holding |
| Shenzhen Xin Fang Textile Factory Co., Ltd. | PRC | 20% | 20% | Textile products |
| Shenzhen Xiang Jiang Leather Product Co., Ltd. | PRC | 20% | 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

| | 2004 RMB'000 | 2003 RMB'000 |
|---|---|---|
| Raw materials | 10,015 | 9,324 |
| Work-in-progress | 31,004 | 10,015 |
| Finished goods | 19,240 | 24,457 |
| Provision for inventory obsolescence | ( 5,098 ) | ( 5,043 ) |
| | 55,161 | 38,753 |

## 19. Accounts receivable

| | 2004 RMB'000 | 2003 RMB'000 |
|---|---|---|
| Amounts receivable | 39,721 | 27,038 |
| Provision for doubtful debts | ( 2,790 ) | ( 2,663 ) |
| | 36,931 | 24,375 |

## 20. Prepayments, deposits and others receivable

| | 2004 RMB'000 | 2003 RMB'000 |
|---|---|---|
| Advance payments | 7,851 | 21,978 |
| Prepayments | 110 | 156 |
| Others receivable | 55,833 | 87,956 |
| | 63,794 | 110,090 |
| Provision for doubtful debts | ( 23,558 ) | ( 27,889 ) |
| | 40,236 | 82,201 |

## 21. Investments in securities

| | 2004 RMB'000 | 2003 RMB'000 |
|---|---|---|
| Marketable securities in the PRC, at cost | 2,914 | 3,114 |
| PRC Government bonds, at cost | 5 | 98 |
| | 2,919 | 3,212 |
| Provision for impairment loss | ( 175 ) | ( 189 ) |
| Market value | 2,744 | 3,023 |

## 22. Share capital

| | 2004 RMB'000 | 2003 RMB'000 |
|---|---|---|
| Registered, issued and fully paid capital, at par value of RMB1 each | | |
| 162,360,000 (2003 - 108,240,000) domestic shares | 162,360 | 108,240 |
| 33,264,000 (2003 - 22,176,000) "A" shares | 33,264 | 22,176 |
| 49,500,000 (2003 - 33,000,000) "B" shares | 49,500 | 33,000 |
| | 245,124 | 163,416 |

Pursuant to the resolution in relation to the distribution of the profit passed at the annual general meeting for 2003, a capitalisation issue of 5 bonus shares for every 10 shares was made by reference to the number of shares that were in issue in 2003.

## 23. Minority interests

| | 2004 RMB'000 | 2003 RMB'000 |
|---|---|---|
| Minority interests | 88,871 | 78,396 |
| Dividend payable to minority interests | 719 | 391 |
| | 89,590 | 78,787 |

## 24. Short-term and long-term loans

| | 2004 RMB'000 | 2003 RMB'000 |
|---|---|---|
| Bank loans, secured | 52,500 | 112,760 |
| Bank loans, pledged | 8,123 | 640 |
| Bank loans, guaranteed | 40,000 | - |
| Bank loans, unsecured | - | 5,000 |
| Other loans, secured | 4,700 | 4,700 |
| Others payable | 200 | 200 |
| | 105,523 | 123,300 |
| Portion classified under current liabilities | ( 101,323 ) | ( 119,100 ) |
| Long-term portion | 4,200 | 4,200 |

The bank loans bear interest at various rates ranging from 5.0445% to 5.31% (2003 - from 4.3365% to 4.8675%) per annum.

The interest rate of other loans is 9.63% (2003 - 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 (2003 - RMB18,483,000).

## 26. Cash flow from financing

| | Bank & other loans RMB'000 | Minority interests RMB'000 |
|---|---|---|
| Balance as at beginning of the year | 123,300 | 78,787 |
| Cash flows from financing activities | ( 17,777 ) | 3,800 |
| Dividend paid to minority shareholders | - | ( 1,237 ) |
| Profit attributable to minority interests | - | 8,684 |
| Profit from changes in equity interest of existing subsidiaries | - | ( 444 ) |
| Balance as at end of the year | 105,523 | 89,590 |

## 27. Related party transactions

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

| Related party | Transactions | 2004 RMB'000 | 2003 RMB'000 |
|---|---|---|---|
| Shenzhen Tianlong Industrial Trading Co., Ltd. | Sales | 12,028 | 13,376 |
| | Interest income | 36 | 194 |
| | Purchases | - | 2,500 |
| Business Faith International Co., Ltd. | Interest income | 313 | 311 |
| Shenzhen Xin Fang Textile Factory Co., Ltd. | Interest income | - | 566 |
| Shenzhen Xiang Jiang Leather Product Co., Ltd. | Interest income | 42 | 58 |
| Shenzhen Investment Administration Company | Interest expense | - | 385 |

## 28. Assets held under security

As at December 31, 2004, the Group had used its buildings and investment properties with a total fair value of RMB113,967,000 (2003 - RMB118,438,000) as security for the general banking facilities.

## 29. 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.

## 30. 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.

## 31. Impact of IFRS adjustments on profit attributable to shareholders

| | 2004 RMB'000 | 2003 RMB'000 |
|---|---|---|
| As reported by PRC Certified Public Accountants | 26,939 | 34,086 |
| Adjustments to conform to IFRS : | | |
| Over-provision of depreciation of investment properties reversed | 2,346 | 2,346 |
| Amortisation of negative goodwill | 567 | 568 |
| Provision for impairment loss on unconsolidated subsidiaries reversed | 31 | 166 |
| Loss on deemed disposal of subsidiaries | - | ( 1,697 ) |
| Profit from changes in equity interest of an existing subsidiary | 433 | - |
| Amortisation of intangible assets | 784 | 788 |
| Others | - | 104 |
| As restated in conformity with IFRS | 31,100 | 36,361 |

## 32. Impact of IFRS adjustments on net asset value

| | 2004 RMB'000 | 2003 RMB'000 |
|---|---|---|
| As reported by PRC Certified Public Accountants | 336,894 | 338,937 |
| Adjustments to conform to IFRS : | | |
| Over-provision of depreciation of investment properties reversed | 20,490 | 18,144 |
| Provision for impairment loss on unconsolidated subsidiaries | 31 | 166 |
| Loss on deemed disposal of subsidiaries | ( 1,531 ) | ( 1,697 ) |
| Amortisation of intangible assets | ( 2,901 ) | ( 3,685 ) |
| As restated in conformity with IFRS | 352,983 | 351,865 |

## 33. Language

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

## 34. Comparative figures

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