Shenzhen Textile (Holdings) Co., Ltd.

Annual Report 2004 (B)

April 2005

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Important notes

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

Mr. Guan Tongke, the board chairman of the Company and Deputy chief accountant .Mr. Liu Yi, the director of Finance Dept., represent and warrant the financial and accounting report in the annual report is true and complete.

I. Brief Introduction of the Company

(I) 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.

Short form in English: STHC

(II) Legal Representative : Guan Tongke

General Manager: Liu Junhou

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

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

Post Code: 518031

Tel : 0755-3776043

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E-mail:cjane@mail.china.com

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

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

Post Code: 518031

E-mail : sztext@szonline.net

(V) Newspapers for Information Disclosure:

Securities Times, Hong Kong Commercial Daily

Internet Web Site for Publishing the Annual Report: http://www.cninfo.com.cn

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

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

Short Form of the Stock : Shen Textile A　Shen Textile B

Stock Code : 000045　200045

(VII) Other Relevant Information

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

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

Registration No. of Legal Entity Business License: 4403011013060

Tax Registration No.: 44030111001108

Certified public accountants retained by the Company:

Name: Shenzhen Pengcheng Certified Public Accountants

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

Name: K.C. Oh & Co.

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

II. Highlights of Accounting Data and Business Data

（I） Main accounting data and Main financial indicators of the report year

1 Main account data

Unit: RMB'000

	2004(the report year)	2003(the previous year)	2002	Increase/decrease (%)
Turnover	448393	451965	457480	-0.79
Before-tax profit	39784	42200	11851	-5.73
Profit for the year	31100	36361	9444	
	End of 2004	End of 2003	End of 2002	Increase/decre

	(End of report year)	(End of previous year)		ase (%)
Total assets	680697	714932	752283	-4.79
Shareholders' equity	3529830	351865	316072	0.32
Net cash inflow from operating activities	39883	5733	74149	595.67

2.Main financial indicators

Unit: RMB'000

	2004 (the report year)	2003 (the previous year)	2002	Increase/decrease (%)
Earnings per share	0.127	0.148	0.058	-14.19
Return on net assets	8.81	10.33	2.99	-14.75
Net cash inflow per share from operating activities	0.16	0.04	0.45	300.00
	End of 2004 (End of report year)	End of 2003 (End of previous year)	End of 2002	
Net assets per share	1.44	2.15	1.93	-33.02

3．The influence of the adjustment of the financial reports audited by Chinese certified public accountants according to international standards for financial report on the net profit of the Company:

	2004 RMB '000	2003 RMB '000
Pursuant to the financial report audited by Chinese C.P.A.	26,939	34,086
Adjustment made for complying with international accounting standards:		
Writeback of over-provision for the depreciation of real estate of investment nature	2,346	2,346
Amortization of negative goodwill	567	568
Writeback of impairment of unconsolidated subsidiaries	31	166

Disposal of unconsolidated subsidiaries	-	(1,697)
Income from the change in equity of subsidiaries	433	-
Amortization of intangible assets	784	788
Other	-	(104)
Restated pursuant to international standards for financial report	31,100	36,361

The influence of the adjustment of the financial reports audited by Chinese certified public accountants according to international standards for financial report on the Net Value of Assets of the Company:

	2004 RMB '000	**2003 RMB '000**
Pursuant to the financial report audited by Chinese C.P.A.	336,894	338,937
Adjustment made for complying with international accounting standards:		
Writeback of over-provision for the depreciation of real estate of investment nature	20,490	18,144
Writeback of impairment of unconsolidated subsidiaries	31	166
Disposal of unconsolidated subsidiaries	(1,531)	(1,697)
Amortization of intangible assets	(2,901)	(3,685)
Restated pursuant to international standards for financial report	352,983	351,865

The financial statements of the Company were audited by K.C. Oh & Co. according to international standards for financial report.

III． Particulars about the Changes of Share Capital and Shareholders

I Schedule of Change in Share Capital Unit: shares

	Before this change	Increase/decrease this time (+ , -)						After this change
		Share allotment	Bonus shares	Capitalization of common reserve fund	Secondary offer	Others	Subtotal	
I. Non-negotiable shares								
1. Promoter's shares	108,240,000			54,120,000			54,120,000	162,360,000
Including：								
State-owned shares	108,240,000			54,120,000			54,120,000	162,360,000
Domestic corporate shares								
Overseas								

corporate shares								
Other								
2. Raised corporate shares								
3. Staff shares								
4. PREFERRED SHARES OR OTHERS								
Total non-negotiable shares	108,240,000			54,120,000			54,120,000	162,360,000
II. NEGOTIABLE SHARES								
1. RMB common shares	22,176,000			11,088,000			11,088,000	33,264,000
Of which : senior executive shares	67,200			33,600			33,600	100,800
2. Domestically listed foreign investment shares	33,000,000			16,500,000			16,500,000	49,500,000
3. Overseas listed foreign investment shares								
4.other								
Total negotiable shares	55,176,000			27,588,000			27,588,000	82,764,000
III. Total shares	163,416,000			81,708,000			27,588,000	245,124,000

(II) Particulars about the issuing and listing of shares

1. The Company did not issue new shares and derived securities in the previous three years by the end of the report period.

2. In the report period, the Company capitalized capital surplus on five-for-ten basis with the total share capital at the end of 2003, i.e., 163,416,000 shares, as the base. After capital surplus capitalization, the Company had 245,124,000 shares in total. The Company's share capital structure remained unchanged.

3. After approval, the Company issued 3.8 million staff shares at the price of RMB 3.9 per share in June 1994. The staff shares were approved to be listed in February 1995. As of December 31, 2004, the senior executives of the Company held 100,800 shares. The trusted

organ of the staff shares is China Securities Registration Settlement Co., Ltd. Shenzhen Branch.

(III) Introduction to Shareholders

1. As of December 31, 2004, the Company had 19,005 shareholders in total including one shareholder of state-owned shares, 10，787 shareholders of A shares and 8，217 shareholders of B shares.

2. Particulars of the shareholding of the top ten shareholders as of December 31, 2004

Total number of shareholders at the end of the report period	19,005					
Particulars about the shareholding of the top ten shareholders						
Name of shareholder (full name)	Increase or decrease within the year	Quantity of shares held at the end of year	Proportion (%)	Type of share	Quantity of pledged or frozen shares	Nature of shareholder
henzhen Investment Management Co.	54120000	16236000	66.24	Non-negotiable	107000000	State-owned shareholder
Wang Bin 王滨	Unknown	561054	0.23	Negotiable	Unknown	A
VICTOR ONWARD PRINTING &DYEING (HK) CO.LTD	185000	555000	0.23	Negotiable	Unknown	B
Ge RUMING	Unknown	492000		Negotiable	Unknown	B
Liu Jinhua	189997	420092		Negotiable	Unknown	B
DBS VICKERS (HONGKONG) LTD A/C CLIENTS	Unknown	389985		Negotiable	Unknown	B
LOK YUNG CHING	Unknown	360000		Negotiable	Unknown	B
Chen Jingwen	Unknown	345000		Negotiable	Unknown	B
WU, KIN YEUK	Unknown	316055		Negotiable	Unknown	B
Yang Guoxiong	Unknown	311702		Negotiable	Unknown	B

Among the above shares, except that 16,236,000 state-owned shares are non-negotiable shares, all other shares are negotiable shares.

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

Among the above shareholders, the one holding shares on behalf of the state is Shenzhen Investment Management Co. No. 3 ,4,5,6,7,8,9 and 10 shareholders are the ones holding foreign investment shares.

3.The shares held by Shenzhen Investment Management Co. account for 66.24% of the total share capital of the Company. Its legal representative: Li Heihu. Date of establishment: February 10, 1988. Registered capital: RMB 2 billion. It is a solely state-owned company in Shenzhen. Main business: Management and supervision of state-owned assets, finance and property right representatives, share participation in various municipal enterprises and turnover investment, provision of loan guarantee, levy of occupation fee of after-tax profit and assets of state-run enterprises, other businesses authorized by the municipal government.

4. In the report period, Shenzhen Investment Management Co., Ltd., the controlling shareholder of the Company and other two assets operation companies (Shenzhen Construction Holding Company and Shenzhen Commerce and Trade Investment Holding Company) were merged into Shenzhen Investment Holding Co., Ltd. according to the Decision on Establishing Shenzhen Investment Holding Co., Ltd. - SGZW (2004) No. 223 Document issued by State-owned Assets Administration Committee of Shenzhen Municipal People's Government. Therefore, the state-owned shares of the Company held by Shenzhen Investment Management Co., Ltd. are managed by Shenzhen Investment Holding Co., Ltd. The legal representative of Shenzhen Investment Holding Co., Ltd.: Chen Hongbo; Date of establishment: October 13, 2004; Registered capital: RMB 1 billion. It is a solely state-owned company in Shenzhen. Business scope: Providing guarantee to municipal state-owned enterprises, managing state-owned equity of enterprises other than those directly supervised by Municipal State-owned Assets Commission, conducting asset reorganization, system transformation and capital operation of affiliated enterprises, making investment and doing other businesses authorized by the Municipal State-owned Assets Commission. The Company disclosed the above information on Securities Times and Hong Kong Commercial Daily on November 4, 2004. National Assets Regulatory Commission of Shenzhen Municipal People's Government is the actual controller of the Company.

The chart of property right relationship between the Company and its actual controller:

National Assets Regulatory Commission of Shenzhen Municipal People's Government

↓ 100%

Shenzhen Investment Holding Co., Ltd.

↓ 66.24%

Shenzhen Textile (Holdings) Co., Ltd.

5. Except Shenzhen Investment Management Co., the Company has no other legal person shareholders holding more than 10% (including 10%) shares of the Company.

6. Particulars of the shareholding of the top ten Negotiable shareholders as of December 31, 2004

Name of shareholder	Quantity of shares held (shares)	Type of share
Wang Bin	561054	A
VICTOR ONWARD PRINTING &DYEING (HK) CO.LTD	555000	B
Ge Ruming	492000	B
Liu Jinhua	420092	B
DBS VICKERS (HONGKONG) LTD A/C CLIENTS	389985	B
LOK YUNG CHING	360000	B
Chen Jingwen	345000	B
WU, KIN YEUK	316055	B
Yang Guoxiong	311702	B
Chen Zhaofeng	300591	A

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

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

(I). Introduce

Name	Sex	Age	Title	Date of starting and ending	Shares held at year-beginning	Shares held at year-end
Guan Tongke	**Male**	**57**	Board chairman	2003.6.30—2006.6.29	37,200	55800
Liu Junhou	**Male**	**46**	Director, General Manager	2003.6.30—2006.6.29	0	0
Li Jingqiang	**Male**	**52**	Director	2003.6.30—2006.6.29	30000	45000
Zhu Dahua	**Male**	**37**	Director, chief accountant	2003.6.30—2006.6.29	0	0
Yang Jichao	**Male**	**50**	Independent director	2003.6.30—2006.6.29	0	0
Liu Xiangqing	**Male**	**43**	Independent director	2003.6.30—2006.6.29	0	0
Huang Hui	**Male**	**40**	Independent director	2003.6.30—2006.6.29	0	0
Gao Zhuofu	**Male**	**52**	Chairman of Supervisory Committee	2003.6.30—2006.6.29	0	0
Guo Jianhua	**Female**	**49**	Supervisor	2003.6.30—2006.6.29	0	0
Zhou Dadong	Male	**58**	Deputy GM	2003.7.30—2006.6.29	0	0
Feng Junbin	**Male**	**42**	Deputy GM	2003.7.30—2006.6.29	0	0
Zhu Jun	Male	**41**	Deputy GM	2003.7.30—2006.6.29	0	0

In the report period, the number of shares held by board chairman Guan Tongke and director Li Jingqiang respectively increased by 18,600 and 15,000 due to capital surplus capitalization in the report period.

(II) Posts held by directors, supervisors and senior executives

Guan Tongke served successively as secretary of Party branch of No. 703 Geologic Team of Guangdong Geological Bureau, office director of Shenzhen Geological Bureau, deputy general manager, deputy secretary and secretary of Party committee and the general manager of the Company. He now serves as chairman of the board of directors of the Company and concurrently serves as chairman of the board of directors of Shenfang Lekai Photoelectronic

Materials Co., Ltd. and Jiangxi Xuanli Yarn Industry Co., Ltd., two controlled subsidiaries of the Company.

Liu Junhou served successively as teacher of Shandong Textile College, manager of Development Dept., manager of a subsidiary, general manager assistant and deputy general manager of the Company. He served as director and general manager of the Company till March 2005. He concurrently serves as chairman of the board of directors of Shenzhen Beauty Century Garment Co., Ltd., a controlled subsidiary of the Company.

Li Jinqiang served successively as clerk of Shenzhen Baoan Xixiang Sugar Mill, section chief of Shenzhen Light Industry Company, director of Personnel Dept., general manager assistant, deputy general manager and deputy secretary of Party committee of the Company. He now serves as director and secretary of discipline committee of the Company and concurrently serves as chairman of the board of directors of Shenzhen Shenfang Property Management Co., Ltd., a wholly-owned subsidiary of the Company.

Zhu Dahua served successively as manager of Accounting and Financial Dept., manager of Supervision and Audit Dept., general manager assistant and deputy general manager of China (Shenzhen) Education Enterprise Co., Ltd. He now serves as director and financial controller of the Company.

Li Jinqiang served successively as clerk of Shenzhen Baoan Xixiang Sugar Mill, section chief of Shenzhen Light Industry Company, director of Personnel Dept., general manager assistant, deputy general manager and deputy secretary of Party committee of the Company. He now serves as director and secretary of discipline committee of the Company and concurrently serves as chairman of the board of directors of Shenzhen Shenfang Property Management Co., Ltd., a wholly-owned subsidiary of the Company.

Zhu Dahua served successively as manager of Accounting and Financial Dept., manager of Supervision and Audit Dept., general manager assistant and deputy general manager of China (Shenzhen) Education Enterprise Co., Ltd. He now serves as director and financial controller of the Company.

Huang Hui, a senior lawyer, once worked at Nantong Municipal People's Government, Jiangsu Province and the Standing Committee of People's Congress of Shenzhen and was engaged in legislation work. He served successively as lawyer of Shenzhen Tangren Law Office and partner of Guangdong Shengtang Law Office. He now serves as independent director of the Company.

Gao Zuofu, an ex soldier, served successively as head of Personal Guarantee Section of Guangning Commercial Bureau, Guangdong, manager of Guangning Overseas Chinese Commodity Supply Co., secretary of Party committee of Muge Town of Guangning County, general manager of Zhaoqing Dinghu District Pharmaceutical Company, deputy office director of Shenzhen Torch Industrial Company, section staff in charge of Shenzhen Municipal Enterprise Working Committee, deputy secretary of discipline committee and director of Discipline Inspection Room of Shenzhen Investment Management Co., Ltd. He now serves as chairman of the supervisory committee of the Company.

Guo Jianhua served successively as deputy workshop superintendent and chairman of labor union Xiangfan Printing and Dyeing Mill, Hubei Province, deputy secretary of Communist Youth League, manager of Personnel and Labor Dept. and chairman of labor union of the Company. He served as supervisor of the Company till February 2005.

Zhou Dadong served successively as factory director of Hunan Anjiang Textile Printing and Dyeing Mill, deputy director of Hunan Huaihua Economic Commission, general manager of Hunan Garment Industry Company, factory director of Shenzhen South Textile Co., Ltd., manager of Investment Dept. and general manager assistant of the Company. He now serves as deputy general manager of the Company and concurrently serves as chairman of the board of directors of Shenzhen Jinlan Decorative Articles Industrial Co., Ltd., a wholly-owned subsidiary of the Company.

Feng Junbin served successively as special enterprise controller of Guangdong Dapu County Finance Bureau, deputy section head of Guangdong Fengshun County, director of Audit Dept., manager of Enterprise Management Dept., general manager assistant and supervisor of the Company. He now serves as the Company's deputy general manager and concurrently serves as chairman of the board of directors of Shenzhen Jingguang Footwear Enterprise Co., Ltd. and Shenzhen Zhongxing Fibre Folds Cotton Clothing Ornament Co., Ltd., controlled subsidiaries of the Company.

Zhu Jun served successively as secretary of Lige Village, Yutai County, Shandong Province, workshop director of Shandong Jining Cotton Mill, deputy factory director of Jining Chemical Fibre Factory, office director of Jining Textile Industry Company, deputy county head of Wenshang County, Shandong Province, office director of Shandong Textile Department, chief of Personnel Eduction Division and general manager assistant of the Company. He now serves as deputy general manager of the Company and concurrently serves as chairman of the board of directors of Shenzhen Lisi Industrial Co., Ltd. and Shenzhen Huaqiang Hotel Co., Ltd., wholly-owned subsidiaries of the Company.

(II) Annual remuneration

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

The total annual remuneration of the current directors, supervisors and senior executives of the Company is RMB 2.9207 million. The total annual remuneration of the top three directors receiving the annual remuneration of the highest amount is RMB 1.2711 million. The total annual remuneration of 3 senior executives is RMB 0.9368 million. The number of persons whose annual remuneration is RMB 0.4 - 0.46 million: 2; The number of persons whose annual remuneration is RMB 0.35-0.40 million: 2; The number of persons whose annual remuneration is RMB 0.3-0.35 million: 4 persons. Each independent director receives subsidy of RMB 30,000 from the Company each year.

The independent director did not receive remuneration from the Company. Mr. Zhu Dahua, the financial controller, did not receive remuneration from the Company. He receives remuneration from Shenzhen Investment Management Co., the controlling shareholder of the Company.

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

In the report period, Mr. Feng Junbin resigned from the position of supervisor for work-related reason. His resignation was approved at 2003 annual shareholders' general meeting of the Company.

In the report period, the board of directors of the Company appointed Mr. Zhu Dahua as the financial controller of the Company.

(IV) Staff

As of December 31, 2004, the Company had 697 staff members in total, including 416 production employees, 88 sales employees, 56 technical employees, 32 financial employees and 105 administrative employees. Among the employees, 12 hold Master's degree or above, 135 are graduates of universities and junior colleges and 36 have education of technical secondary school. The number of retired staff was 85 .

V. Control Structure of the Company

(I) The particulars of corporate administration structure

The Company unceasingly improved corporate administration structure and standardized its operation according to the requirements of Guidelines for Administration of Listed Companies, met standardized requirements in respect of the operation of the shareholders' general meeting, the board of directors and the supervisory committee and information disclosure, fully respected and safeguarded the legitimate rights of related parties and adopted procedure. In the report period, the Company formulated and implemented Regulations on Management of Relationship with Investors, perfected Internal Control System of the Company and seriously made rectification in respect of the problems found by CSRC Shenzhen Securities Administration during the patrol inspection of companies.

By contrast with the documents regulating the administration of listed companies, the

Company has the following shortcoming: The Company lacks systemic regulations and measures in respect of the performance appraisal of directors, supervisors and senior executives. At present, the Company is actively exploring practical and effective management mode that suits its actual conditions and trying to establish fair and efficient performance appraisal system and stimulation and restriction mechanism for directors, supervisors and senior executives, improve corporate administration structure and further enhance its efficiency.

(II) Duty performance of independent directors

Name of independent director	The supposed times of attendance this year	Attendance in person (times)	Attendance through agent (times)	Absence (times)
Yang Jichao	4	4	0	0
Liu Xiangxing	4	4	0	0
Huang Hui	4	4	0	0

In the report period, the independent directors of the Company seriously and independently performed their duties, attended board meetings on time and without absence, gave original views on the business management, investment decision and standardized operation of the Company and expressed independent professional opinions on the appointment and dismissal of senior executives, investment decision, business management and standardized operation according to relevant provisions of the Company Law, the Articles of Association of the Company, Guiding Opinions on the Establishment of Independent Director System at Listed Companies and Guidelines for Administration of Listed Companies.

In the report period，independent directors of the Company did not make objection to proposals and other matters examined at all previous board meetings of the Company.

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

VI. BRIEF INTRODUCTION TO SHAREHOLDERS' GENERAL MEETING

(I)The announcement of 2003 annual shareholders' general meeting of the Company was published on Securities Daily and Hong Kong Commercial Daily on April 26, 2004 The meeting was held at the meeting room of the Company on 6/F of Shenfang Building of June 3, 2004.16 shareholders and their proxies attended the meeting, representing 108,501，825 shares that account for 66.40% of the total shares of the Company. 8 shareholders of A Shares attended the meeting, representing 108,336,500 shares that account for 66.30% of the total shares of the Company. 8 shareholders of B Shares attended the meeting, representing 165,325 shares that account for 0.10 % of the total shares of the Company. The holding of the meeting complied with the provisions of the Company Law and the Articles of Association of the Company. The meeting was presided over by chairman of the board of directors Mr. Guan Tongke.

(II) 2003 annual shareholders' general meeting of the Company adopted the following resolutions:

1.2003 work report of the board of directors of the Company;

2.2003 work report of the supervisory committee of the Company;

3.2003 final accounting report of the Company

4.2003 profit distribution plan of the Company;

5. The resolution for engaging auditing organ for the Company in 2004;

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

7. The resolution for approving the resignation of Mr. Feng Junbin from the position of supervisor.

The above resolutions were published on Securities Daily and Hong Kong Commercial Daily on June 4, 2004.

VII. REPORT OF THE BOARD OF DIRECTORS

(I) Operating status of the Company

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

The 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 2004, the Company's business developed steadily. Both production and marketing of high-tech products with high added value throve. The property occupancy rate was enhanced. In 2004, the income and profit earned by the Company were RMB 448.39 million and RMB 311 million respectively, a decrease of 0.8% and 14.5% respectively over the same period of the previous year mainly due to the decrease of non-recurring gains.

Industry: In the report period，the income of the Company from the manufacturing industry was RMB 195.178 million, an increase of 2.04% over the same period of the previous year. The total profit from manufacturing industry was RMB 16.512 million, an increase of RMB 17.122 million over the same period of the previous year mainly due to the rapid growth of the profits of high-tech enterprises and newly established enterprises .

Trade: In the report period，the income of the Company from trade was RMB 222.138 million, an increase of 3.5% over the same period of the previous year. The profit from trade was RMB 1.934 million, a decrease of 338% over the same period of the previous year mainly due to the sharp decline of the proportion of highly profitable export trade to total volume of trade.

Property lease and hotel business: The Company owns Shenfang Building and other properties including commercial stalls, factory buildings, office buildings and warehouses for lease. In the report period，the income of the Company from property lease, warehousing and hotel business was RMB 50.162 million, an increase of RMB 6.933 million over the same period of the previous year mainly due to the increase of rental income after the reconstruction of the annex of Shenfang Building.

The sales of the main products whose sales profit accounted for over 10% of total profit from main operation in the report period:

Product	Sales income	Sales cost	Gross profit rate
Polarizer sheet for LCD	51,863,156.09	39,513,406.34	23.8%
Fully-shaped knitted garment	32,780,563.68	22,967,913.88	29.9%

The profitability of the Company's main operations in the report period rose over the previous report period mainly because industrial enterprises strengthened new product development and both production and marketing of high-tech products with high added value throve. The gross profit rate rose by 7.5% over the same period of the previous year.

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

With registered capital of RMB 20 million and total assets of RMB 32.87 million, Shenzhen Beauty Century Garment Co., Ltd. is engaged in production entirely-electronic figured full-shaped knitted garments. It earned net profit of RMB 6.474 million in 2004.

With registered capital of RMB 68 million and total assets of RMB 73.66 million, Shenzhen Shenfang Lekai Photoelectronic Materials Co., Ltd. is engaged in producing polarizer sheet products for LCD. It earned net profit of RMB 6.656 million in 2004. Losses were turned into profits.

With registered capital of RMB 50 million and total assets of RMB 57.50 million, Anhui Huapeng Textile Co., Ltd. is mainly engaged in production, bleaching, printing, dyeing and sales of yarns. It earned net profit of RMB2.505 million in 2004.

With registered capital of RMB 20 million and total assets of RMB 29.70 million, Jiangxi Xuanli Yarn Industry Co., Ltd. is engaged in production of various stitch yarns and knitted garments. It earned net profit of RMB 0.05 million in 2004.

With registered capital of RMB 5 million and total assets of RMB 23.24 million, Shenzhen Shenfang Import and Export Co., Ltd. is engaged in export and import business. It earned net profit of RMB 1.644 million in 2004.

With registered capital of RMB 3.54 million and total assets of RMB 16.13 million, Shenzhen Jinlan Decorative Articles Industrial Co., Ltd. is mainly engaged in production of bedroom articles series. It earned net profit of RMB 0.559million in 2004.

With registered capital of RMB 2.14 million and total assets of RMB 13.46 million, Shenzhen Lisi Industrial Co., Ltd. is mainly engaged in property lease and management. In 2004, the property occupancy rate was 100% and it earned net profit of RMB 1.023 million.

With registered capital of RMB 1.68 million and total assets of RMB 2.12 million, Shenzhen Zhongxing Fibre Folds Cotton Clothing Ornament Co., Ltd. is engaged in producing fiber fold cotton and relevant products. In 2003, it suffered loss of RMB 0.432 million It is mainly due to insufficient market competitiveness of products.

With registered capital of RMB 7.2 million and total assets of RMB 10.98 million, Shenzhen Jingguang Footwear Co., Ltd. is engaged in producing footwear products. In 2003, it suffered loss of RMB 0.429 million，It is mainly due to insufficient market competitiveness of products.

With registered capital of RMB 1.6 million and total assets of RMB 4.06 million, Shenfang Property Management Co., Ltd. is mainly engaged in property lease and management. In 2004, the property occupancy rate was 96% and it earned income of Management expense of RMB 5.78 and basic balance of receipts and expenditures.

3. Main suppliers and customers

The accumulative amount of purchase from the top five suppliers was RMB 117,965,985.86, accounting for 44.87% of the Company's accumulative annual purchase amount. The accumulative amount of sales to the top five customers was RMB

155.513.825.01, accounting for 34.7% of the Company's accumulative annual sales amount.

4. Problems and difficulties occurred in operation and their solutions

In the report period, the Company faced the problems of rise in price of raw materials of textile products and garments, the falling of unit price of overseas garment orders and the failure of certain subsidiaries to satisfy customers' order demand due to restriction of production capacity. In addition, the Company was included by Shenzhen Municipal Government in the list of enterprises from which state-owned capital would withdraw. As the change was related to the personal interests of employees, employees had some complaints. To deal with the above problems, the Company took the following measure: (1) It conveyed the gist of Shenzhen state-owned enterprise reform and development meeting and made employees reach common understanding through work meetings, manager meetings of subsidiaries and employees' general meeting. Meanwhile, it actively communicated with relevant departments and sought jointly beneficial plan in the best interests of the state, the Company and employees so as to stabilize employees' emotion. (2) It strengthened basic enterprise management and cost control, stabilized quality and constantly reduced production cost. Meanwhile, it supported subsidiaries in quickening new product development and actively developing markets. (3) It introduced equipment at opportune time to enhance production capacity and satisfy market demand.

(II) The investment of the Company

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

2.In the report period, the Company invested RMB 1.88 million in share capital increase of Shenzhen Hengsheng Investment Co., Ltd. Shenzhen Hengsheng Investment Co., Ltd. was jointly established by the Company (19.58%), Labor Union of Shenzhen Textile Organization (67.75%) and Labor Union of Shenzhen Textile Group (12.67%). Its business scope: Investment in and establishment of industrial entities. In the report period, Shenzhen Hengsheng Investment Co., Ltd. invested RMB 2.55 million and RMB 4 million respectively in Shenzhen Shenfang Import and Export Co., Ltd. (the Company owns 49% equity) and Shenzhen Beauty Century Garment Co., Ltd. (the Company owns 50% equity).

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

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

As of as of December 31, 2004, the total assets of the Company were RMB 680.697 million, a decrease of 4.8% over the same period of the previous year mainly due to repayment of bank loans and distribution of cash dividends.

Its shareholders' equity was RMB 352.983 million, an increase of 0.3% over the same period of the previous year mainly due to profit making in the report period.

Its profit was RMB 31.10 million, a decrease of 14.5% over the same period of the previous year mainly due to the decrease of non-recurring profits.

Its cash and cash equivalents were RMB 121.26 million, a decrease of 5.4% over the same period of the previous year mainly due to the distribution of cash dividends and the repayment of bank loans.

2. Change of profit structure in the report period as compared with the same period of the previous year:

As compared with the same period of the previous year, the profit from industry accounted for 40.9% of the total profit of the Company in the report period, rising to the first place.

(IV) The expected influence of the change of the production and operation environment and macro-economic policies, laws and regulations on the operating results of the Company:

The passive quota of textile products and garments has been cancelled since the beginning of 2005 so that Chinese textile industry has had bigger market space but also faced bigger challenges. European Union applied the policy of half reduction or exemption of tax to certain countries and increased technical barriers including that in respect of environmental protection. U.S. is formulating policy on exemption from customs duty applicable to other Southeast Asian countries. Under the general trend of excess of supply over demand in international textile market, the price competition will be fiercer and profit margin will be further reduced. The Company’ s general export trade will be seriously affected. As the Company's export garment base is abroad, it will also face big challenges and adverse influence. The Company has taken positive measures to respond to fierce market competition.

(V) Focal point of work in the new year

The Company will focus on the following work in 2005: (1) To widen development channels, actively seek new projects with high technological content and the ability to make full use of its available resources and further develop its key textile business. (2) To quicken the construction of key projects and enhance its production and sales capacity and profitability. (1) To quicken construction of phase-II project of Shenfang Lekai Photoelectronic Materials Co., Ltd. and strive to realize trial production before the end of 2005. (2) To improve supporting final finishing equipment of Shenzhen Beauty Century Garment Co., Ltd. and enhance its production capacity. (3) To support Huapeng Textile Co., Ltd. in increasing the production capacity of mercerized yarn and product processing depth and further enhancing profitability. (3) To actively take measures to respond to "post-quota times", give play to overseas enterprises' advantage of receiving orders, strengthen production quality control of export enterprises and enhance production efficiency. Meanwhile, it will quicken the capacity expansion of domestic garment factories, realize the smooth connection between overseas factories and domestic factories and reduce production cost to the greatest extent. (4) To further integrate property resources, invigorate stocking and enhance assets efficiency. (5) To deepen internal management, establish and improve stimulation mechanism and fulfill the target that no subsidiaries will suffer losses.

(VI) Routine work of the board of directors

1. Board meetings and resolutions in the report period

The 4th meeting of the third board of directors of the Company was held on April 23, 2004. 7 directors were supposed to attend the meeting and all of them were actually present. The meeting examined and adopted the following resolutions: the Resolution for Adopting the 2003 Work Report of the Board of Directors, the Resolution for Adopting 2003 Annual Report of the Company and its Summary, the Resolution for Adopting Final Accounting Report for 2003, the Resolution for Adopting Profit Distribution Preplan for 2003, the Resolution for Adopting the Profit Distribution Policy of the Company for 2004 and the Resolution for Engaging the Audit Body of the Company for 2004. The meeting adopted the report of the Company for the first quarter of 2004. The resolution for adding part of the Articles of Association of the Company.

The 5th meeting of the third board of directors of the Company was held on July 26, 2004. 7 directors were supposed to attend the meeting and all of them were actually present. The meeting examined and adopted the Resolution for Passing 2004 Interim Report and the Resolution for Passing 2004 Interim Profit Distribution Preplan.

The 6th meeting of the third board of directors of the Company was held on October 10, 2004. 7 directors were supposed to attend the meeting and all of them were actually present. According to the requirements of the Notice of Rectification within Specified Time Limit in Respect of Problems Found in Patrol Inspection of Shenzhen Textile (Holding) Co., Ltd. - SZJFZ (2004) No. 238 Document issued by CSRC Shenzhen Securities Administration, the meeting organized directors, supervisors and senior executives of the Company to seriously study relevant laws and regulations, arranged relevant departments and personnel to seriously conduct inspection and implement rectification measures one by one and examined and adopted the Report on Rectification of Problems Found by CSRC Shenzhen Securities Administration in Patrol Inspection.

7 directors of the board of directors of the Company examined and adopted the report of the Company for the third quarter of 2004 by means of countersigning on October 20, 2004.

The Resolution for Amending Part of Articles of Association of the Company,

The Resolution for Amending Part of Manager's Working Rules of the Company,

The Resolution for Appointing Financial Controller,

The Resolution for Approving the Wage Plan for Senior Executives of the Company,

The resolution for Adopting Internal Control System of the Company.

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

general meeting

In the report period，the board of directors of the Company seriously implemented all resolutions adopted by shareholders' general meeting according to relevant provisions of the Company Law and the Articles of Association of the Company. According to the resolution of the shareholders' general meeting for 2003 profit distribution plan, the board of directors completed the plan for dividend distribution and capitalization of capital surplus on July 9, 2004.

（VII）Profit distribution preplan for 2004:

As audited by Shenzhen Pengcheng Certified Public Accountants, the net profit of the Company for 2004 is RMB 26,938,981.41. As audited by K.C. Oh & Co. pursuant to international accounting standards, the net profit of the Company for 2003 is RMB 31,100,000.00. As required in the articles of association of the Company, the Company is to appropriate 10% and 5% of its net profit for 2004 (RMB 26,938,981.41), i.e., RMB 2,693,898.14 and RMB 1,346,949.07, respectively for statutory common reserve fund and statutory public welfare fund. With the existing total share capital of the Company, i.e., 245,124,000 shares, as the base, the Company is to pay dividend of RMB 0.6 (including tax) to all shareholders for every 10 shares. After this distribution, the balance of the undistributed profit of the Company is RMB 8,190,694.20.

The Company did not capitalize capital surplus.

(VIII) Other matters

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

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

Shenzhen Securities Supervision Office under China Securities Regulatory Commission:

According to the requirements of SSBH (2003) No. 13 Document and its supplementary notes issued by Listed Companies Supervision Dept. of China Securities Regulatory Commission, we carried out special audit of the status of fund occupation by the controlling shareholder and related parties of Shenzhen Textile (Holding) Co., Ltd. (hereinafter referred to as "the Company") and the regulation-violating guarantee provided by the Company while auditing the financial statements of the Company for 2004. We hereby give the following statement:

I. The particulars of the fund occupation by the controlling shareholder and related parties in 2004

Name of the controlling shareholder and related parties	Relationship with the Company	Balance at beginning of year	Transaction amount on debit side	Transaction amount on credit side	Balance at end of year	Nature of occupation
Guangdong Sun Rise Group Co., Ltd.	Controlled by the same parent company	2,073,487.36	---	2,073,487.36	---	Non-operating
Shenzhen Tianlong Industrial and Trading Co., Ltd.	Affiliated company of the Company	708,148.45	14,109,283.45	15,550,664.49	-733,232.59	Operating
Shenzhen Shenhu Knitting Co., Ltd.	Affiliated company of the Company	2,674,556.36	---	---	2,674,556.36	Non-operating
Shenzhen Xiangjiang Leather Product Co.,Ltd	Affiliated company of the Company	690,000.00	41,653.39	351,653.39	380,000.01	Non-operating
Business faith international co., ltd	Affiliated company of the Company	4,611,528.00	313,503.45	2,615,016.51	2,310,014.94	Non-operating
Total		10,757,720.17	14,464,440.29	20,590,821.75	4,631,338.72	

II. The particulars of repayment of funds by the controlling shareholder and related parties in 2004

Name of the controlling shareholder and related parties	Balance at beginning of year	Increase in current year	Amount of repayment in current year	Manner of repayment

Guangdong Sun Rise Group Co., Ltd.	2,073,487.36	-2,073,487.36	---	Setoff with current accounts
Shenzhen Tianlong Industrial and Trading Co., Ltd.	708,148.45	14,109,283.45	15,550,664.49	Cash repayment
Shenzhen Shenhu Knitting Co., Ltd.	2,674,556.36	---	---	
Shenzhen Xiangjiang Leather Product Co., Ltd.	690,000.00	41,653.39	351,653.39	Cash repayment
Business faith international co., ltd	4,611,528.00	313,503.45	2,615,016.51	Cash repayment
Total	10,757,720.17	12,390,952.93	18,517,334.39	

III. The particulars of the occupation of newly increased funds by the controlling shareholder and related parties in 2004

Name of the controlling shareholder and related parties	Balance at beginning of year	Balance at end of year	Net increase in current year	Reason for occupation	Manner of occupation
Guangdong Sun Rise Group Co., Ltd.	2,073,487.36	---	-2,073,487.36	Reimbursed expenses	Other receivables
Shenzhen Tianlong Industrial and Trading Co., Ltd.	708,148.45	-733,232.59	-1,441381.04	Purchase and sale business	Accounts receivable or payable
Shenzhen Shenhu Knitting Co., Ltd	2,674,556.36	2,674,556.36	---	Purchase and sale business	Other receivables
Shenzhen Xiangjiang Leather Product Co., Ltd.	690,000.00	380,000.01	-309,999.99	Acceptance of labor service	Other receivables

Business faith international co., ltd	4,611,528.00	2,310,014.94	-2,301,513.06	Acceptance of labor service	Other receivables
TOTAL	10,757,720.17	4,631,338.72	-6,126,381.45		

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

1.According to our audit，the Company did not provide guarantee to the controlling shareholder and the subsidiaries of the controlling shareholder as of December 31, 2004.

Shenzhen Pengcheng Certified Public Accountants

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

We, i.e., Yang Jichao, Liu Xiangqing and Huang Hui, are the independent directors of Shenzhen Textile (Holding) Co., Ltd. According to the requirements of the Circular on Certain Issues Relating to Standardization of Fund Transfer Between Listed Companies and Their Related Parties and Guarantees Provided by Listed Companies - ZJF (2003) No. 56 Document issued by CSRC, we audited the status of the guarantee provided by the Company on accumulative basis and in current period with diligent and dutiful attitude. We hereby make relevant statement and express opinions as follows:

As of December 31, 2004, the fund transfer between the Company and related parties strictly complied with and did not violate the provisions of ZJF (2003) No. 56 Document.

As of December 31, 2004，the Company provided guarantee to neither other companies nor its related parties.

Independent direcotors:Yang Jichao Liu Xiangqing Huang Hui

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

VIII. Report of the Supervisory Committee

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

I. The meetings of the supervisory committee in the report period

1. On April 20, 2004, the fourth meeting of the third supervisory committee examined and adopted 2003 annual report, profit distribution preplan, the report of the Company for the first quarter of 2004 and the work report of the supervisory committee for 2003.

2. On July 26, 2004, the 5th meeting of the third supervisory committee of the Company examined and adopted 2004 semiannual report of the Company.

3. October 10, 2004, the 6th meeting of the third supervisory committee examined and adopted the Report on Rectification of Problems Found by CSRC Shenzhen Securities Administration in Patrol Inspection.

4. On December 24, 2004, the 7th meeting of the third supervisory committee examined and adopted the proposal for amending part of the Articles of Association and internal control system of the Company.

II. Opinions of the supervisory committee on other matters

1. The operation of the Company according to law: In the report year, the members of the supervisory committee attended all board meetings of the Company as nonvoting delegates. In the opinion of the supervisory committee, the Company constantly improved and implemented internal control system, the decision-making procedures were standardized and legal, the directors and members of the management of the Company worked diligently and practiced self discipline and no act of violating laws and regulations or the Articles of Association of the Company or harming the interests of the Company.

2. The inspection of the financial affair of the Company: The supervisory committee held the opinion that the Company strictly implemented national finance laws and regulations and its financial statements were complete and truthful. The audit body issued unqualified auditors' report for the Company.

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

4. The related transactions of the Company had small volume and were carried out fairly in the report period.

IX. Important Events

(I) Material lawsuits and arbitration

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

2. Others lawsuits

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

(2) On September 16, 2002, Hong Kong Xieli Maintenance and Repair Co., the Hong

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

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

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

(III) Important related transactions

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

(IV) Important contracts and their performance

1. Trust, contracting and lease

The neither acquired nor disposed of Trust, contracting and lease in the report period.

2. Significant guarantee

In the report period, the Company provided guarantee for bank line of RMB 10.50 million to Shenzhen Beauty Century Garment Co., Ltd., one of its controlled subsidiaries for the period from June 15, 2004 to October 27, 2004. At the end of the report period, the Company has been relieved from such guarantee liability.

3. Entrustment of cash asset management

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

(V) Commitments

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

(VI) Engagement and removal of certified public accountants

The Company engaged Shenzhen Pengcheng Certified Public Accountants and K.C. Oh & Co. as the auditing bodies respectively for the A shares and B shares of the Company in the report period. The remuneration paid by the Company to the above certified public accountants in the report year was respectively RMB 0.38 million and RMB 0.12 million, including traveling expenses. So far, Shenzhen Pengcheng Certified Public Accountants has provided services to the Company for 4 consecutive years. K.C. Oh & Co. has provided services to the Company for 3 consecutive years.

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

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

Except this, the Company did not provide other guarantees.

(VIII) The Company's acceptance of the patrol inspection of CSRC and its local office

In the report period, CSRC Shenzhen Securities Administration conducted patrol inspection of the Company and issued the Notice of Rectification of Problems Found in Patrol Inspection of Shenzhen Textile (Holding) Co., Ltd. within Specified Time Limit - SZJFZ (2004) No. 238 Document. The third board of directors of the Company held the 6th meeting on October 10, 2004, organized directors, supervisors and other senior executives of the Company to seriously check the existing problems of the Company based on studying relevant laws and regulations, implemented rectification measures one by one and submitted rectification report to Shenzhen Securities Administration. The third board of directors of the Company held the 7th meeting on December 24, 2004, made a resolution for the matters subject to submission to the shareholders' general meeting after rectification and submitted rectification summarization to Shenzhen Securities Administration. The above information was published respectively on Securities Times and Hong Kong Commercial Daily on October 30, 2004 and December 24, 2004.

(IX) Subsequent events

On April 15, 2005, the 8th meeting of the third board of directors of the Company examined and approved the application of director and general manager Mr. Liu Junhou for resignation from the position of director and general manager of the Company due to work transfer.

On April 1, 2005, the staff and workers' congress of the Company examined and approved the application of Ms Guo Jianhua for resignation from the position of supervisor due to retirement and elected Ms Zhou Meirong as a supervisor of the Company. This matter was published on Securities Times and Hong Kong Commercial Daily on April 5, 2005.

The post held by Ms Zhou Meirong at present: Zhou Meirong, female, is a graduate of regular college and senior political engineer. She started to work in 1975 and once served as a statistician of No. 2 Mine of Guangdong Shaoguan Coal Bureau and chief section staff of Shaoguan Communist Youth League Committee. She has worked at the Company since 1986 and served successively as secretary of Communist Youth League, director of Party Office, director of office and chairman of labor union. She now serves as supervisor of the Company.

X. Financial Report

1. Auditor's report (attached hereinafter)
2. Financial statements (attached hereinafter)
3. Notes to financial statements (attached hereinafter)

XI. List of Documents available for Inspection

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

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

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

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

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

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

April 20, 2005

Report of the auditors to the members of

Shenzhen Textile (Holdings) Co., Ltd.

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

We have audited the accompanying balance sheet of the Group as of December 31, 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 RMB'000	**2003 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		Principal activities
		2004	2003	
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		Principal activities
		2004	2003	
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.