

Shenzhen Textile (Holdings) Co., Ltd.

Consolidated income statement for the year ended June 30, 2005

	Notes	June,2005 RMB'000	Dec.,2004 RMB'000
Turnover	(5)	193,311	198,610
Cost of sales		<u>(150,857)</u>	<u>(153,428)</u>
Gross profit		42,454	45,182
Other revenue		<u>823</u>	<u>190</u>
		43,277	45,372
Distribution and administrative expenses		<u>(28,047)</u>	<u>(30,034)</u>
Operating profit		15,230	15,338
Income from investments	(7)	1,633	3,834
Finance costs	(9)	(1,850)	(2,031)
Amortisation of negative goodwill		284	284
Share of profit from associates		<u>1,111</u>	<u>1,167</u>
Profit before taxation	(10)	16,408	18,592
Taxation	(11)	<u>(1,449)</u>	<u>(1,547)</u>
Profit after taxation		14,959	17,045
Minority interests		<u>(3,596)</u>	<u>(2,013)</u>
Net profit for the year		<u>11,363</u>	<u>15,032</u>
Earnings per share		<u>RMB0.046</u>	<u>RMB0.061</u>

Earnings per share is calculated by dividing the net profit for the year of RMB11,363,000 (June,2004 – RMB15,032,000) attributable to shareholders by 245,124,000 shares (June,2004 - 245,124,000 shares as adjusted) in issue during the year concerned.

Shenzhen Textile (Holdings) Co., Ltd.

Consolidated balance sheet as at June 30, 2005

	Notes	June ,2005 RMB'000	Dec. ,2004 RMB'000
Non-current assets			
Property, plant and equipment	(12)	209,954	215,599
Investment properties	(13)	101,372	101,372
Construction-in-progress	(14)	30,779	18,470
Intangible assets	(15)	32	34
Interests in associates	(16)	44,042	43,697
Other investments	(17)	45,193	45,193
		<u>431,372</u>	<u>424,365</u>
Current assets			
Inventories	(18)	60,468	55,161
Accounts receivable	(19)	40,190	36,931
Prepayments, deposits and others receivable	(20)	35,012	40,236
Investments in securities	(21)	2,522	2,744
Cash and bank balances		87,912	121,260
		<u>226,104</u>	<u>256,332</u>
Total assets		<u><u>657,476</u></u>	<u><u>680,697</u></u>
Capital and reserves			
Share capital	(22)	245,124	245,124
Reserves		104,515	107,859
		<u>349,639</u>	<u>352,983</u>
Minority interests	(23)	88,772	89,590
Non-current liability			
Long-term loans, non-current portion	(24)	4,200	4,200
Current liabilities			
Long-term loans, current portion	(24)	78,700	101,323
Accounts payable		21,870	22,642
Others payable and accrued expenses		80,345	88,510
Dividend payable	(25)	33,190	18,483
Provision for taxation		760	2,966
		<u>214,865</u>	<u>233,924</u>
Total equity and liabilities		<u><u>657,476</u></u>	<u><u>680,697</u></u>

The financial statements on pages 1 to 29 were approved and authorised for issue by the board of directors on August , 2005 and are signed on its behalf by :

Director

Director

Shenzhen Textile (Holdings) Co., Ltd.

Consolidated cash flow statement for the year ended June 30, 2005

	June ,2005 RMB'000
Cash flow from operating activities	
Operating profit before taxation	16,408
Adjustment items :	
Depreciation and amortisation	10,566
Profit on disposal of property, plant and equipment	(58)
Share of profit from associates	(2,961)
Provision for impairment loss made/(reversed)	
- unconsolidated subsidiaries	-
- other investments	-
- investments in securities	217
Provision for doubtful debts reversed	(24)
Amortisation of negative goodwill	(284)
Interest income	(340)
Interest expense	1,438
Net operating cash inflow before movements in working capital	24,962
Increase in inventories	(5,307)
Increase in accounts receivable	(3,259)
(Increase)/decrease in prepayments, deposits and others receivable	5,224
Increase/(decrease) in accounts payable	(772)
Increase/(decrease) in others payable and accrued expenses	(8,165)
Cash inflow from operating activities before interest and tax payments	12,683
Income tax paid	(3,655)
Interest paid	(2,257)
Net cash inflow from operating activities c/f	<u><u>6,771</u></u>

(to be cont'd)

Shenzhen Textile (Holdings) Co., Ltd.

Consolidated cash flow statement for the year ended June 30, 2005

(cont'd)

	Notes	June,2005 RMB'000
Net cash inflow from operating activities b/f		<u>6,771</u>
Investing activities		
Interest received		340
Purchases of property, plant and equipment	(	4,544)
Increase in construction-in-progress	(	12,309)
Proceeds from disposal of property, plant and equipment		31
Returns from associates received		1,530
Net cash outflow from investing activities	(	<u>14,952)</u>
Net cash inflow/(outflow) before financing activities	(	<u>8,181)</u>
Financing activities		
Decrease in bank and other loans	(26) (	22,623)
Increase/(decrease) in minority interests	(26) (	2,544)
Net cash outflow from financing activities	(	<u>25,167)</u>
Decrease in cash and cash equivalents	(	33,348)
Cash and cash equivalents as at beginning of the year		<u>121,260</u>
Cash and cash equivalents as at end of the year		<u><u>87,912</u></u>
Cash and cash equivalents as at end of the year are represented by :		
Cash and bank balances		<u><u>87,912</u></u>

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended June 30, 2005

1. Corporate information

Shenzhen Textile (Holdings) Co., Ltd. (the "Company") is established in the People's Republic of China (the "PRC") as a joint stock limited company. The ultimate holding company of the Company is Shenzhen Investment Administration Company, a state owned enterprise established in the PRC. The principal activity of the Company is investment holding and the principal activities of the subsidiaries are set out in note 3.

2. Basis of presentation of the financial statements

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS"). These accounting standards differ from those used in the preparation of the PRC statutory financial statements, which are prepared in accordance with the PRC Accounting Standards. To conform to IFRS, adjustments have been made to the PRC statutory financial statements. Details of the impact of such adjustments on the net asset value as at June 30, 2005 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 June 30, 2005, the subsidiaries owned by the Company are listed out as follows :

i) Subsidiaries consolidated

<u>Company name</u>	<u>Place of establishment/ operation</u>	<u>Effective equity held by the Group</u>		<u>Principal activities</u>
		<u>June 2005</u>	<u>Dec., 2004</u>	
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

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended June 30, 2005

(cont'd)

3. Basis of consolidation (cont'd)

(a) Subsidiaries (cont'd)

i) *Subsidiaries consolidated (cont'd)*

<u>Company name</u>	<u>Place of establishment/ operation</u>	<u>Effective equity held by the Group</u>		<u>Principal activities</u>
		June, 2005	Dec., 2004	
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%	100%	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%*	50%*	Knitting and clothing
Anhui 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*

<u>Company name</u>	<u>Place of establishment/ operation</u>	<u>Effective equity held by the Group</u>		<u>Principal activities</u>
		June, 2005	Dec., 2004	
Shenzhen Dahong Textile Co., Ltd.	PRC	100%	100%	Manufacturing and trading of textile products

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended December 31, 2004

(cont'd)

3. Basis of consolidation (cont'd)

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

<u>Company name</u>	<u>Place of establishment/ operation</u>	<u>Effective equity held by the Group</u>		<u>Principal activities</u>
		<u>June, 2005</u>	<u>Dec., 2004</u>	
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 June 30, 2005 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.

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended June 30, 2005

(cont'd)

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

(b) Property, plant, equipment and depreciation

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

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

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

Their estimated useful lives are as follows :

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

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

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

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

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended June 30, 2005

(cont'd)

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

(c) Investment properties

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

(d) Construction-in-progress

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

(e) Intangible assets

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

(f) Other investments

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

(g) Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity are measured at amortised cost, less any impairment loss recognized 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 recognized in each period represents a constant yield on the investment.

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended June 30, 2005

(cont'd)

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

(g) Investments in securities (cont'd)

Investments other than held-to-maturity debt securities are classified as either held for trading or available-for-sale and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For available-for-sale investments, unrealised gains and losses are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period.

(h) Inventories

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

(i) Capitalisation of borrowing costs

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

(j) Foreign currency transactions

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

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended June 30, 2005

(cont'd)

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

(k) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of subsidiary or associate at the date of acquisition. Goodwill is recognised as an asset and amortised on a straight-line basis following an assessment of its useful life of 10 years.

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

(l) Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of subsidiary or associate at the date of acquisition over the cost of acquisition. Negative goodwill is released to income based on an analysis of the circumstances from which the balance is resulted. To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised as income immediately.

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

(m) Cash equivalents

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

(n) Impairment loss

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Any impairment loss arising is recognised as an expense immediately.

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended June 30, 2005

(cont'd)

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

(n) Impairment loss (cont'd)

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

(o) Provisions

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

(p) Taxation

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended June 30, 2005

(cont'd)

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

(p) Taxation (cont'd)

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

Tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

5. Operating income

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

	June,2005 RMB'000	June,2004 RMB'000
Turnover		
Sales of goods	168,780	175,432
Property rental income	21,630	20,151
Hotel operations	2,901	3,027
	<u>193,311</u>	<u>198,610</u>

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended June 30, 2005

(cont'd)

6. Business and geographical segments

Business segments

Segment information about businesses in June, 2005 is presented below :

	<u>Sales of goods</u> <u>RMB'000</u>	<u>Leasing</u> <u>RMB'000</u>	<u>Hotel</u> <u>operations</u> <u>RMB'000</u>	<u>Elimination</u> <u>RMB'000</u>	<u>Consolidated</u> <u>RMB'000</u>
External sales	168,780	21,630	2,901	-	193,311
Revenue	<u>168,780</u>	<u>21,630</u>	<u>2,901</u>		<u>193,311</u>
Gross profit segment result	<u>17,923</u>	<u>21,630</u>	<u>2,901</u>		<u>42,454</u>

Segment information about businesses in June, 2004 is presented below :

	<u>Sales of goods</u> <u>RMB'000</u>	<u>Leasing</u> <u>RMB'000</u>	<u>Hotel</u> <u>operations</u> <u>RMB'000</u>	<u>Elimination</u> <u>RMB'000</u>	<u>Consolidated</u> <u>RMB'000</u>
External sales	175,432	20,151	3,027	-	198,610
Revenue	<u>175,432</u>	<u>20,151</u>	<u>3,027</u>		<u>198,610</u>
Gross profit segment result	<u>22,004</u>	<u>20,151</u>	<u>3,027</u>		<u>45,182</u>

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 :

	June, 2005 RMB'000	June, 2004 RMB'000
Within PRC	106,790	104,399
Outside PRC	<u>86,521</u>	<u>94,211</u>
	<u>193,311</u>	<u>198,610</u>

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended June 30, 2005

(cont'd)

7. Income from investments

	June,2005 RMB'000	June,2004 RMB'000
Returns from investment items	1,850	3,945
Provision for impairment loss on investments in securities	<u>(217)</u>	<u>(111)</u>
	<u><u>1,633</u></u>	<u><u>3,834</u></u>

8. Finance costs

	June,2005 RMB'000	June,2004 RMB'000
Interest expense	1,738	1,844
Bank charges	91	176
Exchange loss	<u>21</u>	<u>11</u>
	<u><u>1,850</u></u>	<u><u>2,031</u></u>

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended June 30, 2005

(cont'd)

9. Profit before taxation

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

	June,2005	June,2004
	RMB'000	RMB'000
After charging :		
Interest expense	1,738	1,844
Depreciation and amortisation	10,566	10,827
Provision for impairment loss on investments in securities	217	111
Staff costs	18,294	18,161
Exchange loss	<u>21</u>	<u>11</u>
And after crediting :		
Interest income	340	1,131
Profit on disposal of property, plant and equipment	31	-
Provision for doubtful debts reversed	24	918
Amortisation of negative goodwill	<u>284</u>	<u>284</u>

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended June 30, 2005

(cont'd)

10. Taxation

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

	June,2005 RMB'000	June,2004 RMB'000
Income tax		
Company and subsidiaries	1,449	1,547
Deferred taxation	<u>-</u>	<u>-</u>
	<u>1,449</u>	<u>1,547</u>

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended June 30, 2005

(cont'd)

12. Property, plant and equipment

	Land and buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Transport equipment RMB'000	Total RMB'000
Cost/valuation						
Balance as at January 1, 2005	160,418	23,918	146,189	10,483	6,501	347,509
Additions	4,395	-	-	55	-	4,450
Balance as at June 30 2005 (*)	164,813	23,918	146,189	10,538	6,501	351,959
Accumulated depreciation						
Balance as at January 1, 2005	(53,423)	(17,980)	(48,937)	(6,380)	(5,190)	(131,910)
Charged for the year	(3,494)	(521)	(5,058)	(632)	(390)	(10,095)
Balance as at June 30 2005	(56,917)	(18,501)	(53,995)	(7,012)	(5,580)	(142,005)
Net book value						
Balance as at June 30 2005	103,501	5,417	92,194	3,526	921	209,954
Balance as at December 31 2004	106,995	5,938	97,252	4,103	1,311	215,599

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 June 30, 2005 approximates the prevailing open market value.

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended June 30, 2005

(cont'd)

13. Investment properties

	June,2005	Dec.,2004
	RMB'000	RMB'000
Cost/valuation	<u>101,372</u>	<u>101,372</u>

Certain investment properties of the Group were appraised by Zhonghua (Shekou) Certified Public Accountants, professional valuers in 1993. The directors are of the opinion that the carrying value of the investment properties as at June 30, 2005 approximates the prevailing market value.

14. Construction-in-progress

	June,2005
	RMB'000
Cost	
Balance as at January 1, 2005	18,470
Additions	12,309
Transfer to property, plant and equipment	-
Transfer to other assets	-
	<u> </u>
Balance as at June 30, 2005	<u><u>30,779</u></u>

15. Intangible assets

	June,2005
	RMB'000
Trademark and technical know-how, at cost	118
Amortisation	<u>(86)</u>
	<u><u>32</u></u>

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended June 30, 2005

(cont'd)

16. Interests in associates

	June,2005 RMB'000	Dec.,2004 RMB'000
Share of net assets	<u>42,708</u>	<u>42,363</u>
Premium in associates	6,890	6,890
Amortisation of premium	<u>(4,823)</u>	<u>(4,823)</u>
	<u>2,067</u>	<u>2,067</u>
	44,775	44,430
Amounts due from associates	-	-
Amounts due to associates	<u>(733)</u>	<u>(733)</u>
Interests in associates	<u><u>44,042</u></u>	<u><u>43,697</u></u>

As at June 30, 2005, the details of the principal associates are listed out as follows :

<u>Company name</u>	<u>Place of establishment/ operation</u>	<u>Effective equity held by the Group</u>		<u>Principal activities</u>
		<u>2004</u>	<u>2003</u>	
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 trading Co., Ltd.	Jordan	35%	35%	Manufacturing and of apparel
Mirage (Saipan) Co., Ltd. trading	Commonwealth of Northern Mariana Islands	35%	35%	Manufacturing and of apparel
Shenzhen Top Form Underwear Co., Ltd.	PRC	30%	30%	Manufacturing and trading of ladies underwear

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended June 30, 2005

(cont'd)

17. Other investments

	June, 2005 RMB'000	Dec., 2004 RMB'000
Subsidiaries not consolidated, at cost	14,425	14,425
Associates not accounted for under equity method, at cost	8,775	8,775
Listed shares, at cost	41,428	41,428
Unlisted shares, at cost	<u>26,430</u>	<u>26,430</u>
	91,058	91,058
Provision for impairment loss	<u>(45,865)</u>	<u>(45,865)</u>
	<u>45,193</u>	<u>45,193</u>

As at June 30, 2005, the details of the subsidiaries not consolidated are listed out as follows :

	<u>Company name</u>	<u>Place of establishment/ operation</u>	<u>Effective equity held by the Group</u>		<u>Principal activities</u>
			<u>June, 2005</u>	<u>Dec., 2004</u>	
trading	Shenzhen Dahong Textile Co., Ltd.	PRC	100%	100%	Manufacturing and of textile products
	Darwin International Co., Ltd.	Hong Kong	100%	100%	Import and export
clothing	Shenzhen Feng Sheng Garments Co., Ltd.	PRC	100%	100%	Manufacturing of
	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.

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended December 31, 2004

(cont'd)

17. Other investments (cont'd)

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

<u>Company name</u>	<u>Place of establishment/ operation</u>	<u>Effective equity held by the Group</u>		<u>Principal activities</u>
		<u>June,2005</u>	<u>Dec.,2004</u>	
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

	June,2005 RMB'000	Dec.,2004 RMB'000
Raw materials	15,246	10,015
Work-in-progress	32,415	31,004
Finished goods	17,905	19,240
Provision for inventory obsolescence	(5,098)	(5,098)
	<u>60,468</u>	<u>55,161</u>

19. Accounts receivable

	June,2005 RMB'000	Dec.2004 RMB'000
Amounts receivable	42,980	39,721
Provision for doubtful debts	(2,790)	(2,790)
	<u>40,190</u>	<u>36,931</u>

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended June 30, 2005

(cont'd)

20. Prepayments, deposits and others receivable

	June,2005 RMB'000	Dec.,2004 RMB'000
Advance payments	7,422	7,851
Prepayments	71	110
Others receivable	<u>51,053</u>	<u>55,833</u>
	58,546	63,794
Provision for doubtful debts	<u>(23,534)</u>	<u>(23,558)</u>
	<u><u>35,012</u></u>	<u><u>40,236</u></u>

21. Investments in securities

	June,2005 RMB'000	Dec.,2004 RMB'000
Marketable securities in the PRC, at cost	2,914	2,914
PRC Government bonds, at cost	<u>-</u>	<u>5</u>
	2,914	2,919
Provision for impairment loss	<u>(392)</u>	<u>(175)</u>
Market value	<u><u>2,522</u></u>	<u><u>2,744</u></u>

22. Share capital

	June,2005 RMB'000	Dec.,2004 RMB'000
Registered, issued and fully paid capital, at par value of RMB1 each		
162,360,000 domestic shares	162,360	162,360
33,264,000 "A" shares	33,264	33,264
49,500,000 shares	<u>49,500</u>	<u>49,500</u>
	<u><u>245,124</u></u>	<u><u>245,124</u></u>

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended June 30, 2005

(cont'd)

23. Minority interests

	June,2005 RMB'000	Dec.,2004 RMB'000
Minority interests	88,772	88,871
Dividend payable to minority interests	<u>-</u>	<u>719</u>
	<u><u>88,772</u></u>	<u><u>89,590</u></u>

24. Short-term and long-term loans

	June,2005 RMB'000	Dec.,2004 RMB'000
Bank loans, secured	38,000	52,500
Bank loans, pledged	-	8,123
Bank loans, guaranteed	40,000	40,000
Bank loans, unsecured	-	-
Other loans, secured	4,700	4,700
Others payable	<u>200</u>	<u>200</u>
	82,900	105,523
Portion classified under current liabilities	<u>(78,700)</u>	<u>(101,323)</u>
Long-term portion	<u><u>4,200</u></u>	<u><u>4,200</u></u>

The bank loans bear interest at various rates ranging from 5.0445% to 5.31% per annum.

The interest rate of other loans is 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 and dividend payable to every shareholders with a sum of RMB14,707,440.

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended June 30, 2005

(cont'd)

26. Cash flow from financing

	Bank & other loans RMB'000	Minority interests RMB'000
Balance as at beginning of the year	105,523	89,590
Cash flows from financing activities	(22,623)	(1,870)
Dividend paid to minority shareholders	-	(2,544)
Profit attributable to minority interests	-	3,596
Profit from changes in equity interest of existing subsidiaries	-	-
	<u>82,900</u>	<u>88,772</u>
Balance as at end of the year	<u>82,900</u>	<u>88,772</u>

27. Related party transactions

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

Related party	Transactions	June, 2005 RMB'000	June, 2004 RMB'000
Shenzhen Tianlong Industrial Trading Co., Ltd.	Sales	5,162	6,178
	Interest income	15	18
Business Faith International Co., Ltd.	Interest income	-	164
Shenzhen Xiang Jiang Leather Product Co., Ltd.	Interest income	11	23

28. Assets held under security

As at June 30, 2005, the Group had used its buildings and investment properties with a total fair value of RMB113,967,000 as security for the general banking facilities.

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended June 30, 2005

(cont'd)

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.

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended June 30, 2005

(cont'd)

31. Impact of IFRS adjustments on profit attributable to shareholders

	June,2005 RMB'000	June,2004 RMB'000
As reported by PRC Certified Public Accountants	9,906	13,575
Adjustments to conform to IFRS :		
Over-provision of depreciation of investment properties reversed	1,173	1,173
Amortisation of negative goodwill	284	284
Others	-	-
	<u>11,363</u>	<u>15,032</u>
As restated in conformity with IFRS	<u>11,363</u>	<u>15,032</u>

32. Impact of IFRS adjustments on net asset value

	June,2005 RMB'000	Dec.,2004 RMB'000
As reported by PRC Certified Public Accountants	332,093	336,894
Adjustments to conform to IFRS :		
Over-provision of depreciation of investment properties reversed	21,663	20,490
Provision for impairment loss on unconsolidated subsidiaries	31	31
Proposed dividend not recorded as liabilities	-	-
Loss on deemed disposal of subsidiaries	(1,531)	(1,531)
Amortisation of intangible assets	(2,617)	(2,901)
	<u>349,639</u>	<u>352,983</u>
As restated in conformity with IFRS	<u>349,639</u>	<u>352,983</u>