

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

Shen Peng Suo Te Zi (2006) No. 114

To Shenzhen Securities Regulatory Bureau under China Securities Regulatory Commission:

We accepted entrustment and conducted special audit of Shenzhen Textile (Holding) Co., Ltd. (hereinafter referred to as "the Company") in respect of the status of fund occupation by the controlling shareholder and other related parties and regulation-violating guarantees provided by the Company as of December 31, 2005. The management of the Company is responsible for providing true, legal and complete original written materials, copy materials or oral testimony about the status of fund occupation by the controlling shareholder and other related parties and the guarantees provided by the Company. It is our responsibility to make auditing statement on the status of fund occupation by the controlling shareholder and other related parties of the Company and the guarantees provided by the Company based on our special audit.

Our audit was conducted 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 issued by China Securities Regulatory Commission (Zheng Jia Fa (2003) No. 56 Document). During audit, we conducted prudent investigation and implemented the audit procedure that we deemed necessary according to Independent Audit Standards for Chinese Certified Public Accountants. We hereby make the following statement:

I. Basic information about the controlling shareholder and other related parties

1. Basic information about the controlling shareholder

Shenzhen Investment Holding Co., Ltd. holds 162.36 million shares of the Company which account for 66.24% of total share capital, being the controlling shareholder of the Company. The registered capital of Shenzhen Investment Holding Co., Ltd. is RMB 4 billion. It is a state-owned

investment holding company mainly engaged in industrial investment.

2. General information about related parties occupying funds without controlling relationship

<u>Company name</u>	<u>Relationship with the Company</u>
Shenzhen Tianlong Industrial and Trading Co., Ltd.	Affiliated company of the Company
Shenzhen Shenhu Knitting Co., Ltd.	Affiliated company of the Company
Shenzhen Xiangjiang Leather Product Co., Ltd.	Affiliated company of the Company
Hong Kong Yehui International Co., Ltd.	Affiliated company of the Company

II. Status of Fund Occupation by the Controlling Shareholder and Related Parties

1. Status of fund occupation by the controlling shareholder

As of December 31, 2005, the controlling shareholder did not occupy the funds of the Company.

2. Status of fund occupation by other related parties as of December 31, 2005

<u>Name of related party</u>	<u>Balance at beginning of year</u>	<u>Transaction amount on debit side in current period</u>	<u>Transaction amount on credit side in current period</u>	<u>Ending balance</u>	<u>Nature of occupation</u>
Shenzhen Tianlong Industrial and Trading Co., Ltd.	-733,232.59	15,768,164.27	13,202,500.00	1,832,431.68	For profit
Shenzhen Shenhu Knitting Co., Ltd.	2,674,556.36	---	---	2,674,556.36	Not for profit
Shenzhen Xiangjiang Leather Product Co., Ltd.	380,000.01	---	190,000.00	190,000.01	Not for profit
Hong Kong Yehui International Co., Ltd.	2,310,014.94	---	2,310,014.94	---	Not for profit
Total	4,631,338.72	15,768,164.27	15,702,514.94	4,696,988.05	

3. Status of fund repayment by other related parties as of December 31, 2005

<u>Name of related party</u>	<u>Balance at</u>	<u>Increase in current</u>	<u>Repayment in</u>	<u>Mode of</u>
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	beginning of year	period	current period	repayment
Shenzhen Tianlong Industrial and Trading Co., Ltd.	-733,232.59	15,768,164.27	13,202,500.00	Repayment in cash
Shenzhen Shenhu Knitting Co., Ltd.	2,674,556.36	---	---	
Shenzhen Xiangjiang Leather Product Co., Ltd.	380,000.01	---	190,000.00	Repayment in cash
Hong Kong Yehui International Co., Ltd.	2,310,014.94	---	2,310,014.94	Repayment in cash
Total	<u>4,631,338.72</u>	<u>15,768,164.27</u>	<u>15,702,514.94</u>	

4. Status of newly increased fund occupation by other related parties as of December 31, 2005

Name of related party	Balance at beginning of year	Ending balance	Net increase in current period	Reason for occupation	Manner of occupation
Shenzhen Tianlong Industrial and Trading Co., Ltd.	-733,232.59	1,832,431.68	2,565,664.27	Purchase and sale business	Accounts receivable or payable
Shenzhen Shenhu Knitting Co., Ltd.	2,674,556.36	2,674,556.36	---	Fund advancement	Other receivables
Shenzhen Xiangjiang Leather Product Co., Ltd.	380,000.01	190,000.01	-190,000.00	Fund advancement	Other receivables
Hong Kong Yehui International Co., Ltd.	2,310,014.94	---	-2,310,014.94	Fund advancement	Other receivables
Total	<u>4,631,338.72</u>	<u>4,696,988.05</u>	<u>65,649.33</u>		

III. The particulars of the guarantees provided by the Company and its controlled subsidiaries to the controlling shareholder and the subsidiaries of the controlling shareholder

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, 2005.

Attached table 1: Summary Statement of the Status of Fund Occupation by the Controlling Shareholder and Other Related Parties

Shenzhen Pengcheng Certified Public Accountants Co., Ltd.

April 8 , 2006

Appendix 1

Summary Statement of Fund Occupation by the Controlling Shareholder and Other Related Parties

Company name: Shenzhen Textile (Holding) Co., Ltd.				Monetary unit: RMB					
Type of fund occupation party	Name of related party	Relationship between fund occupation party and the Company	Account title of the Company for accounting	Balance of fund occupied at beginning of 2005	Accumulative amount of funds occupied in 2005	Accumulative amount of funds repaid in 2005	Balance of funds occupied at end of 2005	Reason for occupation	Nature of occupation
Controlling shareholder, actual controller and its affiliated									
Subtotal				-	-	-	-		
Related natural persons and the legal persons controlled by									
Subtotal				-	-	-	-		
Other related persons and their affiliated enterprises	Industrial and Trading Co., Ltd.	ed company of the	accounts receivabl	-733,232.59	15,768,164.27	13,202,500.00	1,832,431.68	Purchase and sale business	Occupation for operation
	Shenzhen Shenhu Knitting Co., Ltd.	ed company of the	Other receivables	2,674,556.36	-	-	2,674,556.36	Short-term borrowings	Occupation not for operation
	Shenzhen Xiangjiang Leather Product Co.,	ed company of the	Other receivables	380,000.01	-	190,000.00	190,000.01	Short-term borrowings	Occupation not for operation
	Hong Kong Yehui International Co., Ltd.	ed company of the	Other receivables	2,310,014.94	-	2,310,014.94	-	Short-term borrowings	Occupation not for operation
Subtotal				4,631,338.72	15,768,164.27	15,702,514.94	4,696,988.05		
Subsidiaries and affiliated enterprises of the Company									
Subtotal				-	-	-	-		
Total				4,631,338.72	15,768,164.27	15,702,514.94	4,696,988.05		