Shenzhen Textile (Holdings) Co., Ltd.

2005 Annual Report (B)

April 2006

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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.

Chairman of the Board of Directors Guan Tongke, General Manager Wang Bin and Deputy chief accountant Liu Yin represent and warrant the financial and accounting report in the annual report is true and complete.

I. Brief Introduction of the Company

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

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

   English abbreviation: STHC

2. Legal representative: Guan Tongke

   General manager of the Company: Wang Bin

3、Secretary to the board of directors: Chao Jin

Contact Address: 6/F, Shenfang Building, 3 Huaqiang North Road, Futian District, Shenzhen

Post Code: 518031

Tel : 0755-3776043

Fax : 0755-3776139

E-mail:cjane@mail.china.com

4. 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

5. 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

6. Stock exchange for listing: Shenzhen Stock Exchange

Stock abbreviation: Shen Textile A ,Shen Textile B

Stock code : 000045 200045

7. 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

1. Main accounting data

Unit: RMB'000

	2005 (current year)	2004 (previous year)	2003	Increase/decrease (%)
Turnover	392060	448393	451965	-12.56
Before-tax profit	39196	44558	42200	-12.03
Profit for the year	25555	31100	36361	-17.83
	End of 2005 (end of current year)	End of 2004 (end of previous year)	End of 2003	Increase/decrease (%)
Total assets	674803	680697	714932	-0.87
Shareholders' equity	363831	352983	351865	3.07
Net cash inflows from operating activities	26191	39883	5733	-34.33

2. Main financial indicators

Unit: RMB'000

	2005 (current year)	2004 (previous year)	2003	Increase/decrease (%)
Earnings per share	0.104	0.127	0.148	-18.11

Return on net assets	7.02	8.81	10.33	-0.20
Net cash inflows per share from operating activities	0.11	0.16	0.04	-31.25
	End of 2005 (end of current year)	End of 2004 (end of previous year)	2003	Increase/decrease (%)
Net assets per share	1.48	1.44	2.15	2.78

3. The influence of the adjustment made according to international financial report standards on the net profit of the Company:

	2005 RMB '000	2004 RMB '000
Pursuant to the financial report audited by Chinese C.P.A.	21,639	26,939
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	-	
Writeback of impairment of unconsolidated subsidiaries		
The price difference of equity investment in affiliated companies need not amortization		
Income from change in equity of subsidiaries		
Amortization of intangible assets		
Income from special subsidy shared		
Restated pursuant to international financial report standard	25,555	31,100

The influence of the adjustment made according to international financial report standards on the Net Value of Assets of the Company:

	2005 RMB '000	2004 RMB '000
Pursuant to the financial report audited by Chinese C.P.A.	343,922	336,894
Adjustment made for complying with international accounting standards:		
Writeback of over-provision for the depreciation of	22,836	20,490

real estate of investment nature		
The price difference of equity investment in affiliated companies need not amortization		
Disposal of unconsolidated subsidiaries		
Amortization of intangible assets		
Restated pursuant to international financial report standard	363,831	352,983

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

(1).Statement of changes in shares

Unit: shares

	Before this change		Increase or decrease this time (+/-)					After this change	
	Quantity	Proportion (%)	Share allotment	Bonus shares	Capitalization of common reserve fund	Other	Subtotal	Quantity	Proportion (%)
I.Non-negotiable shares	162,360,000	66.24%						162,360,000	66.24%
1.Promoter's shares	162,360,000	66.24%						162,360,000	66.24%
Including：									
State-owned shares	162,360,000	66.24%						162,360,000	66.24%
Domestic corporate shares									
Overseas corporate shares									
Other									
2.Raised corporate shares									
3.Staff share									
4.Preferred shares or others									

II. Negotiable shares									
1.RMB common shares	33,264,000	13.57%						33,264,000	13.57%
Of which : senior executive shares	100,800	0.04%						100,800	0.04%
2.Domestically listed foreign investments shares	49,500,000	20.19%						49,500,000	20.19%
3.Overseas listed foreign investment shares									
4.Other									
III. Total shares	245,124,000	100%						245,124,000	100%

(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 After approval, the Company issued 3.8 million staff shares at the price of RMB 3.9 per share in February 1995. The staff shares were approved to be listed in February 1995. As of December 31, 2005, 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, 2005, the Company had 18,649 shareholders in total including one shareholder of state-owned shares, 10,569 shareholders of A shares and 8,080 shareholders of B shares.

2. Particulars of the shareholding of the top ten shareholders as of December 31, 2005:

Total number of shareholders at the end of the report period	18649				
Particulars about the shareholding of the top ten shareholders					
Name of shareholder	Nature of shareholder	Shareholding ratio	Total quantity of shares held	Quantity of non-negotiable shares held	Quantity of pledged or frozen shares

Shenzhen Investment Management Co., Ltd.	State-owned shareholder	66.24%	162360000	162360000	7000000
Zhuang Wenxia	A	0.32%	775000	0	Unknown
Yang Jian	A	0.27%	668721	0	Unknown
VICTOR ONWARD PRINTING &DYEING (HK) CO.LTD	B	0.23%	555000	0	Unknown
ABN AMRO BANK NV	B	0.20%	498400	0	Unknown
Wang Jun	A	0.17%	412400	0	Unknown
Xu Meijun	A	0.16%	400000	0	Unknown
Liu Jinqun	B	0.16%	400000	0	Unknown
DBS VICKERS (HONGKONG) LTD A/C CLIENTS	B	0.16%	389985	0	Unknown
Zhu Qianyin	A	0.14%	338690	0	Unknown

Particulars about the shareholding of the top ten shareholders holding negotiable shares

Name of shareholder	Quantity of negotiable shares held	Type of share
Zhuang Wenxia	775000	A
Yang Jian	668721	A
VICTOR ONWARD PRINTING &DYEING (HK) CO.LTD	555000	B
ABN AMRO BANK NV	498400	B
Wang Jun	412400	A
Xu Meijun	400000	A
Liu Jinqun	400000	B
DBS VICKERS (HONGKONG) LTD A/C CLIENTS	389985	B
Zhu Qianyin	338690	A
WU, KIN YEUK	316055	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. 4,5,8 and 9 shareholders are the ones holding foreign investment shares.

The shares held by :Shenzhen Investment Holding Co., Ltd. account for 66.24% of the total share capital of the Company. Legal representative: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.

3. 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.

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

5. The Company did not know whether the above shareholding of the top ten Negotiable

shareholders had relation.

IV. Directors, Supervisors, Senior Executives and Staff

(I). Introduce

Name	Sex	Age	Title	Date of starting and ending	Shares held at year-beginning	Shares held at year-end
Guan Tongke	Male	58	Board chairman	2003.6.30—2006.6.29	55800	55800
Wang Bin	Male	36	Director, General Manager	2005.5.28—2006.6.29	0	0
Li Jingqiang	Male	523	Director	2003.6.30—2006.6.29	45000	45000
Yang Jichao	Male	51	Independent director	2003.6.30—2006.6.29	0	0
Liu Xiangqing	Male	44	Independent director	2003.6.30—2006.6.29	0	0
Huang Hui	Male	41	Independent director	2003.6.30—2006.6.29	0	0
Gao Zhuofu	Male	53	Chairman of Supervisory Committee	2003.6.30—2006.6.29	0	0
Song Gongli	Male	50	Supervisor	2005.6.29—2006.6.29	0	0
Zhou Mei Rong	Female	48	Supervisor	2005.4.5—2006.6.69		
Zhou Dadong	Male	59	Deputy GM	2003.7.30—2006.6.29	0	0
Feng Junbin	Male	43	Deputy GM	2003.7.30—2006.6.29	0	0
Zhu Jun	Male	42	Deputy GM	2003.7.30—2006.6.29	0	0
Gao Guoshi	Male	52	Deputy GM	2005.5.28—2006.6.29	0	0
Chao Jin	Female	43	Secretary to the board of directors	2003.6.30—2006.6.29	0	0
Liu Yi	Male	52	Deputy chief	2003.7.30—2006.6.29	0	0

			accountant			

(II). Position of 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.

Wang Bin once worked at Henan Textile Machinery Plant. He has worked at the Company since March 1993 and served successively as the secretary of Communist Youth League of the Company, manager of a number of subsidiaries of the Company, general manager assistant and general manager of the Company. He now serves as director and general manager of Shenzhen Textile (Holding) Co., Ltd.

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.

Yang Jichao, a senior Engineer, served successively as deputy director general of State Textile Ministry Produce Dept, Deputy director of Textile product Development Center, Deputy functionary of China Textile association Economy Trading ministry, General engineer of Tibet Municipality economy Trading committee, Minister of State Textile Bureau Planning Development Dept, Director of China Textile Information Center, Deputy secretary-general of China Textile Industry association.

Liu Xiangqing, a senior accountant, served successively as minister of Shenzhen accountant office asset evaluation dept, Manager and deputy director of issued Dept, Chief partner of Shenzhen Huaxin Accountant office,director accountant .

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.

Song Gongli once successively served as deputy section head of Budget Division of Guizhou Finance Department, deputy section head of Foreign Capital Introduction Office of Shenzhen Municipal Government, secretary to the director general of Shenzhen Economic Development Administration, chief of Planning and Finance Division and Tourism Management Division of Shenzhen Trade Development Bureau. He now serves as office director of Shenzhen Investment Holding Co., Ltd.

Zhou Meirong 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 1984 and served successively as deputy secretary and secretary of Communist Youth League, deputy director and director of Party Office and office director. She now serves as chairman of labor union and director of Party committee office of the Company.

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.

Gao Guoshi once served successively as physician of Hunan Liuyang Wenjiazhuang Municipal Hospital, president of Liuyang Yonghe Hospital, director general of Liuyang Municipal Health Bureau, member of standing committee of Liuyang municipal Party committee and deputy mayor of Liuyang municipal people's government, deputy director general and secretary of Party committee of Changsha Municipal Health Bureau. He was transferred into Shenzhen in 1994. He served successively as director general of Shenzhen Nanshan District Health Bureau, office director, member of Party Group and standing committee of CPPCC of Shenzhen Nanshan District, deputy general manager of Shenzhen Medicine Production and Supply Corporation and deputy general manager of Shenzhen Accordance Medical Co., Ltd. He now serves as deputy general manager of the Company.

Cao Jin served successively as teacher of Shanxi Chinese Medicinal Material School and Jilin Business College, head of Employment Section of Personnel and Employment Dept. of the Company, office director and manager of Personnel Dept. of subsidiary and general manager secretary of the Company. He now serves as the board secretary of the Company.

Liu Yi served successively as section staff of People's Bank Tonghua Sub-branch, director of teaching and research section of Tonghua Bank School and manager of Finance Dept. of the Company. He now serves as deputy chief accountant 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 remuneration of the current directors , supervisors and senior executives of the Company in 2005 is as follows:

Name	Position	Remuneration (RMB'0000)
Guan Tongke	Chairman of the board of directors	44.6
Wang Bin	Director and general manager	43.0
Li Jingqiang	Director	33.7
Yang Jichao	Independent director	5.0
Liu Xiangqing	Independent director	5.0
Huang Hui	Independent director	5.0
Gao Zuofu	Chairman of the supervisory committee	37.9
Song Gongli	Supervisor	0(Receiving salary from corporate shareholder)
Zhou Meirong	Supervisor	28.9
Zhou Dadong	Deputy general manager	31.5
Feng Junbin	Deputy general manager	29.3
Zhu Jun	Deputy general manager	28.9
Gao Guoshi	Deputy general manager	16.7（6—12 months）
Chao Jin	Secretary to the board of directors	26.2
Li Yi	Deputy chief accountant	25.5

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

In the report period, Mr. Liu Junhou, director and general manager of the Company, resigned from the position of director and general manager of the Company due to work transfer. Mr. Zhu Dahua, director and financial controller of the Company, resigned from the position of director and financial controller of the Company due to work transfer. The shareholders' general meeting of the Company elected Mr. Wang Bin as director of the Company.

In the report period, Ms Guo Jianhua, a supervisor of the Company, resigned from the position of employee supervisor of the Company due to retirement. The staff and workers' congress of the Company elected Ms Zhou Meirong as employee supervisor of the Company. The shareholders' general meeting of the Company elected Mr. Song Gongli as supervisor of the Company.

In the report period, the board of directors of the Company appointed Mr. Wang Bin as general manager of the Company and Mr. Gao Guoshi as deputy general manager of the Company.

(IV) Staff

As of December 31, 2005, the Company had 627 staff members in total, including 370 production employees, 88 sales employees, 56 technical employees, 31 financial employees and 78 administrative employees. Among the employees, 10 hold Master's degree or above, 115 are graduates of universities and junior colleges and 42 have education of technical secondary school. The number of retired staff was 91 .

V. Control Structure of the Company

(I)Status of corporate governance structure

In the report period, the Company unceasingly improved corporate governance structure and standardized its operation according to the requirements of Guidelines for Governance of Listed Companies, met requirements on standardization 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 standardized procedure. In the report period, the Company revised the Rules of Procedure of Shareholders' General Meeting, Rules of Procedure of the Board of Directors and Rules of Procedure of the Supervisory Committee and amended the Articles of Association of the Company according to the requirements of the Regulations on Strengthening the Protection of Rights and Interests of Shareholders Holding Public Shares issued by CSRC.

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)

Yang Jichao	4	3	1
Liu Xiangqing	4	4	0
Huang Hui	4	4	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 of Shareholders' General Meeting

(I) 2004 annual shareholders' general meeting of the Company was held on June 29, 2005. The resolutions of the meeting were published on Securities Times and Hong Kong Commercial Daily on June 30, 2005.

(II) The Company held a shareholders' meeting concerning share holding structure reform on December 2, 2005. The voting result of the meeting was published on Securities Times and Hong Kong Commercial Daily on December 5, 2005.

VII. Report of the Board of Directors

(I) Operating Status of the Company

1. The scope of main operation and its operating status

The Company is mainly engaged in the production, import and export trade of textiles, garments and relevant products and sidelines in property lease, warehousing, real estate development, hotel business and manufacturing of optoelectronic devices. In 2005, both production and sales of the Company's high-tech products and products with high added value throve. The property occupancy rate was enhanced. Trade business was unfavorably affected by the appreciation of RMB. The income in the year was RMB 392.06 million, a year-on-year decrease of 12.56%. The net profit was RMB 25.555 million, a year-on-year decrease of 17.83% mainly due to the reduction of profit from trade business.

Industry: In the report period，the income of the Company from manufacturing industry was RMB 194.9397 million, a year-on-year decrease of 0.12%. The total profit from industry was RMB 18.4318 million, a year-on-year increase of 11.63% mainly due to the strengthening of development and promotion of new products by high-tech enterprises.

Trade: In the report period，the income of the Company from trade was RMB 172.2115 million, a year-on-year decrease of 22.48%. The total profit from trade was RMB 7.5918 million, a year-on-year decrease of 51.04% mainly due to the reduction of profit margin of export trade enterprises caused by textile product trade friction between China and U.S. and between China and Europe and the rise in RMB exchange rate.

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 50.7794 million, a year-on-year increase of 1.23%. The total profit was RMB 9.1524 million, a year-on-year increase of 15.13% mainly due to the rise in property occupancy rate.

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	62,857,423.59	46,544,982.16	25.95%
Fully-shaped knitted garment	36,175,279.59	25,757,305.96	28.8%

The profitability of the Company's main operations in the report period rose over the previous report period mainly because industrial enterprises actively promoted new product sales and both production and marketing of high-tech products and products with high added value throve. The gross profit rate rose by 1.98% 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 25 million and total assets of RMB 50.17 million, Shenzhen Beauty Century Garment Co., Ltd. is engaged in production entirely-electronic figured full-shaped knitted garments. It earned net profit of RMB 4.768 million in 2005.

With registered capital of RMB 68 million and total assets of RMB106.22 million, Shenzhen Shenfang Lekai Photoelectronic Materials Co., Ltd. is engaged in producing polarizer sheet products for LCD. It earned net profit of RMB 9.477 million in 2005.

With registered capital of RMB 50 million and total assets of RMB 54.55 million, Anhui Huapeng Textile Co., Ltd. is mainly engaged in production, bleaching, printing, dyeing and sales of yarns. It earned net profit of RMB2.576 million in 2005.

With registered capital of RMB 20 million and total assets of RMB 3.766 million, Jiangxi Xuanli Yarn Industry Co., Ltd. is engaged in production of various stitch yarns and knitted garments. It earned net profit of RMB 0.0599 million in 2005.

. With registered capital of RMB 5 million and total assets of RMB 39.72 million, Shenzhen Shenfang Import and Export Co., Ltd. is engaged in export and import business. It earned net profit of RMB 1.304 million in 2005.

With registered capital of RMB 3.54 million and total assets of RMB 18.64 million, Shenzhen Jinlan Decorative Articles Industrial Co., Ltd. is mainly engaged in production of bedroom articles series. In 2005, it suffered loss of RMB 0.036 million It is mainly due to insufficient market competitiveness of products.

With registered capital of RMB 2.14 million and total assets of RMB 20.55 million, Shenzhen Lisi Industrial Co., Ltd. is mainly engaged in property lease and management. In 2005, the property Leases rate was 99% and it earned net profit of RMB 0.924 million.

With registered capital of RMB 10 million and total assets of RMB 14.78 million , Shenzhen Huaqiang Hotel. is mainly engaged in Guest room ,Hotel operation. In 2005, the Hotel housing rate was 75% and it earned net profit of RMB 1.165 million.

With registered capital of RMB 1.68 million and total assets of RMB 2.10 million, Shenzhen Zhongxing Fibre Folds Cotton Clothing Ornament Co., Ltd. is engaged in producing fiber fold cotton and relevant products. In 2005, it suffered loss of RMB 0.016 million It is mainly due to insufficient market competitiveness of products.

With registered capital of RMB 7.2 million and total assets of RMB 10.91 million, Shenzhen Jingguang Footwear Co., Ltd. is engaged in producing footwear products. In 2005, it suffered loss of RMB 0.4465 million，It is mainly due to insufficient market competitiveness of products.

Shenfang Property Management Co., Ltd. is mainly engaged in property management and conduct property lease business for the head office of the Company. It has registered capital of RMB 1.6 million and total assets of RMB 5.6 million. In 2005, the average occupancy rate of the property leased on agency business was 97%. Its income from management fee was RMB 6.17 million. Its net profit was RMB 0.042 million .

3. Main suppliers and customers

The accumulative amount of purchase from the top five suppliers was RMB 98.0806 million, accounting for 38.44% of the Company's accumulative annual purchase amount. The accumulative amount of sales to the top five customers was RMB 176.0315 million, accounting for 44.9% of the Company's accumulative annual sales amount.

4. Problems and difficulties occurred in operation and their solutions

In the report period, the production, operation and trade of the Company were affected by adoption of the policy on restricting the export of Chinese textile products by U.S. and European Union, frequent trade friction, quick change in export policies, fierce product price competition, continuous rise in the price of raw materials for textiles and garments and fuels and the rise in RMB rate.

To deal with the change in operation situation, the Company mainly took the following measures:

(1) It enhanced its profitability through developing new product market, strengthening production management, enhancing the level of product quality, strictly controlling cost and making efforts to reducing consumption;

(2) It promoted technological progress, vigorously developed new products and increase the technological content and added value of products;

(3) It adjusted trade structure, let trade serve factories and helped manufacturing enterprises develop wider international market;

(4) It improved its stimulation and restriction mechanism, strengthened cohesive force and fully aroused operators' enthusiasm and creativeness;

(5) It strengthened management of property lease enterprises and further increased the profitability of property resources. Through the above measures, the Company overcame the negative influence of unfavorable factors on production and operation and realized steady development of business.

(II) The investment of the Company

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

2. In the report period, the Company was not involved in equity investment.

3. In the report period, the Company invested RMB 24.745 million in the continuous construction of phase-II project of polarizer sheet of Shenzhen Shenfang Lekai Photoelectronic Materials Co., Ltd. The equipment installation for this project was completed in December 2005. At present, the project has entered the stage of trial run and commissioning and will be put into trial production in the second half of 2006.

(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 December 31, 2005, the total assets of the Company were RMB 674.803 million, a year-on-year decrease of 0.87% mainly due to repayment of bank loans and distribution of cash dividends.

Its shareholders' equity was RMB 363.831 million, a year-on-year increase of 3.07% mainly due to the obtainment net profit and distribution of cash dividends in the report period.

Its profit for the year was RMB 25.555 million, a year-on-year decrease of 17.83% mainly due to the decrease of profit from export trade.

Cash and cash equivalents decreased by RMB 50.956 year on year mainly due to year-on-year decrease in net inflow of cash arising from business activities.

Accounts receivable increased by 41.4% year on year mainly due to the adoption of relatively relaxed collection mode by phase-II project of Shenfang Lekai Photoelectronic Materials Co., Ltd. for increasing customers and developing new customers. Prepayments increased by 143.6% mainly due to the failure of suppliers in export trade to timely provide invoices and settle accounts. Construction in progress increased by RMB 23.376 million due to the construction of phase-II project of Shenfang Lekai Photoelectronic Materials Co., Ltd.

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

In the report period, the proportion of profit from industry to total profit was 52.4%, a year-on-year increase of 10.5%. The proportion of profit from property lease and management to total profit was 26%, which increased by 6.3% year on year and rose to the second place. The proportion of profit from trade to total profit was 21.6%, a year-on-year decrease of 16.8%. The main operation of the Company developed steadily.

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

After China's entry to WTO, the distribution of global production capacity of textile products changed. The textile trade friction between China and U.S. and between China and Europe was intensified. Europe and U.S. set quota restriction on the export of Chinese textile products and garments in succession. Product export was squeezed by international market. The rise in price of raw materials for textiles and increase of energy consumption driven by the rise in international petroleum oil also increased the production cost of the Company. The appreciation of RMB directly exerted seriously adverse influence on export trade of the Company. 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 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 2006:

(1) To adopt brand operation strategy, develop self-owned brand Zuoerzi and gradually establish domestic sales network with chain brand franchising as marketing mode;

(2) To put the phase-II project of Shenfang Lekai into production and make it reach the expected production capacity and profitability as soon as possible;

(3) To develop sales network with Shenfang Import and Export Company as platform, help manufacturing enterprises give play to equipment capacity and increase market sales;

(4) To conduct effective management and integration of the existing land and property resources of the Company and realize maximization of property income;

(5) To establish intrinsic driving mode with conception innovation as core to promote its management mode innovation, management structure innovation, technological innovation and personnel innovation.

(VI) Routine work of the board of directors

1. Board meetings and resolutions in the report period

The 8th meeting of the third board of directors was held on April 16, 2005. The resolutions of the meeting were published on Securities Times and Hong Kong Commercial Daily on April 20, 2005.

The 9th meeting of the third board of directors was held on May 27, 2005. The resolutions of the meeting were published on Securities Times and Hong Kong Commercial Daily on May 28, 2005.

The 10th meeting of the third board of directors was held on July 29, 2005. The resolutions of the meeting were published on Securities Times and Hong Kong Commercial Daily on August 2, 2005.

The 11th meeting of the third board of directors was held on October 26, 2005. The meeting examined and adopted the Resolution Concerning the Report of the Company for the Third Quarter of 2005.

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 of the Company concerning profit distribution plan for 2004, the board of directors completed dividend distribution for 2004 on August 26, 2005.

(VII) Profit distribution preplan for 2004

As audited by Shenzhen Pengcheng Certified Public Accountants, the net profit of the Company for 2005 is RMB 21,639,239.45. As audited by K.C. Oh & Co. pursuant to international accounting standards, the net profit of the Company for 2005 is RMB 25,555,000.00. As required in the articles of association of the Company, the Company is to appropriate 10% and 5% of its net profit for 2005 (RMB 22,645,372.05), i.e., RMB 2,264,537.20and RMB 1,132,268.60, 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 0.5 (including tax) to all shareholders for every 10 shares. RMB 12,256,200.0 is to be distributed in total. The remaining undistributed profit of RMB 5,986,233.65 is to be carried forward to the next year.

The Company is not to capitalize its capital surplus.

(VIII) Other matters

1. Shenzhen Pengcheng Certified Public Accountants issued special statement on fund occupation by the controlling shareholder of the Company and other related parties. Refer to www.cninfo.com.cn for details.

2. The special statement and independent opinions of the independent directors of the Company on the guarantees provided by the Company in the report period:

According to the Circular on Certain Issues Relating to Standardization of Fund Transfer Between Listed Companies and Their Related Parties and Guarantees Provided by Listed Companies (Zheng Jian Fa (2003) No. 56 Document), the Circular on Strengthening Disclosure of Information about Fund Occupation and Regulation-violating Guarantee of Listed Companies (Shenzhen Ju Fa Zi (2004) No. 338) and the Circular of Regulating External Guarantees Provided by Listed Companies (Zheng Jian Fa (2005) No. 120 Document), we audited the external guarantees provided by the Company with responsible attitude. We hereby make the following statement:

In the report period, the Company did not provide any guarantee except providing guarantee with total amount of RMB 10 million to its controlled subsidiaries.

In our opinion, the Company regulated external guarantee and controlled the risk of external guarantee strictly according to the Articles of Association of the Company. The guarantee provided by the Company to its controlled subsidiaries in the report period was demanded by the Company's production and operation and rational utilization of funds. The decision-making procedure of guarantee was legal and reasonable and the interests of the Company and its shareholders, especially middle and small shareholders, were not harmed.

Independent directors: Yang Jichao, Liu Xiangqing and Huang Hui

3. In the report period，the newspapers selected by the Company for information disclosure were Securities Times 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 16, 2005, the 8th meeting of the third supervisory committee examined and

adopted the report of the Company for 2004 and its summary, final accounting report, profit distribution preplan and the report for the first quarter. It adopted the work report of the supervisory committee for 2004 and the proposal for nominating Mr. Song Gongli as the candidate for supervisor of the supervisory committee of the Company and submitted it to 2004 annual shareholders' general meeting of the Company for examination.

2. On May 27, 2005, the 9th meeting of the third supervisory committee examined and comprehensively revised the rules of procedure of the supervisory committee of the Company and submitted it to the shareholders' general meeting of the Company for examination.

3. On October 26, 2005, the 10th meeting of the third supervisory committee examined and adopted 2005 semiannual report of the Company and its summary and the profit distribution plan of the Company for the first half of 2005.

4. On December 24, 2004, the 11th meeting of the third supervisory committee examined and adopted the report for the third quarter of 2005.

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 completely and truly reflected the Company's financial position and operating results. 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 according to the principle of fairness 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.Other 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 above sum of money is still in the process of collection.

(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 1000 million to Shenzhen Beauty Century Garment Co., Ltd., one of its controlled subsidiaries for the period from July 16, 2005 to July 14, 2006. 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.

Shenzhen Investment Holding Co., Ltd., the shareholder holding non-negotiable shares of the Company, promised to start the share holding structure reform of the Company before June 30, 2006.

(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 5 consecutive years. K.C. Oh & Co. has provided services to the

Company for 4 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.

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.

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

April 7, 2006

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, 2005 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, 2005 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 7, 2006

Shenzhen Textile (Holdings) Co., Ltd.

Consolidated income statement for the year ended December 31, 2005

	Notes	2005 RMB'000	2004 RMB'000
Turnover	(5)	392,060	448,393
Cost of sales		(296,232)	(348,398)
Gross profit		95,828	99,995
Other revenue	(7)	2,542	3,870
Other net income	(8)	1,099	3,809
Income from investments	(9)	1,974	3,880
Distribution costs		(17,306)	(18,117)
Administrative expenses		(38,516)	(37,362)
Other operating expenses		(2,035)	(6,305)
Operating profit		43,586	49,770
Share of profit from associates		2,038	1,913
Finance costs	(10)	(6,428)	(7,125)
Profit before taxation	(11)	39,196	44,558
Income tax	(12)	(4,479)	(4,774)
Profit for the year		34,717	39,784
Attributable to:			
Equity holders of the parent		25,555	31,100
Share of profit for minority interests		9,162	8,684
Profit attributable to shareholders		34,717	39,784
Profit per share to equity holders of the parent - basic	(13)	RMB0.104	RMB0.127

Shenzhen Textile (Holdings) Co., Ltd.

Consolidated balance sheet as at December 31, 2005

	Notes	2005 RMB'000	2004 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	(14)	207,591	214,623
Investment properties	(15)	101,372	101,372
Land use rights - non-current portion	(16)	3,394	761
Construction-in-progress	(17)	41,846	18,470
Intangible assets	(18)	31	34
Interests in associates	(19)	45,986	43,697
Other investments	(20)	41,771	45,193
		441,991	424,150
Current assets			
Land use rights - current portion	(16)	535	215
Inventories	(21)	58,440	55,161
Accounts receivable	(22)	50,874	36,931
Bills receivable		1,345	-
Prepayments, deposits and others receivable	(23)	49,673	40,236
Investments in securities	(24)	1,641	2,744
Cash and bank balances		70,304	121,260
		232,812	256,547
Total assets		674,803	680,697

(to be cont'd)

Shenzhen Textile (Holdings) Co., Ltd.

Consolidated balance sheet as at December 31, 2005

(cont'd)

	Notes	2005 RMB'000	2004 RMB'000
Equity and liabilities			
Capital and reserves			
Share capital	(25)	245,124	245,124
Reserves		118,707	107,859
Equity attributable to equity holders of the parent		363,831	352,983
Minority interests	(26)	95,654	89,590
Total equity		459,485	442,573
Non-current liability			
Long-term loans, non-current portion	(27)	4,000	4,200
Current liabilities			
Long-term loans, current portion	(27)	78,670	101,323
Accounts payable		28,033	22,642
Others payable and accrued expenses		86,318	88,510
Dividend payable	(28)	15,910	18,483
Provision for taxation		2,387	2,966
		211,318	233,924
Total equity and liabilities		674,803	680,697

The financial statements on pages 2 to 34 were approved and authorized for issue by the board of directors on April 7, 2006 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, 2005

	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 RMB'000	Attributable to equity holders of the parent RMB'000	Minority interests RMB'000	Total RMB'000
Balance as at January 1, 2004	163,416	6,239	38,548	3,527	15,024	81,639	29,415	14,057	351,865	78,787	430,652
Increase in investment by minority interests	-	-	-	-	-	-	-	-	-	3,800	3,800
Effect of change in equity interest	-	-	-	-	-	-	-	-	-	(444)	(444)
Amortization of negative goodwill	-	(567)	-	-	-	-	-	-	(567)	-	(567)
Bonus issue	81,708	-	(38,548)	-	-	(37,345)	-	(5,815)	-	-	-
Dividend paid	-	-	-	-	-	-	(29,415)	-	(29,415)	(1,237)	(30,652)
Net profit for the year	-	-	-	-	-	-	-	31,100	31,100	8,684	39,784
Appropriations to statutory surplus reserve and statutory public welfare fund	-	-	-	2,694	1,347	-	-	(4,041)	-	-	-
Negative goodwill transfer to accumulated profit	-	(5,672)	-	-	-	-	-	5,672	-	-	-
Proposed final dividend	-	-	-	-	-	-	14,707	(14,707)	-	-	-
Balance as at December 31, 2004	245,124	-	-	6,221	16,371	44,294	14,707	26,266	352,983	89,590	442,573
Dividend paid	-	-	-	-	-	-	(14,707)	-	(14,707)	(4,098)	(18,805)
Increase in investment by minority interests	-	-	-	-	-	-	-	-	-	1,000	1,000
Net profit for the year	-	-	-	-	-	-	-	25,555	25,555	9,162	34,717
Appropriations to statutory surplus reserve and statutory public welfare fund	-	-	-	2,265	1,132	-	-	(3,397)	-	-	-
Proposed final dividend	-	-	-	-	-	-	12,256	(12,256)	-	-	-
Balance as at December 31, 2005	245,124	-	-	8,486	17,503	44,294	12,256	36,168	363,831	95,654	459,485

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 RMB0.05 per share (2004 - 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 utilization, 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, 2005

	2005 RMB'000	2004 RMB'000
Cash flow from operating activities		
Operating profit before taxation	39,196	44,558
Adjustment items :		
Depreciation and amortization	17,412	20,658
(Profit)/loss on disposal of property, plant and equipment	88	(509)
Profit from changes in equity interest of existing subsidiaries	-	(444)
Share of profit from associates	(2,038)	(1,913)
Profit on disposal of investments in securities	(16)	(779)
Provision for impairment loss		
- unconsolidated subsidiaries	44	1,421
- investments in securities	83	163
Provision for diminution in value of inventories	63	55
Provision for doubtful debts made/(reversed)	809	(1,079)
Amortization of negative goodwill	-	(567)
Interest income	(2,093)	(2,553)
Interest expense	5,461	6,456
Net operating cash inflow before movements in working capital	59,009	65,467
Increase in inventories	(3,342)	(16,463)
Increase in accounts receivable	(14,752)	(12,683)
Increase in bills receivable	(1,345)	-
(Increase)/decrease in prepayments, deposits and others receivable	(6,059)	43,171
Increase in accounts payable	5,391	5,093
Decrease in others payable and accrued expenses	(1,809)	(31,653)
Cash inflow from operating activities before interest and tax payments	37,093	52,932
Income tax paid	(5,058)	(6,349)
Interest paid	(5,844)	(6,700)
Net cash inflow from operating activities c/f	26,191	39,883

(to be cont'd)

Shenzhen Textile (Holdings) Co., Ltd.

Consolidated cash flow statement for the year ended December 31, 2005

(cont'd)

	Notes	2005 RMB'000	2004 RMB'000
Net cash inflow from operating activities b/f		26,191	39,883
Investing activities			
Interest received		2,093	2,553
Purchases of property, plant and equipment		(6,875)	(23,772)
Purchases of land use rights		(3,488)	-
Increase in construction-in-progress		(28,331)	(10,563)
Proceeds from disposal of property, plant and equipment		100	6,135
Proceeds from disposal on construction-in-progress		1,800	-
Returns from associates received		2,314	2,248
(Increase)/decrease in amounts due from associates		(1,832)	2,151
Decrease in amounts due to associates		(733)	(710)
Increase in other investments		-	(1,880)
Proceeds from disposal of other investments and investments in securities		2,652	22,814
Increase in investments in securities		(1,616)	(1,136)
Net cash outflow from investing activities		(33,916)	(2,160)
Net cash inflow/(outflow) before financing activities		(7,725)	37,723
Financing activities			
Dividend paid		(17,280)	(29,415)
Decrease in bank and other loans	(29)	(22,853)	(17,777)
Increase/(decrease) in minority interests	(29)	(3,098)	2,563
Net cash outflow from financing activities		(43,231)	(44,629)
Decrease in cash and cash equivalents		(50,956)	(6,906)
Cash and cash equivalents as at beginning of the year		121,260	128,166
Cash and cash equivalents as at end of the year		70,304	121,260
Cash and cash equivalents as at end of the year are represented by :			
Cash and bank balances		70,304	121,260

Shenzhen Textile (Holdings) Co., Ltd.

Consolidation statement of impairment loss for the year ended December 31, 2005

	Provision for impairment loss	January 1, 2005 RMB' 000	Increase RMB' 000	Decrease RMB' 000	Transfer-out RMB' 000	December 31, 2005 RMB' 000
1.	**Property, plant and equipment**					
	Buildings	-	-	-	-	-
	Leasehold improvements	-	-	-	-	-
	Plant and machinery	-	-	-	-	-
	Office equipment	-	-	-	-	-
	Transport equipment	469	-	-	-	469
		469	-	-	-	469
2.	**Investment properties**	-	-	-	-	-
3.	**Land use rights**	-	-	-	-	-
4.	**Construction-in-progress**	-	-	-	-	-
5.	**Intangible assets**					
	Trademark and technical know-how	-	-	-	-	-
6.	**Other investments**					
	Subsidiaries not consolidated	7,075	44	-	(1,622)	5,497
	Associates not accounted for under equity method	5,058	-	-	-	5,058
	Listed shares	14,832	-	-	-	14,832
	Unlisted shares	18,900	-	-	-	18,900
		45,865	44	-	(1,622)	44,287
7.	**Inventories**					
	Raw materials	98	-	-	-	98
	Work-in-progress	1,892	-	-	-	1,892
	Finished goods	3,108	87	(24)	(62)	3,109
		5,098	87	(24)	(62)	5,099
8.	**Accounts and others receivable**					
	Accounts receivable	2,790	809	-	-	3,599
	Others receivable	23,558	-	-	(1,094)	22,464
		26,348	809	-	(1,094)	26,063
9.	**Investments in securities**					
	Marketable securities	175	83	-	(139)	119
	PRC Government bonds	-	-	-	-	-
		175	83	-	(139)	119
	Total	77,955	1,023	(24)	(2,917)	76,037

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 Holdings Company Limited (2004 - 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

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for accounting periods beginning on January 1, 2005. The adoption of these new and revised Standards and Interpretations has resulted in changes to the Group's accounting policies in the following areas :

- Goodwill (International Financial Reporting Standard 3);
- Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost of acquisition (previously known as negative goodwill) (International Financial Reporting Standard 3); and
- Initial direct costs incurred in relation to operating lease receivables (International Accounting Standard 17 (Revised)).

(a) The impact on goodwill

International Financial Reporting Standard 3 (IFRS 3) has been adopted for business combinations for which the agreement date is on or after March 31, 2004. The option of limited retrospective application of the Standard has not been taken up, thus avoiding the need to restate past business combinations. The principal impact of the new Standard on the accounting for that transaction has had no material impact on the financial position and operating results for the period.

After initial recognition, IFRS 3 requires goodwill acquired in a business combination to be carried at cost less any accumulated impairment losses. Under International Accounting Standard 36 - Impairment of Assets (IAS 36) (as revised in 2004), impairment reviews are required annually, or more frequently if there are indications that goodwill might be impaired. IFRS 3 prohibits the amortization of goodwill. Previously, under IAS 22, the Group carried goodwill in its balance sheet at cost less accumulated amortization and accumulated impairment losses. Amortization was charged over the estimated useful life of the goodwill, subject to the rebuttable presumption that the maximum useful life of goodwill was 20 years.

In accordance with the transitional rules of IFRS 3, the Group has applied the revised accounting policy for goodwill prospectively from the beginning of its first annual period beginning on or after March 31, 2004, i.e. January 1, 2005, to goodwill acquired in business combinations for which the agreement date was before March 31, 2004. Therefore, from January 1, 2005, the Group has discontinued amortizing such goodwill and has tested the goodwill for impairment in accordance with IAS 36.

2. Basis of presentation of the financial statements (cont'd)

(a) The impact on goodwill (cont'd)

Because the revised accounting policy has been applied prospectively, the change has had no impact on amounts reported for 2004 or prior periods. The Group had no amortization charge for the year. The charge in 2004 was RMB689,000.

(b) The impact on the excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as negative goodwill)

IFRS 3 requires that, after reassessment, any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination should be recognized immediately in profit or loss. IFRS 3 prohibits the recognition of negative goodwill in the balance sheet.

Previously, under IAS 22 (superceded by IFRS 3), the Group released negative goodwill to income over a number of accounting periods, based on an analysis of the circumstances from which the balance resulted. Negative goodwill was reported as a deduction from assets in the balance sheet.

In accordance with the transitional rules of IFRS 3, the Group has applied the revised accounting policy prospectively from January 1, 2005. Therefore, the change has had no impact on amounts reported for 2004 or prior periods. The Group had no amortization of negative goodwill for the year. The amortization of negative goodwill in 2004 was RMB567,000.

(c) The impact on initial direct costs incurred in relation to operating lease receivables

IAS 17 (as revised in 2003) requires initial direct costs incurred by a lessor in negotiating and arranging an operating lease to be added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income. However, the Group had no material initial direct costs incurred when negotiating and arranging the operating leases.

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, 2005 and on the operating results for the year then ended are included in notes 35 and 36 to the financial statements. In addition, the financial statements have been prepared under the historical cost convention except for certain fixed asset items that are recorded at valuation less accumulated depreciation and accumulated impairment losses.

3. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

The consolidated financial statements incorporate the financial statements of the Company and of its subsidiaries (the "Group") made up to December 31 each year. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

(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, 2005, the Company held the following subsidiaries :

i) Subsidiaries consolidated

Company name	**Place of establishment/ operation**	**Effective equity held by the Group**		**Principal activities**
		2005	**2004**	
Shenzhen Jinlan Decorative Products Ind. Co. Ltd.	PRC	100%	100%	Manufacturing of bedding and decorating products
Shenzhen Lisi Industrial & Development Co., Ltd.	PRC	100%	100%	Material supplies
Shenzhen Huaqiang Hotel Ltd.	PRC	100%	100%	Hotel, catering, and business centre operations

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
		2005	2004	
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
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 Mei Bai Nian Garments Co., Ltd.	PRC	48%*	50%*	Knitting and clothing
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
		2005	2004	
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.

3. Basis of consolidation (cont'd)

(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, 2005 are shown in note 19 to the financial statements. Except for the associates that are shown in note 20 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 recognized 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 recognized when goods are delivered and title has passed to customers.

Rental income : Rental income from investment properties is recognized when the rental is due and receivable.

Hotel income : Income from hotel services is recognized when services are rendered.

Interest income : Interest income is accrued on a time proportion basis by reference to the principal outstanding and at the interest rate applicable.

Dividend income : Dividend income from investments is recognized when the shareholders' right to receive payment has been established.

Subsidy income : Subsidy is recognized when the right to receive payment has been established.

(b) Property, plant and 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 capitalized as an additional cost of the assets.

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

(b) Property, plant and equipment and depreciation (cont'd)

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 :

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 realized in respect of previous valuation is released from the property valuation surplus as part of the profit or loss on disposal of such property.

(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) Land use rights

The cost of land use rights is amortized on a straight-line basis over the lease term.

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

(e) 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.

(f) Goodwill

Goodwill arising on the acquisition of a subsidiary or an associate represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or associate recognized at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

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

(g) Intangible assets

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

(h) Investments

Investments are recognized and derecognized on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

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

(h) Investments (cont'd)

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortized cost using the effective interest rate method, less any impairment loss recognized to reflect irrecoverable amounts. An impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognized, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortized cost would have been had the impairment not been recognized.

Investments other than held-to-maturity debt securities are classified as either investments held for trading or as available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognized directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the profit or loss for the period. Impairment losses recognized in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognized in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

Other unlisted long-term investments with no reference to fair value are stated at cost less provision for diminution in value that is other than temporary.

(i) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost, calculated on the weighted average basis, comprises direct materials, direct labour and an attributable proportion of production overheads. Net realizable 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.

(j) Accounts receivable

Accounts receivable are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognized in profit or loss when there is objective evidence that the asset is impaired. The allowance recognized is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

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

(k) Accounts payable

Accounts payable are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest rate method.

(l) Cash and cash equivalents

Cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(m) Bank borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognized over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs.

(n) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as 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 the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

(o) Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

(p) Foreign currency conversion

The financial statements are expressed in Renminbi. Transactions in foreign currencies are translated at the rates prevailing at the dates of the transactions. Monetary assets and liabilities in foreign currencies are translated at the rates prevailing at the balance sheet date. Exchange differences that are attributable to the translation of foreign currency borrowings for the purpose of financing the construction of factory and office buildings, plant and machinery and other major fixed assets for periods prior to their being in a condition to enter into services are included in the cost of the fixed assets concerned. Other exchange differences are dealt with in the consolidated income statement.

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

(q) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

i) The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

ii) The Group as lessee

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

(r) 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 recognized as an expense immediately.

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

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

(s) Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

(t) Income tax

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 recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized 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 recognized 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.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. 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 :

	2005 RMB'000	2004 RMB'000
Turnover		
Sales of goods	339,512	398,231
Property rental income	46,572	44,153
Hotel operations	5,976	6,009
	392,060	448,393

6. Business and geographical segments

Business segments

Segment information about businesses in 2005 is presented below :

	Sales of goods RMB'000	Leasing RMB'000	Hotel operations RMB'000	Elimination RMB'000	Consolidated RMB'000
External sales	339,512	46,572	5,976	-	392,060
Intragroup sales	25,870	-	-	(25,870)	-
Revenue	365,382	46,572	5,976	(25,870)	392,060
Gross profit segment result	43,280	46,572	5,976		95,828

Segment information about businesses in 2004 is presented below :

	Sales of goods RMB'000	Leasing RMB'000	Hotel operations RMB'000	Elimination RMB'000	Consolidated 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

6. Business and geographical segments (cont'd)

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 :

	2005 RMB'000	2004 RMB'000
Within PRC	177,879	262,946
Outside PRC	240,051	204,534
	417,930	467,480
Intragroup sales	(25,870)	(19,087)
	392,060	448,393

7. Other revenue

	2005 RMB'000	2004 RMB'000
Interest income	2,093	2,553
Subsidy income	439	1,270
Sundry income	10	47
	2,542	3,870

8. Other net income

	2005 RMB'000	2004 RMB'000
Other operating profit	899	1,210
Specified subsidy income	200	-
Provision for doubtful debts reversed	-	1,079
Profit on disposal of property, plant and equipment	-	509
Profit from changes in equity interest of existing subsidiaries	-	444
Amortization of negative goodwill	-	567
	1,099	3,809

9. Income from investments

	2005 RMB'000	2004 RMB'000
Returns from investment items	2,085	4,685
Provision for impairment loss on investments in unconsolidated subsidiaries	(44)	(1,421)
Profit on disposal of investments in securities	16	779
Provision for impairment loss on investments in securities	(83)	(163)
	1,974	3,880

10. Finance costs

	2005 RMB'000	2004 RMB'000
Interest expense	5,461	6,456
Bank charges	327	644
Exchange loss	640	25
	6,428	7,125

11. Profit before taxation

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

	2005 RMB'000	2004 RMB'000
After charging :		
Interest expense	5,461	6,456
Depreciation and amortization	17,412	20,658
Loss on disposal of property, plant and equipment	88	-
Provision for impairment loss on other investments	44	1,421
Provision for impairment loss on investments in securities	83	163
Provision for diminution in value of inventories	63	55
Provision for doubtful debts	809	-
Staff costs	31,506	35,879
Exchange loss	640	25

12. 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.

	2005 RMB'000	2004 RMB'000
Income tax		
Company and subsidiaries	4,479	4,774
Deferred tax	-	-
	4,479	4,774

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

	2005 RMB'000	2004 RMB'000
Profit before taxation	39,196	44,558
Tax at the income tax rate of 15% (2004 - 15%)	5,879	6,684
Tax effect :		
- disallowable expenses	78	93
- non-taxable revenue	(777)	(667)
- tax losses unrecognized	72	129
- tax losses utilized	(1,102)	(1,139)
- benefit from tax recession period	(379)	(971)
- different tax rates of subsidiaries operating in different jurisdictions	708	645
Actual tax expense with effective tax rate of 11.4% (2004 – 10.7%)	4,479	4,774

13. Profit per share

Profit per share is calculated by dividing the net profit for the year of RMB25,555,000 (2004 - RMB31,100,000) attributable to equity holders of the parent by 245,124,000 shares (2004 - 245,124,000 shares) in issue during the year concerned.

14. Property, plant and equipment

	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	162,026	21,815	131,093	10,024	6,676	331,634
Increase	5,125	2,103	15,272	1,237	35	23,772
Decrease	(9,149)	-	(176)	(778)	(210)	(10,313)
Balance as at December 31, 2004	158,002	23,918	146,189	10,483	6,501	345,093
Increase	-	2,643	3,245	579	408	6,875
Decrease	(611)	-	(326)	(433)	(46)	(1,416)
Transfer from construction-in-progress (note 17)	2,502	-	653	-	-	3,155
Balance as at December 31, 2005	159,893	26,561	149,761	10,629	6,863	353,707
Accumulated depreciation/impairment loss						
Balance as at January 1, 2004	(51,751)	(15,318)	(37,705)	(5,284)	(4,660)	(114,718)
Increase	(4,705)	(2,662)	(11,254)	(1,106)	(712)	(20,439)
Decrease	4,473	-	22	10	182	4,687
Balance as at December 31, 2004	(51,983)	(17,980)	(48,937)	(6,380)	(5,190)	(130,470)
Increase	(4,146)	(1,459)	(10,021)	(831)	(417)	(16,874)
Decrease	587	-	184	411	46	1,228
Balance as at December 31, 2005	(55,542)	(19,439)	(58,774)	(6,800)	(5,561)	(146,116)
Net book value						
Balance as at December 31, 2005	104,351	7,122	90,987	3,829	1,302	207,591
Balance as at December 31, 2004	106,019	5,938	97,252	4,103	1,311	214,623
(*) Representing						
At cost	64,947	26,561	127,298	10,629	4,464	233,899
At revaluation	94,946	-	22,463	-	2,399	119,808
	159,893	26,561	149,761	10,629	6,863	353,707

The directors are of the opinion that the carrying value of above assets as at December 31, 2005 approximates the prevailing open market value.

15. Investment properties

	2005 RMB'000	2004 RMB'000
Cost/valuation	101,372	101,372

Certain investment properties of the Group were appraised by Zhonghua (Shekou) Certified Public Accountants, professional valuers in 1993. The directors are of the opinion that the carrying value of the investment properties as at December 31, 2005 approximates the prevailing market value.

16. Land use rights

		RMB'000
Cost		
Balance from January 1, 2004 to December 31, 2004		2,416
Increase		3,488
Balance as at December 31, 2005		5,904
Accumulated amortization		
Balance as at January 1, 2004	(1,225)	
Increase	(215)	
Balance as at December 31, 2004	(1,440)	
Increase	(535)	
Balance as at December 31, 2005		(1,975)
Net book value		
Balance as at December 31, 2005		3,929
Balance as at December 31, 2004		976

	2005 RMB'000	2004 RMB'000
Net book value	3,929	976
Current portion	(535)	(215)
Non-current portion	3,394	761

17. Construction-in-progress

	RMB'000
Cost	
Balance as at January 1, 2004	7,907
Increase	10,563
Balance as at December 31, 2004	18,470
Increase	28,331
Transfer to property, plant and equipment (note 14)	(3,155)
Transfer to other assets	(1,800)
Balance as at December 31, 2005	41,846

18. Intangible assets

		RMB'000
Trademark and technical know-how, at cost		
Balance from January 1, 2004 to December 31, 2005		118
Accumulated amortization		
Balance as at January 1, 2004	(80)	
Increase	(4)	
Balance as at December 31, 2004	(84)	
Increase	(3)	
Balance as at December 31, 2005		(87)
Net book value		
Balance as at December 31, 2005		31
Balance as at December 31, 2004		34

19. Interests in associates

	2005 RMB'000	2004 RMB'000
Share of net assets	42,087	42,363
Premium in associates	6,890	6,890
Amortization of premium	(4,823)	(4,823)
	2,067	2,067
	44,154	44,430
Amounts due from associates	1,832	-
Amounts due to associates	-	(733)
Interests in associates	45,986	43,697

As at December 31, 2005, the details of the principal associates are listed out as follows :

Company name	Place of establishment/ operation	Effective equity held by the Group 2005	Effective equity held by the Group 2004	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

19. Interests in associates (cont'd)

Summarized financial information in respect of the Group's associates is set out below :

	2005 RMB'000	2004 RMB'000
Total assets	169,982	178,953
Total liabilities	(59,871)	(69,536)
Net assets	110,111	109,417
Group's share of associates' net assets	42,087	42,363
Premium in associates	2,067	2,067
Amounts due from associates	1,832	-
Amounts due to associates	-	(733)
Interest in associates	45,986	43,697

	2005 RMB'000	2004 RMB'000
Turnover	241,362	200,134
Group's share of associates' profit for the year	2,038	1,913

20. Other investments

	2005 RMB'000	2004 RMB'000
Subsidiaries not consolidated, at cost	9,425	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	26,430	26,430
	86,058	91,058
Provision for impairment loss	(44,287)	(45,865)
	41,771	45,193

20. Other investments (cont'd)

As at December 31, 2005, 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
		2005	2004	
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.

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
		2005	2004	
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.

21. Inventories

	2005 RMB'000	2004 RMB'000
Raw materials	10,281	10,015
Work-in-progress	31,890	31,004
Finished goods	21,368	19,240
	63,539	60,259
Provision for inventory obsolescence	(5,099)	(5,098)
	58,440	55,161

22. Accounts receivable

	2005 RMB'000	2004 RMB'000
Amounts receivable	54,473	39,721
Provision for doubtful debts	(3,599)	(2,790)
	50,874	36,931

23. Prepayments, deposits and others receivable

	2005 RMB'000	2004 RMB'000
Advance payments	19,123	7,851
Prepayments	128	110
Others receivable	52,886	55,833
	72,137	63,794
Provision for doubtful debts	(22,464)	(23,558)
	49,673	40,236

24. Investments in securities

	2005 RMB'000	2004 RMB'000
Marketable securities in the PRC, at cost	1,760	2,914
PRC Government bonds, at cost	-	5
	1,760	2,919
Provision for impairment loss	(119)	(175)
Market value	1,641	2,744

25. Share capital

	2005 RMB'000	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 "B" shares	49,500	49,500
	245,124	245,124

26. Minority interests

	2005 RMB'000	2004 RMB'000
Minority interests	95,089	88,871
Dividend payable to minority interests	565	719
	95,654	89,590

27. Short-term and long-term loans

	2005 RMB'000	2004 RMB'000
Bank loans, secured	68,000	52,500
Bank loans, pledged	-	8,123
Bank loans, guaranteed	10,000	40,000
Other loans, secured	4,170	4,700
Others payable	500	200
	82,670	105,523
Portion classified under current liabilities	(78,670)	(101,323)
Long-term portion	4,000	4,200

The bank loans bear interest at various rates ranging from 5.58% to 6.80% (2004 - from 5.04% to 5.31%) per annum.

The interest rate of other loans is 9.63% (2004 - 9.63%) per annum.

28. Dividend payable

It represents dividend payable to the former holding company, Shenzhen Investment Administrative Company with a sum of RMB15,910,000 (2004 - RMB18,483,000).

29. 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	(22,853)	1,000
Dividend paid to minority shareholders	-	(4,098)
Profit attributable to minority interests	-	9,162
Balance as at end of the year	82,670	95,654

30. Related party transactions

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

Related party	Transactions	2005 RMB'000	2004 RMB'000
Shenzhen Tianlong Industrial Trading Co., Ltd.	Sales	10,941	12,028
	Interest income	36	36
Shenzhen Xiang Jiang Leather Product Co., Ltd.	Interest income	19	42
Business Faith International Co., Ltd.	Interest income	-	313

31. Assets held under security

As at December 31, 2005, the Group had used its buildings and investment properties with a total fair value of RMB111,123,000 (2004 - RMB113,967,000) as security for the general banking facilities.

32. Contingent liabilities

Hip Lee (H.K.) Repairing Co., the foreign investor of the Group's associate Shenzhen Xieli Automobile Co., Ltd., had taken legal action against the Group for compensation of RMB6,300,000 by reason of tort. The case is still under proceeding. No provision has been made in these financial statements as the management considers that the resulting loss is remote.

33. 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) Interest rate risk

Bank loans are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

(c) 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.

34. Ultimate holding company

In the opinion of the directors, the ultimate holding company of the Group is Shenzhen Investment Holdings Company Limited (2004 - Shenzhen Investment Administrative Company), a state-owned enterprise established in the PRC.

35. Impact of IFRS adjustments on profit attributable to shareholders

	2005 RMB'000	2004 RMB'000
As reported by PRC Certified Public Accountants	21,639	26,939
Adjustments to conform to IFRS :		
Over-provision of depreciation of investment properties reversed	2,346	2,346
Amortization of intangible assets	785	784
Premium in associates not amortized	689	-
Share of specified subsidy income	96	-
Amortization of negative goodwill	-	567
Profit from changes in equity interest of an existing subsidiary	-	433
Provision for impairment loss on unconsolidated subsidiaries reversed	-	31
As restated in conformity with IFRS	25,555	31,100

36. Impact of IFRS adjustments on net asset value

	2005 RMB'000	2004 RMB'000
As reported by PRC Certified Public Accountants	343,922	336,894
Adjustments to conform to IFRS :		
Over-provision of depreciation of investment properties reversed	22,836	20,490
Premium in associates not amortized	689	-
Amortization of intangible assets	(2,116)	(2,901)
Provision for impairment loss on unconsolidated subsidiaries	(1,500)	(1,500)
As restated in conformity with IFRS	363,831	352,983

37. Language

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

38. Comparative figures

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