

Shenzhen Textile (Holdings) Co., Ltd.

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

**Auditors' report and financial statements
for the year ended June 30, 2006**

Shenzhen Textile (Holdings) Co., Ltd.

Consolidated income statement for the year ended June 30, 2006

	June,2006 RMB'000	June,2005 RMB'000
Turnover	260,635	193,311
Cost of sales	(217,264)	(150,857)
Gross profit	43,371	42,454
Other revenue	597	371
Other net income	1,128	1,234
Investment income	1,839	1,633
Distribution costs	(8,789)	(7,049)
Administrative expenses	(25,971)	(20,999)
Other operating expenses	(19)	(143)
Operating profit	12,156	17,501
Share of profit from associates	1,369	1,111
Finance costs	(2,354)	(2,204)
Profit before taxation	11,171	16,408
Income tax	(950)	(1,449)
Profit for the year	<u>10,221</u>	<u>14,959</u>
Attributable to:		
Equity holders of the parent	8,090	11,363
Share of profit for minority interests	<u>2,131</u>	<u>3,596</u>
Profit attributable to shareholders	<u>10,221</u>	<u>14,959</u>
Profit per share to equity holders of the parent - basic	<u>RMB0.033</u>	<u>RMB0.046</u>

Shenzhen Textile (Holdings) Co., Ltd.

Consolidated balance sheet as at June 30, 2006

	June, 2006 RMB'000	Dec. , 2005 RMB'000
Assets		
Non-current assets		
Property, plant and equipment	204,207	207,591
Investment properties	101,372	101,372
Land use rights - non-current portion	3,394	3,394
Construction-in-progress	43,749	41,846
Intangible assets	31	31
Interests in associates	46,184	45,986
Other investments	41,771	41,771
	<u>440,708</u>	<u>441,991</u>
Current assets		
Land use rights - current portion	535	535
Inventories	62,981	58,440
Accounts receivable	50,233	50,874
Bills receivable	-	1,345
Prepayments, deposits and others receivable	55,644	49,673
Investments in securities	3,769	1,641
Cash and bank balances	66,467	70,304
	<u>239,629</u>	<u>232,812</u>
Total assets	<u><u>680,337</u></u>	<u><u>674,803</u></u>

(to be cont'd)

Shenzhen Textile (Holdings) Co., Ltd.

Consolidated balance sheet as at June 30, 2006

(cont'd)

	Notes	June, 2006 RMB'000	Dec. , 2005 RMB'000
Equity and liabilities			
Capital and reserves			
Share capital	(25)	245,124	245,124
Reserves		<u>114,541</u>	<u>118,707</u>
Equity attributable to equity holders of the parent		359,665	363,831
Minority interests	(26)	<u>94,789</u>	<u>95,654</u>
Total equity		<u>454,454</u>	<u>459,485</u>
Non-current liability			
Long-term loans, non-current portion	(27)	<u>4,000</u>	<u>4,000</u>
Current liabilities			
Long-term loans, current portion	(27)	75,590	78,670
Accounts payable		27,753	28,033
Others payable and accrued expenses		90,443	86,318
Dividend payable	(28)	27,666	15,910
Provision for taxation		<u>431</u>	<u>2,387</u>
		<u>221,883</u>	<u>211,318</u>
Total equity and liabilities		<u>680,337</u>	<u>674,803</u>

The financial statements on pages 2 to 34 were approved and authorized for issue by the board of directors on August 26 , 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 June 30, 2006

	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 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
Dividend paid	-	-	-	-	-	-	(12,256)	-	(12,256)	(2,996)	(15,252)
Increase in investment by minority interests	-	-	-	-	-	-	-	-	-	-	-
Net profit for the year	-	-	-	-	-	-	-	8,090	8,090	2,131	10,221
Appropriations to statutory surplus reserve and statutory public welfare fund	-	-	-	-	-	-	-	-	-	-	-
Proposed final dividend	-	-	-	-	-	-	-	-	-	-	-
Balance as at December 31, 2005	245,124	-	-	8,486	17,503	44,294	-	44,258	359,665	94,789	454,454

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 decided a final dividend of RMB0.05 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 June 30, 2006

	June 30, 2006 RMB'000
Cash flow from operating activities	
Operating profit before taxation	11,171
Adjustment items :	
Depreciation and amortization	9,002
(Profit)/loss on disposal of property, plant and equipment	(62)
Share of profit from associates	(1,369)
Profit on disposal of investments in securities	(1,323)
Provision for diminution in value of inventories	115
Provision for doubtful debts made/(reversed)	107
Interest income	(295)
Interest expense	2,199
Net operating cash inflow before movements in working capital	19,545
Increase in inventories	(4,541)
Increase in accounts receivable	641
Increase in bills receivable	1,345
(Increase)/decrease in prepayments, deposits and others receivable	(5,971)
Increase in accounts payable	(280)
Decrease in others payable and accrued expenses	4,870
Cash inflow from operating activities before interest and tax payments	15,609
Income tax paid	(2,906)
Interest paid	(1,919)
Net cash inflow from operating activities c/f	<u><u>10,784</u></u>

(to be cont'd)

Shenzhen Textile (Holdings) Co., Ltd.

Consolidated cash flow statement for the year ended June 30, 2006

(cont'd)

	Notes	June 30, 2006 RMB'000
Net cash inflow from operating activities b/f		10,784
Investing activities		
Interest received		295
Purchases of property, plant and equipment	(	1,123)
Increase in construction-in-progress	(	6,969)
Proceeds from disposal of property, plant and equipment		62
Returns from associates received		516
(Increase)/decrease in amounts due from associates		1,171
Proceeds from disposal of other investments and investments in securities	(	92)
Increase in investments in securities	(	804)
Net cash outflow from investing activities	(	6,944)
Net cash inflow/(outflow) before financing activities		3,840
Financing activities		
Dividend paid	(	3,500)
Decrease in bank and other loans	(	3,080)
Increase/(decrease) in minority interests	(	1,097)
Net cash outflow from financing activities	(	7,677)
Decrease in cash and cash equivalents	(	3,837)
Cash and cash equivalents as at beginning of the year		70,304
Cash and cash equivalents as at end of the year		66,467
Cash and cash equivalents as at end of the year are represented by :		
Cash and bank balances		66,467

Shenzhen Textile (Holdings) Co., Ltd.

Consolidation statement of impairment loss for the year ended June 30, 2006

	Dec. 31, 2005 RMB' 000	Increase RMB' 000	Decrease RMB' 000	Transfer-out RMB' 000	June 30, 2005 RMB' 000
Provision for impairment loss					
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	5,497	-	-	-	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
	44,287	-	-	-	44,287
7. Inventories					
Raw materials	98	-	-	-	98
Work-in-progress	1,892	-	-	-	1,892
Finished goods	3,109	115	-	(746)	2,478
	5,099	115	-	(746)	4,468
8. Accounts and others receivable					
Accounts receivable	3,599	107	-	-	3,706
Others receivable	22,464	-	-	(38)	22,426
	26,063	107	-	(38)	26,132
9. Investments in securities					
Marketable securities	119	-	(92)	-	27
PRC Government bonds	-	-	-	-	-
	119	-	(92)	-	27
Total	76,037	222	(92)	(784)	75,383

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended June 30, 2006

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 , 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 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 June 30, 2006, the Company held the following subsidiaries :

i) Subsidiaries consolidated

<u>Company name</u>	<u>Place of establishment/ operation</u>	<u>Effective equity held by the Group</u>	<u>Principal activities</u>
		<u>June 2006</u>	<u>Dec.,2005</u>
Shenzhen Jinlan Decorative Products	PRC	100%	100%
Ind. Co. Ltd.			Manufacturing of bedding and decorating products

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended June 30, 2006

Shenzhen Lisi Industrial & Development Co., Ltd.	PRC	100%	100%	Material supplies
Shenzhen Huaqiang Hotel Ltd.	PRC	100%	100%	Hotel, catering, and business centre operations
Shenfang Building Estate Management Co.	PRC	100%	100%	Property management
Shenzhen Jing Guang Shoes and Hose Co., Ltd.	PRC	100%	100%	Manufacturing and trading of sporting shoes and socks
Shenzhen Zhong Xing Fibre Products Co., Ltd.	PRC	100%	100%	Manufacturing and trading of fibre products
Jiangxi Xuanli Thread Co., Ltd.	PRC	63.87%	63.87%	Manufacturing and trading of synthetic fibre threads
Anhui Huapeng Textile Co., Ltd.	PRC	50%*	50%*	Textile products
Shenzhen Shenfang Import and Export Co., Ltd.	PRC	49%*	49%*	Import and export trading of textile
Shenzhen Mei Bai Nian Garments Co., Ltd.	PRC	48%*	48%*	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

Subsidiaries not consolidated

<u>Company name</u>	<u>Place of establishment/ operation</u>	<u>Effective equity held by the Group</u>		<u>Principal activities</u>
<u>June 2006</u> <u>dec.2005</u>				
Darwin International Co., Ltd.	Hong Kong	100%	100%	Import and export
Shenzhen Feng Sheng Garments Co., Ltd.	PRC	100%	100%	Manufacturing of clothing
Shenzhen Fenghua Zhi Dai Factory Co., Ltd.	PRC	75%	75%	Manufacturing of fasteners

In the opinion of the directors, the above unconsolidated subsidiaries have ceased the business, are under liquidation or are unable to transfer funds to the parent because of the long-term restrictions over their operations. As their operating results and net assets have no significant effect on the Group as a whole, they have not been included in the consolidation. After taking into consideration the expected impairment loss, the investments in above companies are accounted for at cost less provision for diminution in value that is other than temporary.

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended June 30, 2006

(cont'd)

2. 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 June 30, 2006 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.

3. 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.

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended June 30, 2006

(cont'd)

3. 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.

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended June 30, 2006

(cont'd)

3. 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 a jointly controlled entity 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 jointly controlled entity 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 a jointly controlled entity, 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.

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended June 30, 2006

(cont'd)

3. 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.

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended June 30, 2006

(cont'd)

3. 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.

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended June 30, 2006

(cont'd)

3. 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.

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended June 30, 2006

(cont'd)

3. 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.

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended June 30, 2006

(cont'd)

4. Operating income

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

	June,2006	June,2005
	RMB'000	RMB'000
Turnover		
Sales of goods	234,180	168,780
Property rental income	23,015	21,630
Hotel operations	3,440	2,901
	<u>260,635</u>	<u>193,311</u>

5. Business and geographical segments

Business segments

Segment information about businesses in medium year of 2006 is presented below :

	<u>Sales of goods</u>	<u>Leasing</u>	<u>Hotel operations</u>	<u>Elimination</u>	<u>Consolidated</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
External sales	234,180	23,015	3,440	-	260,635
Intragroup sales	<u>4,389</u>	<u>-</u>	<u>-</u>	<u>(4,389)</u>	<u>-</u>
Revenue	<u>238,569</u>	<u>23,015</u>	<u>3,440</u>	<u>(4,389)</u>	<u>260,635</u>
Gross profit segment result	<u>16,916</u>	<u>23,015</u>	<u>3,440</u>		<u>43,371</u>

Segment information about businesses in medium year of 2005 is presented below :

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

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended June 30, 2006

(cont'd)

5. 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 :

	June 2006 RMB'000	June 2005 RMB'000
Within PRC	89,307	106,790
Outside PRC	175,717	86,521
	<u>265,024</u>	<u>193,311</u>
Intragroup sales	(4,389)	-
	<u>260,635</u>	<u>193,311</u>

6. Other revenue

	June 2006 RMB'000	June 2005 RMB'000
Interest income	295	356
Subsidy income	7	4
Sundry income	295	11
	<u>597</u>	<u>371</u>

7. Other net income

	June 2006 RMB'000	June 2005 RMB'000
Other operating profit	1,066	922
Profit on disposal of property, plant and equipment	62	28
Amortization of negative goodwill	-	284
	<u>1,128</u>	<u>1,234</u>

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended June 30, 2006

(cont'd)

8. Income from investments

	June 2006 RMB'000	June 2005 RMB'000
Returns from investment items	516	1,850
Profit on disposal of investments in securities	1,323	-
Provision for impairment loss on investments in securities	-	(217)
	<u>1,839</u>	<u>1,633</u>

9. Finance costs

	June 2006 RMB'000	June 2005 RMB'000
Interest expense	2,199	2,095
Bank charges	141	91
Exchange loss	14	18
	<u>2,354</u>	<u>2,204</u>

10. Profit before taxation

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

	June 2006 RMB'000	June 2005 RMB'000
After charging :		
Interest expense	2,199	2,095
Depreciation and amortization	9,002	10,566
Provision for impairment loss on investments in securities	-	217
Provision for diminution in value of inventories	115	-
Provision for doubtful debts	107	-
Staff costs	20,872	17,382
Exchange loss	<u>14</u>	<u>18</u>

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended June 30, 2006

(cont'd)

11. Taxation

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

	June 2006 RMB'000	June 2005 RMB'000
Income tax		
Company and subsidiaries	950	1,449
Deferred tax	-	-
	<u>950</u>	<u>1,449</u>

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

	June 2006 RMB'000	June 2005 RMB'000
Profit before taxation	<u>11,171</u>	<u>16,408</u>
Tax at the income tax rate of 15%	1,676	2,461
Tax effect :		
- non-taxable revenue	(716)	(631)
- tax losses utilized	(30)	(82)
- benefit from tax recession period	(213)	(580)
- different tax rates of subsidiaries operating in different jurisdictions	<u>233</u>	<u>281</u>
Actual tax expense with effective tax rate of 11.4%	<u><u>950</u></u>	<u><u>1,449</u></u>

12. Profit per share

Profit per share is calculated by dividing the net profit for the haly a year of RMB8,090,000 (2005 – RMB11,363,000) attributable to equity holders of the parent by 245,124,000 shares (2005 - 245,124,000 shares) in issue during the year concerned.

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended June 30, 2006

(cont'd)

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, 2005	158,002	23,918	146,189	10,483	6,501	345,093
Increase	2,502	2,643	3,898	579	408	10,030
Decrease	(611)	-	(326)	(433)	(46)	(1,416)
Balance as at December 31, 2005	159,893	26,561	149,761	10,629	6,863	353,707
Increase	-	-	116	1,234	270	1,620
Decrease	-	(47)	-	-	-	(47)
Transfer from construction-in-progress (note 17)	-	3,557	-	-	-	3,557
Balance as at June 30, 2006	159,893	30,071	149,877	11,863	7,133	358,837
Accumulated depreciation/impairment loss						
Balance as at January 1, 2005	(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)
Increase	(2,525)	(423)	(5,011)	(427)	(428)	(16,874)
Decrease	-	-	246	54	-	1,228
Balance as at June 30, 2006	(58,067)	(19,862)	(63,539)	(7,173)	(5,989)	(154,630)
Net book value						
Balance as at June 30, 2006	101,826	10,209	86,338	4,690	1,144	204,207
Balance as at December 31, 2005	104,351	7,122	90,987	3,829	1,302	207,591

The directors are of the opinion that the carrying value of above assets as at June 30, 2006 approximates the prevailing open market value.

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended June 30, 2006

(cont'd)

15. Investment properties

	June 2006 RMB'000	Dec.,2005 RMB'000
Cost/valuation	<u>101,372</u>	<u>101,372</u>

Certain investment properties of the Group were appraised by Zhonghua (Shekou) Certified Public Accountants, professional valuers in 1993. The directors are of the opinion that the carrying value of the investment properties as at June 30, 2006 approximates the prevailing market value

16. Land use rights

	June 2006 RMB'000	Dec.,2005 RMB'000
Net book value	3,929	3,929
Current portion	<u>(535)</u>	<u>(535)</u>
Non-current portion	<u>3,394</u>	<u>3,394</u>

17. Construction-in-progress

	RMB'000
Cost	
Balance as at January 1, 2005	18,470
Increase	<u>23,376</u>
Balance as at December 31, 2005	41,846
Increase	9,210
Transfer to property, plant and equipment (note 14)	(3,557)
Transfer to other assets	<u>(3,750)</u>
Balance as at June 30, 2006	<u>43,749</u>

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended June 30, 2006

(cont'd)

18. Intangible assets

		RMB'000
Trademark and technical know-how, at cost		
Balance from January 1, 2005 to		
June 30, 2006		118
Accumulated amortization		
Balance as at January 1, 2005	(84)	
Increase	(3)	
	<u> </u>	
Balance as at December 31, 2005	(87)	
Increase	<u> -</u>	
Balance as at June 30, 2006		<u>(87)</u>
Net book value		
Balance as at June 30, 2006		<u>31</u>
Balance as at December 31, 2005		<u><u>31</u></u>

19. Interests in associates

	June 2006 RMB'000	Dec.,2005 RMB'000
Share of net assets	<u>42,748</u>	<u>42,087</u>
Premium in associates	6,890	6,890
Amortization of premium	<u>(4,823)</u>	<u>(4,823)</u>
	<u>2,067</u>	<u>2,067</u>
	44,815	44,154
Amounts due from associates	1,369	1,832
Amounts due to associates	<u> -</u>	<u> -</u>
Interests in associates	<u>46,184</u>	<u>45,986</u>

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended June 30, 2006

(cont'd)

As at June 30, 2006, the details of the principal associates are listed out as follows :

<u>Company name</u>	<u>Place of establishment/ operation</u>	<u>Effective equity held by the Group</u>		<u>Principal activities</u>
		<u>June 2006</u>	<u>dec.,2005</u>	
Shenzhen China East Electronics Co., Ltd.	PRC	50%	50%	Manufacturing of electronic toys
Shenzhen Label Weaving Factory Co., Ltd.	PRC	50%	50%	Manufacturing and trading of label tags
Shenzhen Tianlong Industrial and Trading Co., Ltd.	PRC	50%	50%	Manufacturing and trading of health balls, foodstuffs and textile related products
Shenzhen Xieli Automobile Co., Ltd.	PRC	50%	50%	Motor vehicle repair and maintenance services
Longwell Development Printing and Dyeing Co., Ltd.	PRC	40.25%	40.25%	Processing of corduroy
Jordan Yie Hui Clothing Factory 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. Other investments

	June 2006 RMB'000	Dec.,2005 RMB'000
Subsidiaries not consolidated, at cost	9,425	9,425
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
	<u>86,058</u>	<u>86,058</u>
Provision for impairment loss	(44,287)	(44,287)
	<u>41,771</u>	<u>41,771</u>

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended June 30, 2006

(cont'd)

20. Other investments (cont'd)

As at June 30, 2006, the details of the subsidiaries not consolidated are listed out as follows :

<u>Company name</u>	<u>Place of establishment/ operation</u>	<u>Effective equity held by the Group</u>		<u>Principal activities</u>
		<u>June 2006</u>	<u>Dec.,2004</u>	
Darwin International Co., Ltd.	Hong Kong	100%	100%	Import and export
Shenzhen Feng Sheng Garments Co., Ltd.	PRC	100%	100%	Manufacturing of clothing
Shenzhen Fenghua Zhi Dai Factory Co., Ltd.	PRC	75%	75%	Manufacturing of fasteners

In the opinion of the directors, the above unconsolidated subsidiaries have ceased the business, are under liquidation or are unable to transfer funds to the parent because of the long-term restrictions over their operations. As their operating results and net assets have no significant effect on the Group as a whole, they have not been included in the consolidation. After taking into consideration the expected impairment loss, the investments in above companies are accounted for at cost less provision for diminution in value that is other than temporary.

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

<u>Company name</u>	<u>Place of establishment/ operation</u>	<u>Effective equity held by the Group</u>		<u>Principal activities</u>
		<u>June 2006</u>	<u>Dec.,2004</u>	
Shenzhen Kunhwa Dyeing Co., Ltd.	PRC	45%	45%	Dyeing
Shenzhen Hualian Fangzhi (Holding) Co., Ltd.	PRC	20%	20%	Investment holding
Shenzhen Xin Fang Textile Factory Co., Ltd.	PRC	20%	20%	Textile products
Shenzhen Xiang Jiang Leather Product Co., Ltd.	PRC	20%	20%	Leather products

As the Group cannot exercise significant influence on the above companies, they are not accounted for by the equity method of accounting. After taking into consideration the expected impairment loss, investments in above companies are accounted for at cost less provision for diminution in value that is other than temporary.

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended June 30, 2006

(cont'd)

21. Inventories

	June 2006 RMB'000	Dec.,2005 RMB'000
Raw materials	13,398	10,281
Work-in-progress	30,386	31,890
Finished goods	23,665	21,368
	<u>67,449</u>	<u>63,539</u>
Provision for inventory obsolescence	(4,468)	(5,099)
	<u>62,981</u>	<u>58,440</u>

22. Accounts receivable

	June 2006 RMB'000	Dec.,2005 RMB'000
Amounts receivable	53,939	54,473
Provision for doubtful debts	(3,706)	(3,599)
	<u>50,233</u>	<u>50,874</u>

23. Prepayments, deposits and others receivable

	June 2006 RMB'000	Dec.,2005 RMB'000
Advance payments	20,973	19,123
Prepayments	84	128
Others receivable	57,013	52,886
	<u>78,070</u>	<u>72,137</u>
Provision for doubtful debts	(22,426)	(22,464)
	<u>55,644</u>	<u>49,673</u>

24. Investments in securities

	June 2006 RMB'000	Dec.,2005 RMB'000
Marketable securities in the PRC, at cost	3,796	1,760
PRC Government bonds, at cost	<u>-</u>	<u>-</u>
	3,796	1,760
Provision for impairment loss	(27)	(119)
Market value	<u>3,769</u>	<u>1,641</u>

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended June 30, 2006

(cont'd)

25. Share capital

	June 2006 RMB'000	Dec., 2005 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
	<u>245,124</u>	<u>245,124</u>

26. Minority interests

	June 2006 RMB'000	Dec., 2005 RMB'000
Minority interests	94,224	95,089
Dividend payable to minority interests	565	565
	<u>94,789</u>	<u>95,654</u>

27. Short-term and long-term loans

	June 2006 RMB'000	Dec., 2005 RMB'000
Bank loans, secured	68,000	68,000
Bank loans, pledged	-	-
Bank loans, guaranteed	7,000	10,000
Other loans, secured	4,090	4,170
Others payable	500	500
	<u>79,590</u>	<u>82,670</u>
Portion classified under current liabilities	<u>(75,590)</u>	<u>(78,670)</u>
Long-term portion	<u>4,000</u>	<u>4,000</u>

The bank loans bear interest at various rates ranging from 5.58% to 6.80% per annum.

The interest rate of other loans is 9.63% per annum.

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended June 30, 2006

(cont'd)

28. Dividend payable

It represents dividend payable to the former holding company, Shenzhen Investment Administrative Company with a sum of RMB27,666,000 (2005 – RMB15,910,000).

29. Cash flow from financing

	Bank & other loans RMB'000	Minority interests RMB'000
Balance as at beginning of the year	82,670	95,654
Cash flows from financing activities	(3,080)	-
Dividend paid to minority shareholders	-	(2,996)
Profit attributable to minority interests	-	2,131
	<u>79,590</u>	<u>94,789</u>
Balance as at end of the year	<u>79,590</u>	<u>94,789</u>

30. Related party transactions

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

Related party	Transactions	June 2006 RMB'000	June 2005 RMB'000
Shenzhen Tianlong Industrial Trading Co., Ltd.	Sales	4,299	5,162
	Interest income	18	15
Shenzhen Xiang Jiang Leather Product Co., Ltd.	Interest income	2	11

31. Assets held under security

As at June 30, 2006, the Group had used its buildings and investment properties with a total fair value of RMB113,967,000 as security for the general banking facilities.

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended June 30, 2006

(cont'd)

32. 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.

(a) Interest rate risk

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

(b) Fair value

The fair value of financial assets and financial liabilities is not materially different from their carrying amount.

The carrying value of short-term borrowings is estimated to approximate its fair value based on the borrowing terms and rates of similar loans.

The fair value of long-term borrowings is estimated, by applying discounted cash flow method using the market interest rates for similar financial instruments, to approximate its carrying value.

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties on matters of significant judgement, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

33. Ultimate holding company

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

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended June 30, 2006

(cont'd)

34. Impact of IFRS adjustments on profit attributable to shareholders

	2005 RMB'000	2004 RMB'000
As reported by PRC Certified Public Accountants	6,524	9,906
Adjustments to conform to IFRS :		
Over-provision of depreciation of investment properties reversed	1,173	1,173
Amortization of intangible assets	393	-
Amortization of negative goodwill	-	284
As restated in conformity with IFRS	<u>8,090</u>	<u>11,363</u>

35. Impact of IFRS adjustments on net asset value

	June 2006 RMB'000	Dec., 2005 RMB'000
As reported by PRC Certified Public Accountants	338,190	343,922
Adjustments to conform to IFRS :		
Over-provision of depreciation of investment properties reversed	24,009	22,836
Premium in associates not amortized	689	689
Amortization of intangible assets	(1,723)	(2,116)
Provision for impairment loss on unconsolidated subsidiaries	(1,500)	(1,500)
As restated in conformity with IFRS	<u>359,665</u>	<u>363,831</u>

36. Language

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

37. Comparative figures

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