Shenzhen Textile (Holdings) Co., Ltd.

2006 Annual Report (B)

April 2007

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Shenzhen Textile (Holdings) Co., Ltd.
2006 Annual Report

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 Wang Bin, General Manager Zhu Jun 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: Wang Bin

General manager of the Company:Zhu Jun

3.Secretary to the board of directors: Chao Jin

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

ZipCode: 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

Zip 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 of first registration of the Company: 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.: Di Shui Deng Zi No.:440304192173749
Guo Shui Deng Zi No.:440301192173749
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.

II. Highlights of Accounting Data and Business Data

1. Main accounting data

Unit: RMB'000

	2006 (current year)	2005 (previous year)	2004	Increase/decrease (%)
Turnover	555,783	392,060	448,393	41.76
Before-tax profit	18,519	39,196	44,558	-52.75
Profit for the year	9,680	25,555	31,100	-62.12
	End of 2006 (end of current year)	End of 2005 (end of previous year)	End of 2004	Increase/decrease (%)
Total assets	677,685	674,803	680,697	-0.48
Shareholders' equity	361,255	363,831	352,983	-0.71
Net cash inflows from operating activities	50,505	26,191	39,883	87.29

2. Main financial indicators

Unit: RMB'000

	2006 (current year)	2005 (previous year)	2004	Increase/decrease (%)
Earnings per share	0.039	0.104	0.127	-62.5
Return on net assets	2.68	7.02	8.81	-4.34
Net cash inflows per share from operating activities	0.21	0.11	0.16	90.9

	End of 2006 (end of current year)	End of 2005 (end of previous year)	2004	Increase/decrease (%)
Net assets per share	1.47	1.48	1.44	-0.68

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

	2006 **RMB '000**	**2005** **RMB '000**
Pursuant to the financial report audited by Chinese C.P.A.	6,724	21,639
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 intangible assets	785	785
The price difference of equity investment in affiliated companies need not amortization	689	689
Writeback of impairment of other assets.	1,500	—
Income from special subsidy shared	—	96
The shares distributed in A-share holding structure reform were stated as expenditure	-2,364	—
Restated pursuant to international financial report standard	9,680	25,555

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

	2006 **RMB '000**	**2005** **RMB '000**
Pursuant to the financial report audited by Chinese C.P.A.	338,390	343,922
Adjustment made for complying with international accounting standards:		
Writeback of over-provision for the depreciation of real estate of investment nature	25,182	22,836
Amortization of intangible assets	-1,331	-2,116
The price difference of equity investment in affiliated companies need not	1,378	689

amortization		
The shares distributed in A-share holding structure reform were stated as expenditure	-2,364	—
Provision for impairment of equity investment.	—	-1,500
Restated pursuant to international financial report standard	361,255	363,831

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. Share with conditional subscription	162,460,800	66.28				-13,496,112	-13,496,112	148,863,888	60.73
1.State-owned shares									
2.Staee-owned legal person shares	162,360,000	66.24				-13,638,240	-13,638,240	148,721,760	60.67
3.Other domestic shares									
Of which：Domestic legal person shares									
Domestic natural person shares	100,800	0.04				41,328	41,328	142,128	0.06
4.Share held by foreign investors									
Of which：Foreign legal person shares									
Foreign natural person shares									
II. Shares with unconditional subscription	82,663,200	33.72				13,596,912	13,596,912	96,260,112	39.27
1.Common shares in	33,163,2	13.53				13,596,9	13,596,912	46,760,	19.08

RMB	00					12		112	
2.Foreign shares in domestic market	49,500,000	20.19				0	0	49,500,000	20.19
3.Foregin shares in overseas market									
4.Other									
III. Total of capital shares	245,124,000	100				0	0	245,124,000	100

(II) Particulars about the issuing and listing of shares

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

In June 1994 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, 2006, the Company had 20,853 shareholders in total including one shareholder of state-owned shares, 13,029 shareholders of A shares and 7,823 shareholders of B shares.

2. Particulars of the shareholding of the top ten shareholders as of December 31, 2006:

Unit：Shares

Total of shareholders	20,853				
Top 10 shareholders					
Name of the shareholder	Properties of shareholder	Share proportion %	Total shares	Conditional shares	Pledged or frozen
Shenzhen Investment Management Co., Ltd.	State-owned shareholder	60.67%	148,721,760	148,721,760	Frozen38,000,000
Lai Yuping	RMB Common shares	0.33%	800,000		
Zheng Chuangjian	Foreign shares placed in domestic exchange	0.29%	721,850		
Wang Qi	RMB Common shares	0.21%	528,340		
VICTOR ONWARD PRINTING&DYEING (HK) CO. LTD	Foreign shares placed in domestic exchange	0.19%	455,000		

Shanghai Gelin Wireless Plant	RMB Common shares	0.18%	450,547		
Xian Economy & Technology Investment guaranty Co., Ltd.	RMB Common shares	0.16%	400,000		
WU,KIN YEUK	Foreign shares placed in domestic exchange	0.16%	380,000		
Zhou Chao	RMB Common shares	0.13%	324,584		
ABN AMRO BANK NV	Foreign shares placed in domestic exchange	0.13%	324,400		

Top 10 holders of unconditional shares		
Name of the shareholder	Unconditional shares	Type of shares
Lai Yuping	800,000	RMB Common shares
Zheng Chuangjian	721,850	Foreign shares placed in domestic exchange
Wang Qi	528,340	RMB Common shares
VICTOR ONWARD PRINTING&DYEING (HK) CO. LTD	455,000	Foreign shares placed in domestic exchange
Shanghai Gelin Wireless Plant	450,547	RMB Common shares
Xian Economy & Technology Investment guaranty Co., Ltd.	400,000	RMB Common shares
WU,KIN YEUK	380,000	Foreign shares placed in domestic exchange
Zhou Chao	324,584	RMB Common shares
ABN AMRO BANK NV	324,400	Foreign shares placed in domestic exchange
Zheng Liancai	290,300	Foreign shares placed in domestic exchange

Notes to the related relationship between the shareholders or their concerted action	In the above table, there is no relationship between the shareholder holding state-owned legal person shares and other shareholders. Whether there is relationship between holders of public shares is unknown. The Company does not know whether there is related relation between social public shareholders or whether they are persons taking concerted action defined in Regulations on Disclosure of Information about Shareholding of Shareholders of Listed Companies.

Among the above shareholders, the one holding shares on behalf of the state is Shenzhen

Investment Management Co. No. 3,5,8 and 10 shareholders are the ones holding foreign investment shares.

3. Introduction to the Controlling shareholder of the Company

Shenzhen Investment Management Co., Ltd., the controlling shareholder of the Company, Shenzhen Construction Holding Company and Shenzhen Commerce and Trade Investment Holding Company were merged into Shenzhen Investment Holding Co., Ltd. according to the Decision on Establishing Shenzhen Investment Holding Co., Ltd. - Shen Guo Zi Wei (2004) No. 223 Document issued by State-owned Assets Administration Committee of Shenzhen municipal people's government. The state-owned shares of the Company held by Shenzhen Investment Management Co., Ltd. are managed by Shenzhen Investment Holding Co., Ltd. As of the report day, relevant procedure of title transfer has not been settled. The shares held by :Shenzhen Investment Holding Co., Ltd. account for 60.67% 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. National Assets Regulatory Commission of Shenzhen Municipal People's Government is the actual controller of the Company.

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

National Assets Regulatory Commission of Shenzhen Municipal People's Government

│ 100%

↓

Shenzhen Investment Holding Co., Ltd.

│ 60.67%

↓

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 time for listing of shares subject to sale restriction

Time	Quantity of additional shares that can be listed and traded upon	Balance of shares subject to sale restriction	Balance of shares not subject to sale restriction	Remark

	the expiration of sale restriction period			
September 11, 2008	12,256,200	136,465,560	59,158,440	Negotiating shares of Shenzhen Investment Management Co., Ltd.
September 11,2009	136,465,560	0	195,624,000	Negotiating shares of Shenzhen Investment Management Co., Ltd.

The quantity of shares held by the top 10 shareholders subject to sale restriction and conditions of sale restriction

No.	Name of shareholder holding shares subject to sale restriction	Quantity of shares held by the shareholder subject to sale restriction	Time when shares can be listed and traded	Quantity of additional shares that can be listed and traded	Conditions of sale restriction
			2008.9.11	12,256,200	
			2009.9.11	136,465,560	

IV. Directors, Supervisors, Senior Executives and Staff

(I). Basic information

Name	Sex	Age	Title	Date of starting and ending	Shares held at year-beginning	Shares held at year-end
Guang Tongke	Male	59	Board chairman	2003.6.30—2007.1.5	55800	78678
Wang Bin	Male	36	Director, General Manager	2003.6.30—2007.1.5	0	0
Li Jingqiang	Male	54	Director	2003.6.30—2007.1.5	45000	63450
Yang Jichao	Male	52	Independent director	2003.6.30—2007.1.5	0	0
Liu Xiangqing	Male	45	Independent director	2003.6.30—2007.1.5	0	0

Huang Hui	Male	42	Independent director	2003.6.30—2007.1.5	0	0
Gao Zhuofu	Male	54	Independent director	2003.6.30—2007.1.5	0	0
Zhou Meirong	Female	49	Supervisor	2005.4.5—2007.1.5	7050	7050
Song Gongli	Male	51	Supervisor	2005.6.29—2007.1.5	0	0
Zhou Dadong	Male	60	Deputy GM	2003.7.30—2007.1.5	0	0
Zhu Jun	Male	43	Deputy GM	2003.7.30—2007.1.5	0	0
Feng Junbin	Male	44	Deputy GM	2003.7.30—2007.1.5	0	0
Gao Guoshi	Male	53	Deputy GM	2005.5.28—2007.1.5	0	0
Chao Jin	Female	44	Secretary to the board of directors	2003.6.30—2007.1.5	0	0
Liu Yi	Male	53	Deputy chief accountant	2003.6.30—2007.1.5	0	0

(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. In the report period, he served as chairman of the board of directors of the Company.

Wang Bin served successively as secretary of Personnel Division of Equipment Branch of Henan Textile Machinery Plant, 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. In the report period, he served as director and general manager of the Company.

Li Jinqiang served successively as clerk of Shenzhen Baoan Xixiang Sugar Mill, section chief of Shenzhen Light Industry Company, director of Personnel Dept., general manager assistant, deputy general manager and deputy secretary of Party committee of the Company. In the report period, he served as director ,deputy secretary of Party committee and secretary of discipline committee 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. In the report period, he served as independent director of the Company.

Liu Xiangqing served successively as section chief of Guangxi Finance Department , section chief of Guangxi Certified Public Accountants, 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 .
In the report period, he served as independent director of the Company.

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

Zhou Meirong served as a statistician of No. 2 Mine of Guangdong Shaoguan Coal Bureau and chief section staff of Shaoguan Communist Youth League Committee, deputy secretary and secretary of Communist Youth League, deputy director and director of Party Office and office director of the Company. She now serves as chairman of labor union and director of Party committee office of the Company. In the report period, she serves as employee-representing supervisor 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, office director of Shenzhen Investment Holding Co., Ltd. In the report period, he served as Supervisor 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. In the report period, he served as Deputy general manager 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 Education Division, manager of Enterprise management Dept, and general manager assistant of the Company. In the report period, he served as Deputy general manager 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. In the report period, he served as Deputy general manager 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, 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. In the report period, he served as Deputy general manager of the Company.

Chao 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. In the report period, she served 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. In the report period, he served as deputy chief accountant and manager of Finance Dept of the Company.

(III). 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 2006 is as follows:

Name	Position	Remuneration (RMB’0000)
Guan Tongke	Chairman of the board of directors	47.86
Wang Bin	Director and general manager	24.00
Li Jingqiang	Director	46.42
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	46.60
Zhou Meirong	Supervisor	33.22
Song Gongli	Supervisor	0(Receiving salary from corporate shareholder)
Zhou Dadong	Deputy general manager	35.93
Zhu Jun	Deputy general manager	31.31
Feng Junbin	Deputy general manager	31.78
Gao Guoshi	Deputy general manager	31.07
Chao Jin	Secretary to the board of directors	31.33
Liu Yi	Deputy chief accountant	27.75

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

The Company held staff and workers' congress on December 18, 2006. Zhou Meirong was elected as employee-representing supervisor of the fourth supervisory committee of the Company.

In the report period, other directors, supervisors and senior executives of the Company remained unchanged.

(V) Staff

As of December 31, 2006, the Company had 680 staff members in total, including 402 production employees, 34 sales employees,53 technical employees, 30 financial employees and 81 administrative employees. Among the employees, 13 hold Master's degree or above, 123 are graduates of universities and junior colleges and 70 have education of technical secondary school. The number of retired staff was 96 .

V. Control Structure of the Company

(I)Status of corporate governance structure

In the report period, the Company standardized its operation according to the requirements of Guidelines for Governance of Listed Companies, met standardized requirements in respect of the operation of the shareholders' general meeting, the board of directors and the supervisory committee and information disclosure, fully respected and safeguarded the legitimate rights of related parties and adopted standardized decision-making procedure. In the report period, the Company revised the Articles of Association of the Company, Rules of Procedure of Shareholders' General Meeting, Rules of Procedure of the Board of Directors and Rules of Procedure of the Supervisory Committee in accordance with the Company Law, the Securities Law and Listing Rules of Shenzhen Stock Exchange.

In the report period, the Company actively explored effective management mode that conforms to its actual conditions, improved labor, personnel and distribution system, formulated regulations including Regulations on Personnel Appraisal, Regulations on Remuneration Management and Plan for Going to Post after Competition and preliminarily established performance appraisal system for senior executives.

(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)	Absent (times)
Yang Jichao	6	5	1	0
Liu Xiangqing	6	6	0	0
Huang Hui	6	6	0	0

The board of directors of the Company has 3 independent directors, including 1 professor-level senior engineer in textile industry, 1 senior accountant and 1 senior lawyer. 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 was separated from its controlling shareholder in respect of business, personnel, assets, organ and finance. The board of directors of the Company, the supervisory committee and internal organs operated independently. Shenzhen Investment Holding Co., Ltd., the controlling shareholder of the Company, is an enterprise directly under Shenzhen State-owned Assets Commission. The Company implements the regulations of the controlling shareholder on management of state-owned assets and regularly submits documents including periodical reports and financial statements to the controlling shareholder.

VI. Brief Introduction of Shareholders' General Meeting

(I) 2005 annual shareholders' general meeting of the Company was held on May 30, 2006. The resolutions of the meeting were published on Securities Times and Hong Kong

Commercial Daily on May 31, 2006.

(II) The Company held a shareholders' meeting concerning share holding structure reform on September 4, 2006. The voting result of the meeting was published on Securities Times and Hong Kong Commercial Daily on September 5, 2006.

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 2006, the Company earned income of RMB 555.784 million, which increased by 41.8% year on year. It earned net profit of RMB 9.68 million, which decreased by 62.1% year on year mainly due to the technology that the phase-II of the polarizer sheet project had been put into production by Meibainian Industry Co., Ltd. need ameliorate and decrease of profit from trade and increase of subsidiaries' provision for impairment of assets.

Industry: In the report period，the income of the Company from manufacturing industry was RMB 228.649 million, a year-on-year increase of 18.0%. The Company earned total profit of RMB 11.3875 million from industry, which decreased by 38.22% year on year mainly due to provision for impairment of assets by Xuanli Yarn Industry Co., Ltd., a subsidiary of the Company.

Trade: In the report period， the income of the Company from trade was RMB 27.9288 million, a year-on-year increase of 62.18%. However, the profit from trade decreased by RMB 5.24 million mainly due to decrease of profit from export trade caused by sharp rise in Renminbi rate and lowering of export rebate 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 54.296 million, a year-on-year increase of 3.32%. The Company earned total profit of RMB 5.0964 million from property lease and hotel business, which decreased by 44.32% year on year mainly due to increase of property maintenance cost.

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	89,776,469.04	69,214,231.62	22.90%
Fully-shaped knitted garment	39,429,661.57	28,786,902.43	26.99%

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 4.7645 million in 2006.

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 7.827 million in 2006.

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 RMB1.405 million in 2006.

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.In 2006, it suffered loss of RMB 4.097 million It is mainly due to provision for impairment of assets.

. 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 1.452 million in 2006.

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. It earned net profit of RMB 0.047 million in 2006.

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 100% and it earned net profit of RMB 1.643 million in 2006.

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. The Hotel housing rate was 80% and it earned net profit of RMB 1.175 million in 2006.

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. It earned net profit of RMB 0.039 million in 2006.

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 2006, it suffered loss of RMB 0.29 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 2006, the average occupancy rate of the property leased on agency business was 99.3%. Its income from management fee was RMB 6.23 million. Its net profit was RMB 0.056 million .

3. Main suppliers and customers

The accumulative amount of purchase from the top five suppliers was RMB 124.0836 million, accounting for 29.89% of the Company's accumulative annual purchase amount. The accumulative amount of sales to the top five customers was RMB 242.2823 million, accounting for 43.76% of the Company's accumulative annual sales amount.

4. Problems and difficulties occurred in operation and their solutions

In the report period, the export of textile and garment products was squeezed by international market. The rise in price of raw materials of textile and energy increased the production cost burden of the Company. The appreciation of RMB had serious adverse influence on the Company's export trade. It was difficult for the Company recruit workers. Product price competition tended to become fiercer. Profit margin was further reduced.

The Company took the following measures to actively respond to fierce market competition:

(1) It attached importance to detail management, controlled operating cost and tapped potential;

(2) It actively developed diversified market, enlarged domestic sales and strengthened the popularization of Zuoerzi brand;

(3) It strengthened property lease enterprise management, sharpened employees' service awareness, improved service quality, innovated service mode, developed new tourist source, strengthened maintenance of main properties and enhanced property image and value;

(4) It quickened the construction preparation of phase-II production line of polarizer sheet project of Shenfang Lekai Company and officially put the production line into production in the report period;

(5) It carried out reform of labor, personnel and distribution system, perfected stimulation and restriction mechanism and fully aroused employees' enthusiasm and creativeness.

(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 10.6661million in the continuous construction of phase-II project of polarizer sheet of Shenzhen Shenfang Lekai Photoelectronic Materials Co., Ltd. This project was put into operation in June 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, 2006, the total assets of the Company were RMB 676.85 million, a year-on-year increase of 0.48% . Which was basically the same as compared with the previous year

Its shareholders' equity was RMB 361.255 million, a year-on-year increase of 0.12% mainly due to the obtainment net profit and distribution of cash dividends in the report period.

The profit of the Company for the report year is RMB 9.68 million, a year-on-year decrease of 62.12% mainly due to increase of provision for impairment of assets by subsidiaries and the decrease of profit from trade.

Net increase in cash and cash equivalents is RMB 8.559 million, a year-on-year increase by RMB 61.315 million mainly due to year-on-year increase of net cash flow from operating activities. This indicates that the status of the Company's cash flow improved as compared with the same period of the previous year:

(1) Year-on-year decrease of repayment of short-term bank loans of RMB 14.45 million;

(2) Year-on-year decrease of investment of RMB 13.8095 million in phase-II polarizer sheet project;

(3) The Company actively recovered payment for goods and increased net cash inflow from operating activities by RMB 25.1947 million year on year;

(4) Subsidiaries absorbed equity investment of RMB 4 million from minority shareholders.

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

In the report period, the profit from industry accounted for 41.39% of the total profit, which decreased by 11% year on year due to sharp increase of provision for impairment of assets by industrial enterprises and amortization of establishment charges according to new accounting standards due to the newly-increased fee of the phase II of the polarizer sheet project in lump sum. The profit from property lease and management accounted for 56.94% of the total profit, which increased by 30.94% year on year. The profit from trade accounted for 1.67% of the total profit, which decreased by 19.93% year on year mainly due to the appreciation of RMB by big margin and lowering of export rebate rate.

(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

Facing a series of changes and challenges, the Company aims to unshakeably adopt the strategy of producing high-end, different and top-quality products, increase gains-to-scale and technological content, improve service quality, avoid low-level malicious competition based on same quality, unshakeably intensify foundation, conduct refined management, develop inner strength, control cost and seek benefit from scientific management in 2007.

To attain this goal, the Company will focus on the following work in 2007:

(1) To mainly develop the Company's key business and actively develop advantageous industries: To stabilize phase-I polarizer sheet project of Shenfang Lekai Company, improved phase-II project and make preparation for phase-III project, enlarge production and operation scale of Beauty Century Company and make efforts to popularize Zuoerzi brand;

(2) To improve technical work, product quality and innovation ability;

(3) To strengthen land development, develop new channels for economic growth: To quicken the construction of the dormitory project supporting Longgang Industrial Quarters and lose no time in doing relevant work including confirming right of relevant land project, design and construction application, project tendering and bidding, etc,;

(4) To further reform labor, personnel and distribution system, improve stimulation and restriction mechanism, increase its vitality, properly use, develop, introduce and retain talents;

(5) To enhance management level, control operation risks, implement overall budget management and decrease inventories and accounts receivable.

(VI) Routine work of the board of directors

1. Board meetings and resolutions in the report period

The 12th meeting of the third board of directors was held on April 7, 2006. The resolutions of the meeting were published on Securities Times and Hong Kong Commercial Daily on April 11, 2006.

The 13th meeting of the third board of directors was held on April 24, 2006. The resolutions of the meeting were published on Securities Times and Hong Kong Commercial Daily on April 26, 2006.

The 14th meeting of the third board of directors was held on August 11, 2006. The resolutions of the meeting were published on Securities Times and Hong Kong Commercial Daily on August 15, 2006.

The 15th meeting of the third board of directors was held on October 25, 2006. The resolutions of the meeting were published on Securities Times and Hong Kong Commercial Daily on October 27, 2006.

The board of directors of the Company held a provisional meeting on November 6, 2006.

The resolutions of the meeting were published on Securities Times and Hong Kong Commercial Daily on November 8, 2006.

The 16th meeting of the third board of directors was held on December 1, 2006. The resolutions of the meeting were published on Securities Times and Hong Kong Commercial Daily on December 2, 2006.

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 2005, the board of directors completed dividend distribution for 2005 on July 21, 2006.

(VII) Profit distribution preplan for 2006

As audited by Shenzhen Pengcheng Certified Public Accountants, the net profit of the Company for 2006 is RMB 6,724,601.89. As audited by K.C. Oh & Co. pursuant to international accounting standards, the net profit of the Company for 2006 is RMB 9,680,000.00. As required in the articles of association of the Company, the Company is to appropriate 10% of its net profit for 2006 (RMB 6,798,401.89), i.e., RMB 679,840.19, respectively for statutory common reserve fund. The Company is neither to distribute profit nor to capitalize 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) In the report period，the current supervisory committee held five meetings:

1. On April 7, 2006, the 12th meeting of the third supervisory committee of the Company examined and adopted the proposals including 2005 annual report of the Company.

2. On April 24, 2006, the 13th meeting of the third supervisory committee of the Company examined and adopted the report of the Company for the first quarter of 2006.

3. On August 11, 2006, the 14th meeting of the third supervisory committee of the

Company examined and adopted interim report and profit distribution preplan for 2006.

4. On October 25, 2006, the 15th meeting of the third supervisory committee of the Company examined and adopted the Company's report for the third quarter of 2006.

5. On December 1, 2006, the 16th meeting of the third supervisory committee of the Company examined and adopted the proposals submitted by the board of directors of the Company to the first provisional shareholders' general meeting in 2007 and the proposal for writing off partial provision for impairment of long-term investment.

(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, the Company operated normally and completed share holding structure reform. 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: In the opinion of the supervisory committee, the Company strictly implemented national finance laws and regulations and its financial statements were complete and truthful.

The audit body issued unqualified auditors' report for the Company.

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

IX. Important Events

Material lawsuits and arbitration

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

2.Other lawsuits:

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.

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 November 9, 2006 to November 9, 2007. 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, Shenzhen Investment Holding Co., Ltd., an original shareholder holding non-negotiable shares of the Company, made the following commitment during share holding structure reform:

1. The shares of the Company held by Shenzhen Investment Holding Co., Ltd. will not be listed or traded within at least 24 months from the date of obtaining the right of listing and negotiation. Within 12 months after the expiration of the said commitment period, the proportion of the number of the original non-negotiable shares sold by it through Shenzhen Stock Exchange to the total number of shares of Shenzhen Textile shall not exceed 5%.

2. Shenzhen Investment Holding Co., Ltd. will bear the expenses related to this share holding structure reform including financial consultation fee, sponsoring fee, lawyer's fee, communication and recommendation fee and media publicity expenses. At present, the above commitments are under fulfillment.

At the end of the report period, the quantity of negotiable shares not subject to sale restriction held by the original shareholders holding non-negotiable shares who hold over 5% of total shares was 0. The listing days of shares subject to sale restriction after share holding structure reform are September 11, 2008 and September 11, 2009.

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

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

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

(VIII) Subsequent events

1. The Company held a provisional shareholders' general meeting on January 5, 2007. The meeting examined and adopted the Proposal for Revising the Articles of Association of the Company, the Proposal for Revising the Rules of Procedure of Shareholders' General Meeting, the Proposal for Revising the Rules of Procedure of the Board of Directors and the Proposal for Revising the Rules of Procedure of the Supervisory Committee, elected Wang Bin, Zhu Jun, Li Jingqiang and Wang Peng as members of the fourth board of directors of the Company, Yang Jichao, Liu Xiangqing and Huanghui as independent directors of the fourth board of directors of the Company and Gao Zuofu and Deng Kangcheng as members of the fourth supervisory committee of the Company. Refer to the announcement of the Company published on Securities Times and Hong Kong Commercial Daily on January 6, 2007 for details.

2. On January 5, 2007, the 1st meeting of the fourth board of directors of the Company elected Wang Bin as board chairman, engaged Zhu Jun as general manager, Feng Junbin, Gao Guoshi and Zhang Hong as deputy general managers, Li Yi as deputy chief accountant and manager of Finance Dept. of the Company and Chao Jin as board secretary of the Company. On January 5, 2007, the first meeting of the fourth supervisory committee of the Company elected Gao Zuofu as chairman of the supervisory committee.Refer to the announcement of the Company published on Securities Times and Hong Kong Commercial Daily on January 6, 2007 for details.

X. Financial Report

Auditor's report (attached hereinafter)

Financial statements (attached hereinafter)

Notes to financial statements (attached hereinafter)

XI. List of Documents available for Inspection

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

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

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

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

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

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

April 19, 2007

Report of the auditors to the members of
Shenzhen Textile (Holdings) Co., Ltd.
(Incorporated in the People's Republic of China with limited liability by shares)

We have audited the accompanying financial statements of Shenzhen Textile (Holdings) Co., Ltd., which comprise the balance sheet as at December 31, 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Shenzhen Textile (Holdings) Co., Ltd. as of December 31, 2006, and of its financial performance 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 :

Shenzhen Textile (Holdings) Co., Ltd.

Consolidated income statement for the year ended December 31, 2006

	Notes	2006 RMB'000	2005 RMB'000
Turnover	(5)	555,783	392,060
Cost of sales		(460,420)	(296,232)
Gross profit		95,363	95,828
Other revenue	(7)	4,184	1,441
Other net income	(8)	1,471	1,099
Income from investments	(9)	6,523	1,974
Distribution costs		(19,917)	(17,306)
Administrative expenses		(57,777)	(38,516)
Other operating expenses		(2,972)	(2,035)
Operating profit		26,875	42,485
Share of profit/(loss) from associates		(2,478)	2,038
Finance costs	(10)	(5,878)	(5,327)
Profit before taxation	(11)	18,519	39,196
Income tax	(12)	(2,389)	(4,479)
Profit for the year		16,130	34,717
Attributable to:			
Equity holders of the parent		9,680	25,555
Share of profit for minority interests		6,450	9,162
Profit attributable to shareholders		16,130	34,717
Profit per share to equity holders of the parent - basic	(13)	RMB0.039	RMB0.104

Shenzhen Textile (Holdings) Co., Ltd.

Consolidated balance sheet as at December 31, 2006

	Notes	2006 RMB'000	2005 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	(14)	258,624	207,591
Investment properties	(15)	101,372	101,372
Land use rights - non-current portion	(16)	6,604	3,394
Construction-in-progress	(17)	2,580	41,846
Intangible assets	(18)	27	31
Interests in associates	(19)	41,535	45,660
Other investments	(20)	41,800	41,771
		452,542	441,665
Current assets			
Land use rights - current portion	(16)	637	535
Inventories	(21)	64,610	58,440
Accounts receivable	(22)	43,349	50,874
Bills receivable		1,110	1,345
Prepayments, deposits and others receivable	(23)	36,574	49,673
Investments in securities	(24)	-	1,641
Cash and bank balances		78,863	70,304
		225,143	232,812
Total assets		677,685	674,477

(to be cont'd)

Shenzhen Textile (Holdings) Co., Ltd.

Consolidated balance sheet as at December 31, 2006

(cont'd)

	Notes	2006 RMB'000	2005 RMB'000
Equity and liabilities			
Capital and reserves			
Share capital	(25)	245,124	245,124
Reserves		116,131	118,707
Equity attributable to equity holders of the parent		361,255	363,831
Minority interests	(26)	98,016	95,654
Total equity		459,271	459,485
Non-current liability			
Long-term loans, non-current portion	(27)	2,500	4,000
Current liabilities			
Long-term loans, current portion	(27)	73,470	78,670
Accounts payable		23,683	28,033
Others payable and accrued expenses		99,844	85,992
Dividend payable	(28)	18,118	15,910
Provision for taxation		799	2,387
		215,914	210,992
Total equity and liabilities		677,685	674,477

The financial statements on pages 2 to 34 were approved and authorized for issue by the board of directors on April , 2007 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, 2006

	Share capital 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, 2005	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	-	-	-	-	(10,048)	-	(10,048)	(4,088)	(14,136)
Classified to current liabilities	-	-	-	-	(2,208)	-	(2,208)	-	(2,208)
Transfer from statutory public welfare fund to statutory surplus reserve	-	17,503	(17,503)	-	-	-	-	-	-
Net profit for the year	-	-	-	-	-	9,680	9,680	6,450	16,130
Appropriations to statutory surplus reserve	-	679	-	-	-	(679)	-	-	-
Proposed final dividend	-	-	-	-	-	-	-	-	-
Balance as at December 31, 2006	245,124	26,668	-	44,294	-	45,169	361,255	98,016	459,271

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. In addition, according to the paper [Cai Zhi (2006) No. 67] issued by the Ministry of Finance on March 15, 2006, the Company's statutory public welfare fund balance as at December 31, 2005 was transferred to statutory surplus reserve. As such, there shall be no need to make appropriations 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 RMB per share (2005 - RMB0.05 per share) to the shareholders.

Prior to making up the Company's loss and the relevant appropriations to the statutory surplus reserve, no dividend shall be payable.

Shenzhen Textile (Holdings) Co., Ltd.

Consolidated cash flow statement for the year ended December 31, 2006

	2006 RMB'000	2005 RMB'000
Cash flow from operating activities		
Operating profit before taxation	18,519	39,196
Adjustment items :		
Depreciation and amortization	19,554	17,412
Loss on disposal of property, plant and equipment	73	88
Transfer from construction-in-progress to expenses	4,584	-
Share of (profit)/loss from associates	2,478	(2,038)
Distribution of listed shares as expenses in share reform	2,364	-
Profit on disposal of investments in securities	(1,959)	(16)
Provision for impairment loss (reversed)/made		
- property, plant and equipment	414	-
- unconsolidated subsidiaries	-	44
- other investments	(1,500)	-
- investments in securities	(119)	83
Provision for diminution in value of inventories	1,458	63
Provision for doubtful debts	3,554	809
Interest income	(590)	(992)
Interest expense	4,305	4,360
Net operating cash inflow before movements in working capital	53,135	59,009
Increase in inventories	(7,628)	(3,342)
(Increase)/decrease in accounts receivable	3,573	(14,752)
(Increase)/decrease in bills receivable	235	(1,345)
Increase in prepayments, deposits and others receivable	(30)	(6,059)
Increase/(decrease) in accounts payable	(4,350)	5,391
Increase/(decrease) in others payable and accrued expenses	14,746	(2,135)
Cash inflow from operating activities before interest and tax payments	59,681	36,767
Income tax paid	(3,977)	(5,058)
Interest paid	(5,199)	(4,743)
Net cash inflow from operating activities c/f	50,505	26,966

(to be cont'd)

Shenzhen Textile (Holdings) Co., Ltd.

Consolidated cash flow statement for the year ended December 31, 2006

(cont'd)

	Notes	2006 RMB'000	2005 RMB'000
Net cash inflow from operating activities b/f		50,505	26,966
Investing activities			
Interest received		590	992
Purchases of property, plant and equipment		(7,365)	(6,875)
Purchases of land use rights		(3,885)	(3,488)
Increase in construction-in-progress		(14,937)	(28,331)
Proceeds from disposal of property, plant and equipment		14	100
Proceeds from disposal on construction-in-progress		-	1,800
Returns from associates received		2,167	2,314
Increase in amounts due from associates		(721)	(1,832)
Increase/(decrease) in amount due to an associate		201	(407)
Increase in other investments		(893)	-
Proceeds from disposal of other investments and investments in securities		3,719	2,652
Increase in investments in securities		-	(1,616)
Net cash outflow from investing activities		(21,110)	(34,691)
Net cash inflow/(outflow) before financing activities		29,395	(7,725)
Financing activities			
Dividend paid		(10,048)	(17,280)
Decrease in bank and other loans	(29)	(6,700)	(22,853)
Decrease in minority interests	(29)	(4,088)	(3,098)
Net cash outflow from financing activities		(20,836)	(43,231)
Increase/(decrease) in cash and cash equivalents		8,559	(50,956)
Cash and cash equivalents as at beginning of the year		70,304	121,260
Cash and cash equivalents as at end of the year		78,863	70,304
Cash and cash equivalents as at end of the year are represented by :			
Cash and bank balances		78,863	70,304

Shenzhen Textile (Holdings) Co., Ltd.

Consolidation statement of impairment loss for the year ended December 31, 2006

	Provision for impairment loss	January 1, 2006 RMB' 000	Increase RMB' 000	Decrease RMB' 000	Transfer-out RMB' 000	December 31, 2006 RMB' 000
1.	**Property, plant and equipment**					
	Buildings	-	-	-	-	-
	Leasehold improvements	-	-	-	-	-
	Plant and machinery	-	414	-	-	414
	Office equipment	-	-	-	-	-
	Transport equipment	469	-	-	-	469
		469	414	-	-	883
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	20,400	-	(1,500)	-	18,900
		45,787	-	(1,500)	-	44,287
7.	**Inventories**					
	Raw materials	98	-	-	-	98
	Work-in-progress	1,892	429	-	-	2,321
	Finished goods	3,109	2,052	-	(1,023)	4,138
		5,099	2,481	-	(1,023)	6,557
8.	**Accounts and others receivable**					
	Accounts receivable	3,599	3,994	-	(42)	7,551
	Others receivable	22,464	-	(398)	(18,876)	3,190
		26,063	3,994	(398)	(18,918)	10,741
9.	**Investments in securities**					
	Marketable securities	119	-	-	(119)	-
	PRC Government bonds	-	-	-	-	-
		119	-	-	(119)	-
	Total	77,537	6,889	(1,898)	(20,060)	62,468

Shenzhen Textile (Holdings) Co., Ltd.

Notes to the financial statements for the year ended December 31, 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 presentation of the financial statements

In the current year, the Group has adopted all of the new and revised International Financial Reporting Standards ("IFRS"), International Accounting Standards ("IAS") and Interpretations ("Int.") issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB.

The Group has newly adopted the following new and amended IAS and Int. issued by IFRIC in the financial statements for the current year :

IAS 21	Amendment - The Effects of Changes in Foreign Exchange Rates
IAS 39	Amendment - Financial Instruments: Recognition and Measurement
IFRIC - Int. 4	Determining whether an Arrangement Contains a Lease

The adoption of the above new IAS and Int. does not have any financial impact on the Group's financial statements for the years presented.

The consolidated financial statements have been prepared in accordance with the 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, 2006 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.

3. Basis of consolidation (cont'd)

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 significant 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, 2006, the Company held the following subsidiaries :

i) Subsidiaries consolidated

Company name	Place of establishment / operation	Effective equity held by the Group		Principal activities
		2006	2005	
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
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

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
		2006	2005	
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%*	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

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

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

(b) Associates

An associate is a company, not being a subsidiary, in which the Company holds, directly or indirectly, not less than 20% and not more than 50% equity interest as a long-term investment and is able to exercise significant influence on this company. The associates held by the Company as at December 31, 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.

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.

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.

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

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

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.

(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.

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

(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.

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.

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

(h) Investments (cont'd)

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.

(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.

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

(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.

(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.

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

(q) Leasing (cont'd)

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 :

	2006 RMB'000	2005 RMB'000
Turnover		
Sales of goods	508,179	339,512
Property rental income	42,073	46,572
Hotel operations	5,531	5,976
	555,783	392,060

6. Business and geographical segments

Business segments

Segment information about businesses in 2006 is presented below :

	Sales of goods RMB'000	Leasing RMB'000	Hotel operations RMB'000	Elimination RMB'000	Consolidated RMB'000
External sales	508,179	42,073	5,531	-	555,783
Intragroup sales	6,449	-	-	(6,449)	-
Revenue	514,628	42,073	5,531	(6,449)	555,783
Gross profit segment result	47,759	42,073	5,531		95,363

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

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 :

	2006 RMB'000	2005 RMB'000
Within PRC	188,233	177,879
Outside PRC	373,999	240,051
	562,232	417,930
Intragroup sales	(6,449)	(25,870)
	555,783	392,060

7. Other revenue

	2006 RMB'000	2005 RMB'000
Interest income	590	992
Subsidy income	3,594	439
Sundry income	-	10
	4,184	1,441

8. Other net income

	2006 RMB'000	2005 RMB'000
Other operating profit	1,238	899
Specified subsidy income	-	200
Sundry income	233	-
	1,471	1,099

9. Income from investments

	2006 RMB'000	2005 RMB'000
Returns from investment items	2,945	2,085
Provision for impairment loss on investments in unconsolidated subsidiaries	-	(44)
Provision for impairment loss on investments in unlisted investments reversed	1,500	-
Profit on disposal of investments in securities	1,959	16
Provision for impairment loss on investments in securities reversed/(made)	119	(83)
	6,523	1,974

10. Finance costs

	2006 RMB'000	2005 RMB'000
Interest expense	4,305	4,360
Bank charges	525	327
Exchange loss	1,048	640
	5,878	5,327

11. Profit before taxation

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

	2006 RMB'000	2005 RMB'000
After charging :		
Interest expense	4,305	4,360
Depreciation and amortization	19,554	17,412
Loss on disposal of property, plant and equipment	73	88
Provision for impairment loss on property, plant and equipment	414	-
Provision for impairment loss on other investments	-	44
Provision for impairment loss on investments in securities	-	83
Provision for diminution in value of inventories	1,458	63
Provision for doubtful debts	3,554	809
Staff costs	43,731	31,506
Distribution of listed shares as expenses in share reform	2,364	-
Exchange loss	1,048	640

12. Income tax

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.

	2006 RMB'000	2005 RMB'000
Current tax		
Company and subsidiaries	2,389	4,479
Deferred tax	-	-
	2,389	4,479

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

	2006 RMB'000	2005 RMB'000
Profit before taxation	18,519	39,196
Tax at the income tax rate of 15% (2005 - 15%)	2,778	5,879
Tax effect :		
- disallowable expenses	246	78
- non-taxable revenue	(612)	(777)
- tax losses unrecognized	654	72
- tax losses utilized	(40)	(1,102)
- benefit from tax recession period	(1,015)	(379)
- different tax rates of subsidiaries operating in different jurisdictions	378	708
Actual tax expense with effective tax rate of 12.9% (2005 - 11.4%)	2,389	4,479

13. Profit per share

Profit per share is calculated by dividing the net profit for the year of RMB9,680,000 (2005 - RMB25,555,000) attributable to equity holders of the parent by 245,124,000 shares (2005 - 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, 2005	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
Increase	13,527	156	1,909	4,591	709	20,892
Decrease	-	-	(307)	(761)	(105)	(1,173)
Transfer from construction-in-progress (note 17)	28,871	4,637	16,111	-	-	49,619
Balance as at December 31, 2006 (*)	202,291	31,354	167,474	14,459	7,467	423,045
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	(4,831)	(1,694)	(11,290)	(1,094)	(482)	(19,391)
Decrease	-	-	286	695	105	1,086
Balance as at December 31, 2006	(60,373)	(21,133)	(69,778)	(7,199)	(5,938)	(164,421)
Net book value						
Balance as at December 31, 2006	141,918	10,221	97,696	7,260	1,529	258,624
Balance as at December 31, 2005	104,351	7,122	90,987	3,829	1,302	207,591
(*) Representing						
At cost	107,345	31,354	145,011	14,459	5,068	303,237
At revaluation	94,946	-	22,463	-	2,399	119,808
	202,291	31,354	167,474	14,459	7,467	423,045

The directors are of the opinion that the carrying value of above assets as at December 31, 2006 approximates the prevailing open market value.

15. Investment properties

	2006 RMB'000	2005 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, 2006 approximates the prevailing market value.

16. Land use rights

		RMB'000
Cost		
Balance from January 1, 2005		2,416
Increase		3,488
Balance as at December 31, 2005		5,904
Increase		3,885
Balance as at December 31, 2006		9,789
Accumulated amortization		
Balance as at January 1, 2005	(1,440)	
Increase	(535)	
Balance as at December 31, 2005	(1,975)	
Increase	(573)	
Balance as at December 31, 2006		(2,548)
Net book value		
Balance as at December 31, 2006		7,241
Balance as at December 31, 2005		3,929

	2006 RMB'000	2005 RMB'000
Net book value	7,241	3,929
Current portion	(637)	(535)
Non-current portion	6,604	3,394

17. Construction-in-progress

	RMB'000
Cost	
Balance as at January 1, 2005	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
Increase	14,937
Transfer to property, plant and equipment (note 14)	(49,619)
Transfer to expenses	(4,584)
Balance as at December 31, 2006	2,580

18. Intangible assets

		RMB'000
Trademark and technical know-how, at cost		
Balance from January 1, 2005 to December 31, 2006		118
Accumulated amortization		
Balance as at January 1, 2005	(84)	
Increase	(3)	
Balance as at December 31, 2005	(87)	
Increase	(4)	
Balance as at December 31, 2006		(91)
Net book value		
Balance as at December 31, 2006		27
Balance as at December 31, 2005		31

19. Interests in associates

	2006 RMB'000	2005 RMB'000
Share of net assets	37,442	42,087
Premium in associates	6,890	6,890
Amortization of premium	(4,823)	(4,823)
	2,067	2,067
	39,509	44,154
Amounts due from associates	2,553	1,832
Amount due to an associate	(527)	(326)
Interests in associates	41,535	45,660

As at December 31, 2006, the details of the principal associates are listed out as follows :

Company name	Place of establishment / operation	Effective equity held by the Group 2006	Effective equity held by the Group 2005	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 :

	2006 RMB'000	2005 RMB'000
Total assets	173,623	169,982
Total liabilities	(71,224)	(59,871)
Net assets	102,399	110,111
Group's share of associates' net assets	37,442	42,087
Premium in associates	2,067	2,067
Amounts due from associates	2,553	1,832
Amount due to an associate	(527)	(326)
Interest in associates	41,535	45,660

	2006 RMB'000	2005 RMB'000
Turnover	268,095	241,362
Group's share of associates' profit/(loss) for the year	(2,478)	2,038

20. Other investments

	2006 RMB'000	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	39,064	41,428
Unlisted shares, at cost	28,823	27,930
	86,087	87,558
Provision for impairment loss	(44,287)	(45,787)
	41,800	41,771

20. Other investments (cont'd)

As at December 31, 2006, 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
		2006	2005	
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
		2006	2005	
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

	2006 RMB'000	2005 RMB'000
Raw materials	16,059	10,281
Work-in-progress	10,869	9,215
Properties under development	22,675	22,675
Finished goods	21,564	21,368
	71,167	63,539
Provision for inventory obsolescence	(6,557)	(5,099)
	64,610	58,440

22. Accounts receivable

	2006 RMB'000	2005 RMB'000
Amounts receivable	50,900	54,473
Provision for doubtful debts	(7,551)	(3,599)
	43,349	50,874

23. Prepayments, deposits and others receivable

	2006 RMB'000	2005 RMB'000
Advance payments	24,822	19,123
Prepayments	52	128
Others receivable	14,890	52,886
	39,764	72,137
Provision for doubtful debts	(3,190)	(22,464)
	36,574	49,673

24. Investments in securities

	2006 RMB'000	2005 RMB'000
Marketable securities in the PRC, at cost	-	1,760
Provision for impairment loss	-	(119)
Market value	-	1,641

25. Share capital

	2006 RMB'000	2005 RMB'000
Registered, issued and paid-up		
"A" shares of RMB1 each	195,624	195,624
"B" shares of RMB1 each	49,500	49,500
	245,124	245,124
"A" shares, listed and tradable	46,760	33,163
"B" shares, listed and tradable	49,500	49,500
	96,260	82,663
Listed but temporarily not tradable	148,864	162,461
	245,124	245,124

The "A" and "B" shares carry equal rights with respect to the distribution of the Company's assets and profits, and rank pari passu in all other respects. The "A" shares are held by PRC investors with settlement in Renminbi, whereas "B" shares are held by both PRC investors and foreign investors, and are settled in Hong Kong dollars.

As at the effective date of the share reform, each shareholder of listed and tradable "A" share with name registered in the register of shareholders was entitled 4.1 shares for every 10 shares on hand. As a result, the shareholders of listed but temporarily not tradable shares had compensated to such "A" share shareholders in the total entitlement of 13,596,912 shares.

26. Minority interests

	2006 RMB'000	2005 RMB'000
Minority interests	98,016	95,089
Dividend payable to minority interests	-	565
	98,016	95,654

27. Short-term and long-term loans

	2006 RMB'000	2005 RMB'000
Bank loans, secured	68,000	68,000
Bank loans, guaranteed	5,000	10,000
Other loans, secured	470	4,170
Others payable	2,500	500
	75,970	82,670
Portion classified under current liabilities	(73,470)	(78,670)
Long-term portion	2,500	4,000

The bank loans bear interest at various rates ranging from 5.58% to 6.12% (2005 - from 5.58% to 6.80%) per annum.

The interest rate of other loans is 9.63% (2005 - 9.63%) per annum.

28. Dividend payable

It represents dividend payable to the holding company, Shenzhen Investment Holdings Company Limited with a sum of RMB18,118,000 (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	(6,700)	-
Dividend paid to minority shareholders	-	(4,088)
Profit attributable to minority interests	-	6,450
Balance as at end of the year	75,970	98,016

30. Related party transactions

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

Related party	Transactions	2006 RMB'000	2005 RMB'000
Shenzhen Tianlong Industrial and Trading Co., Ltd.	Sales	11,140	10,941
	Interest income	36	36
Shenzhen Xiang Jiang Leather Product Co., Ltd.	Interest income	2	19
Longwell Development Printing and Dyeing Co., Ltd.	Purchase of land use rights	509	-

31. Assets held under security

As at December 31, 2006, the Group had used its buildings and investment properties with a total carrying value of RMB105,057,000 (2005 - RMB111,123,000) 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.

33. Financial instruments (cont'd)

(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 judgment, 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, a state-owned enterprise established in the PRC.

35. Impact of IFRS adjustments on profit attributable to shareholders

	2006 RMB'000	**2005 RMB'000**
As reported by PRC Certified Public Accountants	6,724	21,639
Adjustments to conform to IFRS :		
Over-provision of depreciation of investment properties reversed	2,346	2,346
Amortization of intangible assets	785	785
Premium in associates not amortized	689	689
Provision for impairment loss on other investments reversed	1,500	-
Share of specified subsidy income	-	96
Distribution of listed shares as expenses in share reform	(2,364)	-
As restated in conformity with IFRS	9,680	25,555

36. Impact of IFRS adjustments on net asset value

	2006 RMB'000	2005 RMB'000
As reported by PRC Certified Public Accountants	338,390	343,922
Adjustments to conform to IFRS :		
Over-provision of depreciation of investment properties reversed	25,182	22,836
Amortization of intangible assets	(1,331)	(2,116)
Premium in associates not amortized	1,378	689
Distribution of listed shares as expenses in share reform	(2,364)	-
Provision for impairment loss on other investments	-	(1,500)
As restated in conformity with IFRS	361,255	363,831

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.