

IMPORTANT NOTES

The Board of Directors (“Directors”) of Jingwei Textile Machinery Company Limited (“Company”) and its Directors undertake that there are no misrepresentation, misleading statements or material omission in this report and shall be jointly and severally liable for the authenticity, accuracy and completeness of the information contained in this interim report.

Mr. Zhang Jie (Chairman), Mr. Ye Maoxin (Director and General Manager), Mr. Yao Yuming (Director and Financial Controller) and Mr. Mao Faqing (Head of Finance Department) hereby confirm that the financial statements as disclosed in this interim report are true, accurate and complete.

The 2005 interim financial and accountant report of the Company has not been audited but it has been reviewed by the Board of Directors and the Audit Committee of the Company. Owing to business reasons, directors Zhang Jianguo and Gao Yong entrusted directors Ye Maoxin and Chen Zhong respectively to attend and vote on behalf of them in relevant meetings of the Board of Directors.

The report is prepared in both Chinese and English. If there is any discrepancy between the two versions, the Chinese version shall prevail.

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Chapter I Corporate Information

I. COMPANY PROFILE

1. Legal name of the Company : 經緯紡織機械股份有限公司
English name of the Company : Jingwei Textile Machinery Company Limited
2. Legal representatives of the Company : Zhang Jie
3. Company secretary to the Board : Ye Xuehua
Telephone : 8610 84534078-8188
E-mail address : yxh@jwgf.com
Stock representative : Qiu Lin
Telephone : 8610 84534081-8501
E-mail address : ql@jwgf.com
Correspondence address : 701, First Shanghai Centre, 39 Liangmaqiao Road, Chaoyang District, Beijing, the PRC
Postal code : 100016
Facsimile : 8610 84534135
4. Registered address of the Company : 8, Yongchangzhong Road, Beijing Economic & Technological Development Zone, Beijing, the PRC
Business address of the Company : Level 7, First Shanghai Centre, 39 Liangmaqiao Road, Chaoyang District, Beijing, the PRC
Postal Code : 100016
Worldwide website : <http://www.jwgf.com>
E-mail address : jwgf@jwgf.com
5. Newspaper for company information disclosure
PRC : Securities Times
Hong Kong : Wen Wei Po (Chinese), The Standard (English)
Website for publication of interim report : <http://www.cninfo.com.cn>
Place for inspection of interim report : Secretariat of the Board
6. Stock exchanges on which shares of the Company are listed and stock codes:
A Shares Listed on : Shenzhen Stock Exchange
Stock name : Jingwei Textile Machinery
Stock code : 000666
H Shares Listed on : The Stock Exchange of Hong Kong Limited
Stock name : Jingwei Textile Machinery
Stock code : 0350

Note: In this report, unless otherwise stated, “the Company” means Jingwei Textile Machinery Company Limited, while “the Group” means the Company and its subsidiaries.



II. KEY FINANCIAL DATA AND INDICATORS

1. Prepared in accordance with the PRC Accounting Standards and System (the “PRC GAAP”)

| Items | As at | As at | Increase at the end of this reporting period as compared with beginning of the year (%) |
|--|--|--|--|
| | 30th June 2005 RMB'000 (unaudited) | 31st December 2004 RMB'000 (audited) | |
| Current assets | 3,751,329 | 3,551,662 | 5.62 |
| Current liabilities | 2,516,487 | 2,395,124 | 5.07 |
| Total assets | 5,261,899 | 5,133,568 | 2.50 |
| Shareholders' equity (excluding minority interests) | 2,595,816 | 2,551,527 | 1.74 |
| Net assets per share (RMB) | 4.30 | 4.23 | 1.65 |
| Adjusted net assets per share (RMB) | 4.09 | 4.02 | 1.74 |

| | Six months ended 30th June | | Increase/(decrease) from corresponding period of last year (%) |
|--|--------------------------------|--------------------------------|--|
| | 2005 RMB'000 (unaudited) | 2004 RMB'000 (unaudited) | |
| Net profit | 74,479 | 80,200 | (7.13) |
| Net profit after extraordinary items | 74,686 | 80,804 | (7.57) |
| Earnings per share (RMB) | 0.12 | 0.13 | (7.69) |
| Return on net assets (%) | 2.87 | 3.23 | (11.15) |
| Net cashflow from operating activities | 31,132 | (139,959) | N/A |

After deducting extraordinary items and related amounts:

| | Six months ended 30th June | |
|--|--------------------------------|--------------------------------|
| | 2005 RMB'000 (unaudited) | 2004 RMB'000 (unaudited) |
| Amortization of equity investment differences | 116 | 129 |
| Loss from disposal of long-term equity investment | (980) | – |
| Government subsidy | 702 | 270 |
| Non-operating income after deducting provision for asset impairment | 1,062 | 1,126 |
| Non-operating expense after deducting provision for asset impairment | (1,684) | (2,235) |
| Reversal of various provisions for impairment accounted in previous financial year(s) | 460 | – |
| Impact on Income tax of extraordinary items | 117 | 106 |
| Total | <u>(207)</u> | <u>(604)</u> |

2. Schedule to Profit and Loss Account (Unaudited)

| Profit for the reporting period | Return on net assets (%) | | | | Earnings per share (RMB) | | | |
|--------------------------------------|--------------------------|-------|------------------|-------|--------------------------|------|------------------|------|
| | Fully diluted | | Weighted average | | Fully diluted | | Weighted average | |
| | Six months ended | | Six months ended | | Six months ended | | Six months ended | |
| | 30th June | | 30th June | | 30th June | | 30th June | |
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Profit from main operations | 11.73 | 13.37 | 11.77 | 13.35 | 0.50 | 0.55 | 0.50 | 0.55 |
| Operating profit | 3.39 | 3.87 | 3.40 | 3.87 | 0.15 | 0.16 | 0.15 | 0.16 |
| Net profit | 2.87 | 3.23 | 2.88 | 3.23 | 0.12 | 0.13 | 0.12 | 0.13 |
| Net profit after extraordinary items | 2.88 | 3.26 | 2.89 | 3.25 | 0.12 | 0.13 | 0.12 | 0.13 |

3. Financial information prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) (Unaudited)
Condensed Consolidated Profit and Loss Account

| | Six months ended 30th June | |
|--|----------------------------|-----------------------------|
| | 2005 | 2004 |
| | RMB '000 | RMB '000 <i>Restated</i> |
| Turnover | 1,761,606 | 1,950,991 |
| Cost of sales | (1,452,112) | (1,619,536) |
| Gross profit | 309,494 | 331,455 |
| Other revenues | 41,929 | 37,196 |
| Distribution expenses | (53,025) | (54,280) |
| Administrative expenses | (198,557) | (199,673) |
| Operating profit | 99,841 | 114,698 |
| Finance costs | (8,509) | (16,783) |
| Share of profits less losses of associated companies | (1,046) | (498) |
| Profit before taxation | 90,286 | 97,417 |
| Taxation | (12,263) | (13,408) |
| Profit for the period | <u>78,023</u> | <u>84,009</u> |
| Attributable to: | | |
| Equity holders of the Company | 75,344 | 78,371 |
| Minority interest | 2,679 | 5,638 |
| | <u>78,023</u> | <u>84,009</u> |
| Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in RMB per share) | | |
| – basic | 0.12 | 0.13 |
| – diluted | <u>N/A</u> | <u>N/A</u> |
| Dividends | <u>–</u> | <u>–</u> |



4. The following illustrates the differences in the accounts for the six months ended 30th June 2005 prepared in accordance with the PRC GAAP and HKFRS:

| | Profit attributable to shareholders For the six months ended 30th June 2005 | | Net assets As at 30th June 2005 | |
|---|---|-----------------------------------|------------------------------------|-----------------------------------|
| | Group RMB'000 (unaudited) | Company RMB'000 (unaudited) | Group RMB'000 (unaudited) | Company RMB'000 (unaudited) |
| Prepared in accordance with PRC GAAP | 74,479 | 74,479 | 2,595,816 | 2,595,774 |
| Reversal of equity accounting for the results and reserves of subsidiaries in the accounts of the Company under PRC GAAP | – | (56,786) | – | (360,307) |
| Amortisation of negative goodwill not allowed under HKFRS | – | – | (3,731) | (3,731) |
| Reversal of valuation surplus on land use rights recognised under PRC GAAP | – | – | (4,200) | (4,200) |
| Write off of immaterial fair value difference on net assets of subsidiaries acquired permitted under HKFRS | – | – | (3,917) | – |
| Reversal of amortisation relating to valuation surplus on land use right under PRC GAAP | 52 | – | 845 | – |
| Capital reserve arising on consolidation under HKFRS | – | – | 9,946 | – |
| Amortisation of long term investment difference over ten years under PRC GAAP | (116) | (116) | (2,728) | (2,728) |
| Deferred tax recognised under HKFRS | 633 | 10 | 23,717 | 12,782 |
| Recognition of the difference of the fair value and original value of short-term investments under HKFRS | 296 | – | 296 | – |
| Others | – | – | 4 | 3 |
| Prepared in accordance with HKFRS | <u>75,344</u> | <u>17,587</u> | <u>2,616,048</u> | <u>2,237,593</u> |

Chapter II Movement in Share Capital and Information on Shareholdings of Substantial Shareholders

I. MOVEMENT IN SHARE CAPITAL

There were no changes in the total number of shares and capital structure of the Company during the reporting period.

II. TOTAL NUMBER OF SHAREHOLDERS AS AT THE END OF THE REPORTING PERIOD

The number of registered shareholders as at the end of the reporting period was 86,444, of which 86,382 were holders of A Shares and 62 were holders of H Shares.

III. SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

As at 30th June 2005, the shareholdings of the ten largest registered shareholders and the ten largest registered holders of the traded shares of the Company are as follows:

| Name of shareholder | Note | Increase or decrease during the reporting period (Shares) | Number of shares held at the end of the period (Shares) | Percentage of total share capital (%) | Class of shares | Number of shares pledged or held under moratorium (Shares) | Nature of shares |
|---|------|---|---|---------------------------------------|-----------------|--|---------------------------------|
| China Textile Machinery (Group) Company Limited | (1) | - | 220,000,000 | 36.44 | Not traded | - | State-owned legal person shares |
| HKSCC Nominees Limited | (2) | -1,330,000 | 177,383,899 | 29.38 | Traded | unknown | H shares |
| LI FENG | (3) | 1,080,000 | 1,080,000 | 0.18 | Traded | unknown | H shares |
| POON CHIU LEUNG | (4) | 318,000 | 918,000 | 0.15 | Traded | unknown | H shares |
| 招商銀行股份有限公司－長城久泰 中信博普300指數證券投資基金 | (5) | -92,450 | 686,368 | 0.11 | Traded | unknown | A shares |
| 中國工商銀行－融通深證100指數 證券投資基金 | (6) | -23,794 | 626,746 | 0.10 | Traded | unknown | A shares |
| Huang Shunqun | (7) | unknown | 512,772 | 0.08 | Traded | unknown | A shares |
| Ma Fujun | (8) | 227,400 | 410,500 | 0.07 | Traded | unknown | A shares |
| 朱鴻 | (9) | unknown | 347,002 | 0.0575 | Traded | unknown | A shares |
| Zhou Lanyu | (10) | unknown | 340,221 | 0.0563 | Traded | unknown | A shares |
| 陳金文 | (11) | unknown | 335,200 | 0.0555 | Traded | unknown | A shares |

Notes:

- i. (1) to (10) are the ten largest registered shareholders of the Company.
(2) to (11) are the ten largest registered holders of the traded shares of the Company.
- ii. The H shares registered in the name of HKSCC Nominees Limited were held in the capacity of nominee on behalf of various clients and it did not hold 5% or more interest in the total issued share capital of the Company.
- iii. Among the ten largest registered shareholders, China Textile Machinery (Group) Company Limited is not related to other shareholders and is not a person acting in concert as defined under the "Administrative rules regarding information disclosure of shareholding changes of listed companies". It is not known whether other holders of the traded shares are related or are persons acting in concert as defined under the "Administrative rules regarding information disclosure of shareholding changes of listed companies".
- iv. As at 30th June 2005, in accordance with the records in the register required to be maintained by the Company pursuant to Section 336 of Part XV of the Securities and Futures Ordinance, the following persons (except for the Company's directors, supervisors or chief executive) are interested in the shares and underlying shares of the Company as below:

Long positions in the Company's H Shares:

| | Number of H Shares | Approximate percentage in the aggregate issued H share capital (%) | Approximate percentage in the aggregate issued share capital (%) |
|--|--------------------|--|--|
| Everbest Investments Limited | 23,578,000 | 13.04 | 3.90 |
| Platinum Asset Management Limited as trustee for the Platinum Asset Management Trust | 10,980,000 | 6.07 | 1.82 |
| Zhang Sheng Hang | 10,240,000 | 5.66 | 1.70 |

Save as disclosed above, according to the register required to be maintained pursuant to Section 336 of Part XV of the Securities and Futures Ordinance, the Company has not received any notification in relation to the possession of interests or short positions in shares and underlying shares of the Company as at 30th June 2005.

Chapter III Directors, Supervisors, Senior Management and Staff

I. CHANGE IN SHAREHOLDINGS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

During the reporting period, the following directors and senior management of the Company had an interest in the shares and underlying shares of the Company:

| Name | Position | A Shares held as at 1 Jan 2005 <i>(Shares)</i> | A Shares held as at 30 Jun 2005 <i>(Shares)</i> |
|--------------|---|--|---|
| Ye Maoxin | Director, General Manager | 10,214 | 10,214 |
| Yao Yuming | Director, Executive deputy general manager, Financial controller | 9,200 | 9,200 |
| Liu Xianming | Deputy general manager | 3,000 | 3,000 |
| Zhang Qingxi | Deputy general manager (resigned on 29 Mar 2005) | 2,370 | 2,370 |

Save as disclosed above, according to the records in the register required to be maintained pursuant to section 352 of the Securities and Futures Ordinance and in accordance with the record notified to the Company and The Stock Exchange of Hong Kong Limited (“Stock Exchange”) pursuant to the “Model Code on Securities Transactions by Directors of Listed Companies”, none of the directors, supervisors and senior management of the Company and their respective spouses or children under the age of 18 had any interests or short positions in the shares and underlying shares and debenture of the Company and its associated corporations (as defined in Part XV of the Securities and Futures Ordinance) nor had any of them been granted any rights to subscribe for any interests and short positions in the shares, underlying shares or debenture of the Company and any of its associated corporation (as defined in Part XV of the Securities and Futures Ordinance). During the reporting period, no directors, supervisors and chief executive of the Company had any material interest in the contracts entered into by the Company and its subsidiaries.

II. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

- On 29th March 2005, as Mr. Zhang Qingxi has reached the age of retirement, the Board of Directors approved his resignation from the post as deputy general manager.
- On 9th June 2005, the resignation of Mr. Gong Enqing from the position of director, the resignation of Mr. Liu Xianming from the position of supervisor; and the appointment of Mr. Shi Tinghong and Ms. Peng Zeqing as director and supervisor of the Company respectively were approved at the general meeting of the Company. The resignation of Mr. Shi Jianping as staff representative supervisor was approved by the Staff Representatives’ Committee of the Company and Mr. Dong Min was elected as staff representative supervisor of the Company. Furthermore, subsequent to the election held by the Supervisory Committee, Ms. Peng Zeqing was elected deputy chairman of the Supervisory Committee. The tenor of appointment for all newly appointed director and supervisors as aforementioned commenced on 9th June 2005 and ends on 15th August 2007. In addition, the general manager proposed that the Board of Directors to appoint Mr. Liu Xianming and Mr. Shi Jianping as deputy general managers of the Company.

III. STAFF

As at 30 June 2005, the Group had 11,454 staff (as at 31 December 2004, the Group had 11,935 staff). For the six months ended 30 June 2005, the aggregate remuneration for the staff of the Group amounted to RMB191,931,000 (RMB194,403,000 for the corresponding period of last year). The remuneration is determined by individual performance of the staff.

Chapter IV Management Discussion and Analysis

I. OPERATING RESULTS AND FINANCIAL ANALYSIS

During the reporting period, the Company adopted the operating policy of satisfying the needs of customers to maintain growth. Facing rapid changes of the market and extremely competitive operating environment, the Company continued to pay more effort on developing new products while exploring domestic and overseas markets. It actively integrated its resources, strengthened centralized mode of operation and fundamental management, all of which achieved better results.

1. Operating Results

As stated in the financial statements prepared in accordance with HKFRS, turnover and profit attributable to shareholders of the Group for the six months ended 30th June 2005 were RMB1,761,606,000 and RMB75,344,000 respectively, representing a decrease of 9.71% and 3.86% over the corresponding period in the previous year. As at 30th June 2005, bank balances of the Group amounted to RMB905,669,000. Short-term bank borrowings amounted to RMB535,863,000 and no long-term bank borrowings were recorded. The gearing ratio (total long-term loan/net assets) of the Group was 0%.

The Group's business transactions, assets and liabilities are mainly denominated in Renminbi. The Group does not engage in foreign currency speculation activities.

As stated in the financial report prepared in accordance with the PRC GAAP, revenue from main operations of the Group for the six months ended 30th June 2005 amounted to RMB1,761,606,000, representing a decrease of 9.71% over the corresponding period in the previous year. Profit from main operations amounted to RMB304,585,000, representing a decrease of 6.14% over the corresponding period in the previous year, of which:

Revenue from main operations of the Company amounted to RMB1,205,405,000, representing an increase of 3.80% over the corresponding period in the previous year while its profit from main operations amounted to RMB109,376,000, representing a rise of 2.84% over the corresponding period in the previous year.

Subsidiaries:

Revenue and profits from main operations of Qingdao Hongda Textile Machinery Company Limited amounted to RMB361,662,000 and RMB43,488,000 respectively.

Revenue and profits from main operations of Shenyang Hongda Textile Machinery Company Limited amounted to RMB80,925,000 and RMB20,133,000 respectively.

Revenue and profits from main operations of Tianjin Hongda Textile Machinery Company Limited amounted to RMB163,350,000 and RMB32,893,000 respectively.

Revenue and profits from main operations of Changde Textile Machinery Company Limited amounted to RMB184,670,000 and RMB51,963,000 respectively.

Revenue and profits from main operations of Beijing Jingwei Textile New Technology Company Limited amounted to RMB12,182,000 and RMB3,126,000 respectively.

Revenue and profits from main operations of Shanghai Jingwei Dongxing Blowing Carding Machinery Company Limited amounted to RMB32,702,000 and RMB7,860,000 respectively.

Revenue and profits from main operations of Shanxi Jingwei Heli Machinery Manufacturing Company Limited amounted to RMB205,481,000 and RMB26,268,000 respectively.

**I. OPERATING RESULTS AND FINANCIAL ANALYSIS (continued)****2. Financial Position (under the PRC GAAP)****Changes in major accounting items***(Unit: RMB'000)*

| Indicator | As at 30th June 2005 | As at 31st December 2004 | Increase/ (decrease) changes + / (-) | Increase/ (decrease) changes (%) |
|---|--|--|---|---|
| Accounts receivable | 522,033 | 445,202 | 76,831 | 17.26 |
| Other receivable | 222,335 | 129,551 | 92,784 | 71.62 |
| Advances to suppliers | 306,693 | 260,821 | 45,872 | 17.59 |
| Long-term equity investment | 316,958 | 379,982 | (63,024) | (16.59) |
| Notes payable | 342,798 | 252,277 | 90,521 | 35.88 |
| Accrued expenses | 24,909 | 14,117 | 10,792 | 76.45 |
| Current portion of long-term liabilities | 20,000 | 12,800 | 7,200 | 56.25 |
| Long-term loans | — | 40,000 | (40,000) | (100.00) |
| Surplus reserve | 403,440 | 303,440 | 100,000 | 32.96 |
| Shareholders' equity | 2,595,816 | 2,551,527 | 44,289 | 1.74 |
| Total assets | 5,261,899 | 5,133,568 | 128,331 | 2.50 |
| | Six months ended 30th June 2005 | Six months ended 30th June 2004 | Increase/ (decrease) changes + / (-) | Increase/ (decrease) changes (%) |
| Profit from main operations | 304,585 | 324,520 | (19,935) | (6.14) |
| Profit from other operations | 31,875 | 25,240 | 6,635 | 26.29 |
| Finance expenses | 4,119 | 9,669 | (5,550) | (57.40) |
| Investment income | 2,011 | 5,638 | (3,627) | (64.33) |
| Income taxes | 12,896 | 14,990 | (2,094) | (13.97) |
| Net profit | 74,479 | 80,200 | (5,721) | (7.13) |

Reasons for changes:

- The increase in accounts receivable is mainly attributable to the guaranteed amount for large customers in sales contracts not yet recovered and the late payments from foreign trade companies.
- The increase in other receivable is mainly attributable to the rise of the current receivables.
- The increase of advances to suppliers is mainly attributable to the prepayment to suppliers in advance for purchasing fundamental raw material such as steel.
- The decrease in long-term equity investment is mainly due to the recovery of partial investment in a long-term equity interest.
- The increase in notes payable is mainly attributable to the greater application of banker's draft in operation.
- The increase in accrued expenses is mainly attributable to the provision of the intermediary expenses on proportion and the increased repairs of the roads in the plant areas.
- The increase in surplus reserve is attributable to the provision for a discretionary surplus reserve of RMB 100,000,000 in accordance with a resolution passed at the general meeting.
- The decrease in profit from main operations is mainly attributable to the decrease in earnings due to the decrease in turnover from main operations.
- The increase in profit from other operations is mainly due to the increase of profit from non-textile machinery trading business, particularly the increase of material selling and processing.
- The decrease in finance expenses is mainly due to the fall of interest expenses as a result of the reduction in short-term borrowings.
- The decrease in investment income is mainly due to the provision for the depreciation of an investment.

II. OPERATIONS IN THE REPORTING PERIOD

The Company is one of the largest textile machinery manufacturers in the PRC. It is principally engaged in the development, manufacture and sale of textile machinery and related components and parts.

Analysis of main operations by industry and product

Six months ended 30 June 2005

(Unit: RMB'000)

| | Revenue from main operations | Cost of main operations | Gross profit margin (%) | Increase/ (decrease) in revenue from main operations as compared with the corresponding period in the previous year (%) | Increase/ (decrease) in cost of main operations as compared with the corresponding period in the previous year (%) | Increase/ (decrease) in gross profit margin as compared with the corresponding period in the previous year (%) |
|--|------------------------------------|-------------------------------|-------------------------------|---|--|---|
| Natural fibre textile machinery | 1,385,927 | 1,164,448 | 15.98 | (15.40) | (15.44) | 0.26 |
| Of which being connected transactions | 97,621 | 82,860 | 15.12 | 789.97 | 746.37 | 40.65 |
| Chemical fibre textile machinery | 42,867 | 33,110 | 22.76 | 12.22 | 15.37 | (8.48) |
| Weaving machinery | 162,777 | 134,178 | 17.57 | 35.59 | 41.72 | (6.59) |
| Special parts and accessories for weaving machinery | 126,537 | 84,103 | 33.53 | (1.42) | (12.01) | 31.28 |
| Yarn & thread sales and others | 43,498 | 36,273 | 16.61 | 47.07 | 54.72 | (19.87) |
| Total | <u>1,761,606</u> | <u>1,452,112</u> | <u>17.57</u> | <u>(9.71)</u> | <u>(10.34)</u> | <u>3.41</u> |

During the reporting period, the total amount of connected transactions regarding the sales of products and rendering of labour services by the Company to the controlling shareholder and its subsidiaries were RMB213,299,000.

Main operations by region

Six months ended 30 June 2005

| Region | Revenue from main operations RMB'000 | Increase/(decrease) in revenue from main operations as compared with the corresponding period in the previous year (%) |
|------------------------------|--|---|
| PRC | 1,560,599 | (15.41) |
| Asia | 170,773 | 89.18 |
| Africa | 26,053 | 85.97 |
| Other continents and regions | 4,181 | 122.94 |
| Total | <u>1,761,606</u> | <u>(9.71)</u> |

III. OPERATING PROBLEM AND DIFFICULTY

Despite the abolition of quota system, the restrictions of the US and Europe still make it difficult for exports to achieve growth. Until the trade disputes between the US and China are solved, the uncertain trade environment puts the development of textile industry into instability. The panic arising from the expected uncertainties becomes the primary negative factor affecting the development of the industry and operation of the textile enterprises. The adjustment of the exchange rate by China also reduces the profitability of the textile enterprises to a certain extent. Various uncertainties in the textile industry exert direct effect on down stream textile machinery sector. The upward adjustment of exchange rate will increase the value of our textile products, which helps change the impression of international market on them. Competitive enterprises may thus increase their profit margins and gradually steer towards high-end market. Due to the price rise in exports, our textile industry has to study on future market development and employ technology and capital to exchange for profit, resources and market. Exchange rate adjustment helps smooth the mechanism for market competition, forcing less competitive enterprises to withdraw while changing the market images of enterprises. Enterprises with strength and equipped with technology are very much benefited from the situation. Therefore, the adjustment of exchange rate also brings about valuable market opportunities for textile enterprises. Due to these factors, the textile machinery market is becoming more stable and rational. Textile enterprises have realized that in order to gain actual benefit from quota abolition, they have to focus on quality instead of quantity which in turn increases the demand for high value-added textile machinery and equipment of advanced technology. This thus creates new business opportunities for textile machinery enterprises.

Main tasks of the Company in the second half of the year will be:

1. accelerating product R&D and pushing forward international cooperation, speeding up production and launch of new products, upgrading technology and quality level of cotton textiles machinery products, enhancing the competitiveness of core business;
2. meeting the needs of customers as core objective, ensuring product quality and services quality, speeding up building and integration of domestic sales and marketing network, establishing mechanism for providing parts and technical services to meet the up-to-date market demand, improving unified image promotion, quick response, the ability to keep close to the market and all-round services;
3. strengthening internal resources integration, establishing an operation system for business division, implementing business process re-engineering, shortening operation management chain, cutting non value-added sectors, adapting to the need for modern corporate operation management;
4. pushing further the mode of centralized and simplified operation, reinforcing centralized financial management, perfecting centralized purchase platform, consolidating corporate fundamental management, reducing operation cost;
5. further promoting the set up of information system, inspecting and adopting of corporate ERP system, pushing forward CRM, SCM, OA financial examination system, application of video conference system, pushing forward the integration of information network of BS structure and providing information to production and operation and support for decision making; and
6. strengthening human resources development and building up working teams, completing the work of regulating the management structure of legal person which the Company belongs to and the performance of management, forming the culture of power execution.

IV. INVESTMENTS OF THE COMPANY DURING THE REPORTING PERIOD

1. No proceeds from the issue of shares was utilized during the reporting period. As at the end of the reporting period, the unutilized proceeds from the issue of shares amounted to RMB752,000 which was deposited in bank.
2. There was no significant investment concerning non-issue of shares during the reporting period.

Chapter V Significant Events

I. The Board of Directors of the Company has resolved not to pay any interim dividend for the period ended 30th June 2005 and no surplus reserves would be capitalized.

II. IMPLEMENTATION OF PROFIT DISTRIBUTION PROPOSAL FOR THE PREVIOUS YEAR

At the 2004 Annual General Meeting held on 9th June 2005, the profit distribution proposal for 2004 was passed. The said profit distribution was completed on 28th July 2005.

III. During the reporting period, there was not any material litigation or arbitration commenced against the Company nor was there any material litigation and arbitration carried forward from previous period to the reporting period.

IV. INVESTMENTS AND ACQUISITIONS

1. The Company and its wholly-owned subsidiary, Hong Kong Huaming Co. Limited (“Huaming Company”) intend to pay RMB37,500,000 and RMB12,500,000 respectively to set up a company named Anhui Huamao Jingwei Xin Xing Textile Company Limited (安徽華茂經緯新型紡織有限公司) (the “New Company”) jointly with Anhui Huamao Textile Company Limited (安徽華茂紡織有限公司). The New Company has a registered capital of RMB50,000,000 and its principal businesses include production, processing and sale of various kinds of yarn and textile products, technical research and development for textile equipment and accessories and the sale of cotton. During the reporting period, the Company has paid a capital amount of RMB12,500,000.
2. Huaming Company entered into a Transfer of Equity Interest Agreement with China Textile Machinery (Group) Company Limited in June 2005. According to the terms of the agreement, Huaming Company agreed to acquire 25% equity interest in Wuxi Hongda Texparts Co. Ltd. (無錫宏大紡織機械專件有限公司) (“Wuxi Hongda Company”) from China Textile Machinery (Group) Company Limited at a consideration of RMB11,293,561.17. The consideration of this transaction was based on 25% of the evaluated net asset value of Wuxi Hongda Company of RMB45,174,244.67 as at 31st August 2004, which amounted to RMB11,293,561.17. Procedures in relation to financing and transfer of equity interest are in progress. The transaction constituted a related party transaction and its details were published on 10th June 2005 in Securities Times and Hong Kong’s Wen Wei Po and The Standard.

V. RELATED PARTY (IDENTIFIED UNDER THE GUIDANCE ISSUED BY CHINA SECURITIES REGULATORY COMMISSION) TRANSACTIONS

1. Related party transactions arising from procurement and sales and rendering of labour services

- (1) During the reporting period, related party transactions arising from the procurement and sales and rendering of labour services between the Company and related parties were conducted in accordance with the “Composite Services Agreement” entered on 18 August 2004 between the Company and China Textile Machinery (Group) Company Limited. Prices were set according to the following principles:
 - (a) state price was applied if the service charge was regulated by the same;
 - (b) where there was no applicable state price, the lower of market price or 105% to 110% of actual cost (the growth rate should not be higher than that of the price index in the preceding year of the region where the service provider is located) was used.
- (2) During the period, purchases from related party amounted to RMB326,257,000 in the reporting period, representing 19.85% of total purchases. Sales to related party totaled RMB210,444,000 representing 11.95% of total sales. Settlement for transaction with related party was in the form of payables and receivables. As the pricing policy was based on market price, it constituted no impact on the profit of the Company.

V. RELATED PARTY (IDENTIFIED UNDER THE GUIDANCE ISSUED BY CHINA SECURITIES REGULATORY COMMISSION) TRANSACTIONS (continued)
2. Related party transactions arising from asset acquisition

Details are set out in Section 5, IV, 2

3. Creditor's rights, liabilities and guarantees between the Group and related parties

Creditors' rights and liabilities between the Group and related parties are as follows:

(Unit: RMB'000)

| Related Party | Relationship | Funding to the related party | | Funding to the Company from the related party | |
|--|---------------------------------------|-----------------------------------|----------------------------------|---|----------------------------------|
| | | Net amount incurred in the period | Balance at the end of the period | Net amount incurred in the period | Balance at the end of the period |
| Due from China Textile Machinery (Group) Company Limited | Controlling shareholder | 129 | 13,913 | – | – |
| Due from fellow subsidiaries | Subsidiary of controlling shareholder | 81,772 | 288,554 | – | – |
| Due to fellow subsidiaries | Subsidiary of controlling shareholder | – | – | 28,293 | (73,736) |
| Total | | 81,901 | 302,467 | 28,293 | (73,736) |

Among which during the reporting period, the funds provided by the Company to the controlling shareholder and its subsidiaries was to RMB81,901,000, and the balance was RMB302,467,000.

Their causes, repayment and effects on the Company: The liabilities and debt due to and from related parties were mainly unsettled amounts arising from operating activities and were incurred due to the delay in rolling payments. Therefore, such amounts did not form bad and doubtful debts.

VI. MATERIAL CONTRACTS AND PERFORMANCE

1. During the reporting period, there were no significant or ongoing significant contracts for entrustment, contracting and leasing of assets of the Group to other companies or vice versa.

2. Guarantees

(Unit: RMB'000)

| External guarantees undertaken by the Company (excluding guarantees provided to subsidiary of controlling shareholder) | | | | | | |
|--|-------------------|-------------------|-----------------------------|---------------------|-------------------|--|
| Party under guarantee | Date of agreement | Guaranteed amount | Type of guarantee | Period of guarantee | Completion or not | Whether in favour of any related party |
| Beijing Hualian Commercial and Trade Development Co., Ltd. | 15/4/2005 | 40,000 | Joint and several liability | 15/4/2005-14/4/2006 | No | No |
| Beijing Hualian Commercial Building Joint Stock Company Limited (Note) | 25/3/2005 | 200,000 | Joint and several liability | 28/3/2005-27/3/2006 | No | No |
| Guaranteed amount during the reporting period | | | | | | 240,000 |
| Guaranteed balance during the reporting period | | | | | | 240,000 |
| Guarantee provided by the Company to subsidiary of controlling shareholder | | | | | | |
| Guaranteed amount to subsidiary of controlling shareholder during the reporting period | | | | | | 80,000 |
| Guaranteed balance to subsidiary of controlling shareholder at the end of the reporting period | | | | | | 80,000 |
| Aggregate guarantee (including guarantee to subsidiary of controlling shareholder) provided by the Company | | | | | | |
| Aggregate guaranteed amount | | | | | | 320,000 |
| Aggregate guaranteed amount as a percentage in the net asset value of the Company | | | | | | 12.33% |
| Non-compliant guarantee of the Company | | | | | | |
| Guaranteed amount provided to controlling shareholder and other related party of the Company with less than 50% shareholding | | | | | | Nil |
| Guaranteed amount directly or indirectly undertaken for parties with asset and liability ratio exceeding 70% | | | | | | Nil |
| Amounts of aggregate guarantees in excess of 50% of net asset value | | | | | | Nil |
| Non-compliant aggregate guaranteed amount | | | | | | Nil |

Note: On 25 March 2005, the Company entered into a guarantee agreement (the “**Guarantee Agreement**”) with 北京市銀行股份有限公司 (Beijing City Bank Joint Stock Company Limited) (the “**Bank**”) for the provision of a guarantee (the “**Guarantee**”) in respect of the entering of the one-year Loan Agreement (the “**Loan Agreement**”) between the Bank and 北京華聯商廈股份有限公司 (Beijing Hualian Commercial Building Joint Stock Company Limited) (“**Hualian Commercial Building**”) on 25 March 2005. Details of the Guarantee were published in *Wen Wei Pao* and *The Standard* on 29 March 2005.

As at 30 June 2005, the outstanding balance under the Loan Agreement was RMB200,000,000. According to the Guarantee Agreement, the Company and Hualian Commercial Building were jointly and severally responsible for providing guarantee as to the principal amount of RMB200,000,000 together with all related interests, penalties, damages under the Loan Agreement and the Bank’s expenses incurred in relation to the enforcement of the Loan Agreement and the Guarantee Agreement.

VI. MATERIAL CONTRACTS AND PERFORMANCE (continued)

2. Guarantees (continued)

Statements and Independent Opinions of the independent non-executive directors of the Company on the provision of guarantees by the Company

Pursuant to the “Notice governing the transfer of funds between the listed companies and related parties and the provision of guarantees by the listed companies” (Zheng Jian Fa (2003) No. 56) issued by the China Securities Regulatory Commission, the independent non-executive directors have reviewed the provision of guarantee by the Company in a practical, serious and responsible manner. Our opinions are set out as follows:

During the reporting period, the Company did not provide any guarantee in favour of the controlling shareholder and its subsidiaries; nor did it undertake any form of external guarantee for other related parties of the Company, any non-legal-entities or any individuals which were in possession of a shareholding below 50%. In our opinion, the Company’s financial policy is sound and prudent, without any non-compliant and improper guarantee. The risk arising from the provision of external guarantee is under control and the benefits of the medium and small shareholders are protected.

3. Entrustment to handle financial matters

During the reporting period, there was no entrustment to handle the financial matters of the Company.

VII. PURCHASE, SALE AND REDEMPTION OF SHARES

There were no purchase, sale or redemption of listed shares of the Company by the Company or any of its subsidiaries during the reporting period.

VIII. CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has strived to maintain and establish a high level of corporate governance and fully complied with the code provisions set out in Appendix 14 “Code on Corporate Governance Practices” in the Listing Rules, except for the code provisions regarding internal control (the respective provisions of which will be implemented for accounting periods commencing on or after 1st July 2005).

IX. AUDIT COMMITTEE

The Audit Committee of the Company has, together with the management, reviewed the accounting principles, accounting standards and methods adopted by the Group, and has discussed the issues regarding auditing, internal control and financial reporting including the review of the unaudited interim accounts of the Group for the six months ended 30th June 2005.

X. ADOPTION OF MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted a set of code which is not lower than the standard and requirement of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange. Specific enquiries had been made to the Directors and Directors confirmed that they had complied with the requirements regarding directors’ securities transactions set out in such set of code during the accounting period covered by the interim results.

XI. ACCOUNTING FIRMS ENGAGED BY THE COMPANY IN 2005

Mainland: PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd

Hong Kong: PricewaterhouseCoopers

Chapter VI Accounts Prepared in Accordance with the PRC Accounting Standards and System (Unaudited)

Balance Sheet As at 30th June 2005

(Prepared in accordance with the PRC Accounting Standards and System)
(All amounts in RMB Yuan unless otherwise stated)

| | Note | Group | | Company | |
|---|-------|----------------------------------|------------------------------------|----------------------------------|------------------------------------|
| | | 30th June 2005 (Unaudited) | 31st December 2004 (Audited) | 30th June 2005 (Unaudited) | 31st December 2004 (Audited) |
| ASSETS | | | | | |
| Current assets | | | | | |
| Cash at bank and in hand | III1 | 939,265,348 | 1,005,463,163 | 763,221,225 | 764,488,556 |
| Short-term investment | III2 | 8,526,445 | 8,526,445 | – | – |
| Notes receivable | III3 | 445,859,060 | 400,434,231 | 151,442,497 | 132,517,889 |
| Dividends receivable | | – | – | 20,462,988 | 20,689,449 |
| Interest receivable | | – | – | – | – |
| Accounts receivable | III4 | 522,032,609 | 445,202,457 | 328,815,254 | 245,684,993 |
| Other receivables | III5 | 222,335,035 | 129,551,062 | 257,242,769 | 176,847,404 |
| Advances to suppliers | III6 | 306,692,520 | 260,820,854 | 97,437,506 | 125,851,511 |
| Subsidies receivable | | – | – | – | – |
| Inventories | III7 | 1,303,485,042 | 1,299,968,019 | 641,474,786 | 679,877,009 |
| Prepaid expenses | | 3,132,874 | 1,696,105 | 1,804,868 | 905,902 |
| Long-term debt investments maturing within one year | | – | – | – | – |
| Other current assets | | – | – | – | – |
| Total current assets | | <u>3,751,328,933</u> | <u>3,551,662,336</u> | <u>2,261,901,893</u> | <u>2,146,862,713</u> |
| Long-term investments | | | | | |
| Long-term equity investments | III8 | 316,958,228 | 379,982,233 | 1,290,010,686 | 1,290,724,428 |
| Long-term debt investments | | – | – | – | – |
| Total long-term investments | | <u>316,958,228</u> | <u>379,982,233</u> | <u>1,290,010,686</u> | <u>1,290,724,428</u> |
| Including: Consolidation difference | | 431,036 | 316,259 | – | – |
| Fixed assets | | | | | |
| Fixed assets – cost | | 2,006,795,122 | 1,985,392,879 | 941,061,042 | 943,713,258 |
| Less: Accumulated depreciation | | <u>(1,000,427,360)</u> | <u>(962,645,854)</u> | <u>(478,858,563)</u> | <u>(466,113,906)</u> |
| Fixed assets – net | | 1,006,367,762 | 1,022,747,025 | 462,202,479 | 477,599,352 |
| Less: Provision for impairment of fixed assets | | <u>(43,909,135)</u> | <u>(44,174,402)</u> | <u>(31,752,521)</u> | <u>(31,992,401)</u> |
| Fixed assets – net book value | III9 | 962,458,627 | 978,572,623 | 430,449,958 | 445,606,951 |
| Leasehold improvements | | – | – | – | – |
| Construction materials | | 7,166,595 | 11,499,880 | 3,207,885 | 5,440,224 |
| Construction in progress | | 62,126,560 | 56,494,212 | 24,461,944 | 18,908,615 |
| Fixed assets pending disposal | | – | – | – | – |
| Total fixed assets | | <u>1,031,751,782</u> | <u>1,046,566,715</u> | <u>458,119,787</u> | <u>469,955,790</u> |
| Intangible assets and other assets | | | | | |
| Intangible assets | III10 | 161,859,622 | 155,356,667 | 89,453,221 | 81,663,574 |
| Long-term prepaid expenses | | – | – | – | – |
| Other long-term assets | | – | – | 61,836,202 | 55,160,058 |
| Total intangible assets and other assets | | <u>161,859,622</u> | <u>155,356,667</u> | <u>151,289,423</u> | <u>136,823,632</u> |
| Deferred taxes | | | | | |
| Deferred tax debits | | – | – | – | – |
| TOTAL ASSETS | | <u><u>5,261,898,565</u></u> | <u><u>5,133,567,951</u></u> | <u><u>4,161,321,789</u></u> | <u><u>4,044,366,563</u></u> |

The accompanying notes form an integral part of these financial statements.

Legal representative:
Ye Maoxin

Person in charge of accounting function:
Yao Yuming

Person in charge of accounting department:
Mao Faqing

Balance Sheet (continued)
As at 30th June 2005

(Prepared in accordance with the PRC Accounting Standards and System)

(All amounts in RMB Yuan unless otherwise stated)

| | Note | Group | | Company | |
|---|-------|----------------------------------|------------------------------------|----------------------------------|------------------------------------|
| | | 30th June 2005 (Unaudited) | 31st December 2004 (Audited) | 30th June 2005 (Unaudited) | 31st December 2004 (Audited) |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | |
| Current liabilities | | | | | |
| Short-term loans | III11 | 515,862,500 | 580,502,100 | 436,912,500 | 500,912,500 |
| Notes payable | III12 | 342,798,209 | 252,276,754 | 171,528,296 | 102,681,267 |
| Accounts payable | III13 | 541,087,047 | 539,330,389 | 358,817,033 | 319,374,241 |
| Advances from customers | | 681,390,945 | 632,149,669 | 495,623,684 | 475,528,072 |
| Accrued payroll | | 5,082,731 | 6,019,304 | 2,615,120 | 3,300,000 |
| Welfare benefits payable | | 43,169,729 | 44,079,767 | 5,483,047 | 4,230,099 |
| Dividends payable | III14 | 11,000,000 | – | 11,000,000 | – |
| Interest payable | | – | – | – | – |
| Taxes payable | III15 | 31,786,160 | 33,661,209 | 15,465,704 | 21,561,054 |
| Other levies payable | | 1,299,043 | 748,417 | 515,208 | 519,911 |
| Other payables | | 298,101,470 | 279,439,652 | 56,660,387 | 37,531,277 |
| Accrued expenses | | 24,908,938 | 14,116,660 | 10,926,333 | 7,242,339 |
| Provisions | | – | – | – | – |
| Current portion of long-term liabilities | III16 | 20,000,000 | 12,800,000 | – | – |
| Other current liabilities | | – | – | – | – |
| Total current liabilities | | <u>2,516,486,772</u> | <u>2,395,123,921</u> | <u>1,565,547,312</u> | <u>1,472,880,760</u> |
| Long-term liabilities | | | | | |
| Long-term loans | III16 | – | 40,000,000 | – | 20,000,000 |
| Debentures payable | | – | – | – | – |
| Long-term payables | | – | – | – | – |
| Grants payable | | – | – | – | – |
| Other long-term payables | | – | – | – | – |
| Total long-term liabilities | | <u>–</u> | <u>40,000,000</u> | <u>–</u> | <u>20,000,000</u> |
| Deferred taxes | | | | | |
| Deferred tax credits | | – | – | – | – |
| Total liabilities | | <u>2,516,486,772</u> | <u>2,435,123,921</u> | <u>1,565,547,312</u> | <u>1,492,880,760</u> |
| Minority interest | | <u>149,596,132</u> | <u>146,917,043</u> | <u>–</u> | <u>–</u> |
| Shareholders' equity | | | | | |
| Share capital | III17 | 603,800,000 | 603,800,000 | 603,800,000 | 603,800,000 |
| Capital surplus | III18 | 1,261,716,557 | 1,261,716,557 | 1,261,716,557 | 1,261,716,557 |
| Surplus reserve | III19 | 403,440,433 | 303,440,433 | 310,357,477 | 210,357,477 |
| Including: Statutory public welfare fund | | 137,838,693 | 137,838,693 | 91,297,215 | 91,297,215 |
| Undistributed profits | III20 | 326,817,487 | 382,528,813 | 419,900,443 | 475,611,769 |
| Including: Proposed final dividend | | – | 30,190,000 | – | 30,190,000 |
| Foreign currency translation differences | | 41,184 | 41,184 | – | – |
| Total Shareholders' equity | | <u>2,595,815,661</u> | <u>2,551,526,987</u> | <u>2,595,774,477</u> | <u>2,551,485,803</u> |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | <u>5,261,898,565</u> | <u>5,133,567,951</u> | <u>4,161,321,789</u> | <u>4,044,366,563</u> |

The accompanying notes form an integral part of these financial statements.

 Legal representative:
Ye Maoxin

 Person in charge of accounting function:
Yao Yuming

 Person in charge of accounting department:
Mao Faqing

Income Statement
For the six months ended 30th June 2005
 (Prepared in accordance with the PRC Accounting Standards and System)
 (All amounts in RMB Yuan unless otherwise stated)

| | <i>Note</i> | Group | | Company | |
|---|-------------|--|--------------------|--|--------------------|
| | | For the six months ended 30th June 2005 | 2004 | For the six months ended 30th June 2005 | 2004 |
| | | <i>(Unaudited)</i> | <i>(Unaudited)</i> | <i>(Unaudited)</i> | <i>(Unaudited)</i> |
| Revenues from main operations | III21 | 1,761,606,235 | 1,950,991,414 | 1,205,404,571 | 1,161,316,068 |
| Less: Cost of main operations | III21 | (1,452,112,407) | (1,619,536,157) | (1,094,744,726) | (1,053,949,602) |
| Tax and levies on main operations | | (4,909,034) | (6,935,528) | (1,284,336) | (1,007,850) |
| Profit from main operations | | 304,584,794 | 324,519,729 | 109,375,509 | 106,358,616 |
| Add: Profit from other operations | III22 | 31,874,687 | 25,239,697 | 6,592,459 | 9,246,342 |
| Less: Selling and distribution expenses | | (48,115,728) | (47,341,795) | (26,879,152) | (23,540,248) |
| General and administrative expenses | | (196,261,886) | (196,719,191) | (70,130,577) | (67,994,865) |
| Financial expenses – net | III23 | (4,119,005) | (9,669,378) | (1,964,535) | (3,693,733) |
| OPERATING PROFIT | | 87,962,862 | 96,029,062 | 16,993,704 | 20,376,112 |
| Add: Investment income | III24 | 2,010,880 | 5,638,053 | 63,721,318 | 67,383,624 |
| Subsidy income | | 701,897 | 270,442 | – | – |
| Non-operating income | | 1,062,087 | 1,125,760 | 152,917 | 453,028 |
| Less: Non-operating expenses | | (1,684,266) | (2,234,612) | (1,065,488) | (1,472,045) |
| TOTAL PROFIT | | 90,053,460 | 100,828,705 | 79,802,451 | 86,740,719 |
| Less: Income tax | | (12,895,697) | (14,990,187) | (5,323,777) | (6,540,453) |
| Gain of minority shareholders | | (2,679,089) | (5,638,252) | – | – |
| NET PROFIT | | <u>74,478,674</u> | <u>80,200,266</u> | <u>74,478,674</u> | <u>80,200,266</u> |

Supplementary Information

| ITEMS | Group | | Company | |
|--|--|--------------------|--|--------------------|
| | For the six months ended 30th June 2005 | 2004 | For the six months ended 30th June 2005 | 2004 |
| | <i>(Unaudited)</i> | <i>(Unaudited)</i> | <i>(Unaudited)</i> | <i>(Unaudited)</i> |
| 1. Gain/(Loss) on disposal of business units or investments | – | – | – | – |
| 2. Loss arising from natural disaster | – | – | – | – |
| 3. Increase/(decrease) in total profit/(loss) as a result of changes in accounting policies | – | – | – | – |
| 4. Increase/(decrease) in total profit/(loss) as a result of changes in accounting estimates | – | – | – | – |
| 5. Losses from debt restructuring | – | – | – | – |
| 6. Other | – | – | – | – |

The accompanying notes form an integral part of these financial statements.

Legal representative:
Ye Maoxin

Person in charge of accounting function:
Yao Yuming

Person in charge of accounting department:
Mao Faqing



Profit Appropriation Statement
For the six months ended 30th June 2005
 (Prepared in accordance with the PRC Accounting Standards and System)
 (All amounts in RMB Yuan unless otherwise stated)

| | Note | Group | | Company | |
|---|-------|--|--|--|--|
| | | For the six months ended 30th June 2005 (Unaudited) | For the six months ended 30th June 2004 (Unaudited) | For the six months ended 30th June 2005 (Unaudited) | For the six months ended 30th June 2004 (Unaudited) |
| Net profit | | 74,478,674 | 80,200,266 | 74,478,674 | 80,200,266 |
| Add: Undistributed profit at the beginning of the year | III20 | 382,528,813 | 325,112,537 | 475,611,769 | 397,181,733 |
| Other transfers | | — | — | — | — |
| DISTRIBUTABLE PROFIT | | <u>457,007,487</u> | <u>405,312,803</u> | <u>550,090,443</u> | <u>477,381,999</u> |
| Less: Transfer to statutory surplus reserve | | — | — | — | — |
| Transfer to statutory public welfare fund | | — | — | — | — |
| Transfer to employ bonus and welfare fund | | — | — | — | — |
| PROFIT AVAILABLE FOR DISTRIBUTION TO SHAREHOLDER | | <u>457,007,487</u> | <u>405,312,803</u> | <u>550,090,443</u> | <u>477,381,999</u> |
| Less: Dividend for preference stock | | — | — | — | — |
| Transfer to discretionary surplus fund | | (100,000,000) | — | (100,000,000) | — |
| Dividend payable for common stock | | (30,190,000) | (43,473,600) | (30,190,000) | (43,473,600) |
| Dividend for common stock transferred to shares | | — | — | — | — |
| UNDISTRIBUTED PROFIT AT THE END OF YEAR | III20 | <u><u>326,817,487</u></u> | <u><u>361,839,203</u></u> | <u><u>419,900,443</u></u> | <u><u>433,908,399</u></u> |

The accompanying notes form an integral part of these financial statements.

Legal representative:
Ye Maixin

Person in charge of accounting function:
Yao Yuming

Person in charge of accounting department:
Mao Faqing

Cash Flow Statement
For the six months ended 30th June 2005
(Prepared in accordance with the PRC Accounting Standards and System)
(All amounts in RMB Yuan unless otherwise stated)

| | Group For the six months ended 30 June | | Company For the six months ended 30 June | |
|---|--|----------------------------|--|----------------------------|
| | 2005 <i>(Unaudited)</i> | 2004 <i>(Unaudited)</i> | 2005 <i>(Unaudited)</i> | 2004 <i>(Unaudited)</i> |
| 1 Cash flows from operating activities | | | | |
| Cash received from sales of goods or rendering of services | 2,473,784,508 | 2,558,382,012 | 1,303,876,921 | 1,151,281,747 |
| Refund of taxes and levies | 1,144,192 | 1,931,828 | - | - |
| Cash received relating to other operating activities | 158,736,343 | 31,545,257 | 94,390,838 | 18,499,934 |
| Sub-total of cash inflows | <u>2,633,665,043</u> | <u>2,591,859,097</u> | <u>1,398,267,759</u> | <u>1,169,781,681</u> |
| Cash paid for goods and services | (2,164,496,179) | (2,342,052,546) | (1,185,074,508) | (989,069,265) |
| Cash paid to and on behalf of employees | (191,495,382) | (201,074,002) | (64,072,094) | (71,942,113) |
| Payments of taxes and levies | (110,886,802) | (127,199,345) | (46,772,711) | (47,830,526) |
| Cash paid relating to other operating activities | (135,654,709) | (61,492,551) | (44,819,055) | (44,989,675) |
| Sub-total of cash outflows | <u>(2,602,533,072)</u> | <u>(2,731,818,444)</u> | <u>(1,340,738,368)</u> | <u>(1,153,831,579)</u> |
| Net cashflows from operating activities | <u>31,131,971</u> | <u>(139,959,347)</u> | <u>57,529,391</u> | <u>15,950,102</u> |
| 2 Cash flows from investing activities | | | | |
| Cash received from disposal of investments, other than subsidiaries | 71,309,779 | 9,802,932 | 70,000,000 | - |
| Cash received from disposal of subsidiaries | - | - | - | - |
| Cash received from returns on investments | 6,938,600 | 5,357,056 | 301,948 | 1,837,379 |
| Net cash received from disposal of fixed assets, intangible assets and other long-term assets | 693,640 | 819,246 | 22,400 | 271,219 |
| Cash received relating to other investing activities | - | - | - | - |
| Sub-total of cash inflows | <u>78,942,019</u> | <u>15,979,234</u> | <u>70,324,348</u> | <u>2,108,598</u> |
| Cash paid to acquire fixed assets, intangible assets and other long-term assets | (36,034,626) | (60,644,952) | (7,622,615) | (27,796,435) |
| Cash paid to acquire investments, other than subsidiaries | (13,603,000) | (60,069,662) | (12,500,000) | - |
| Cash paid to acquire subsidiaries | - | - | - | - |
| Cash decrease from subsidiaries ready for sales | - | - | - | - |
| Cash paid relating to other investing activities | - | - | - | - |
| Sub-total of cash outflows | <u>(49,637,626)</u> | <u>(120,714,614)</u> | <u>(20,122,615)</u> | <u>(27,796,435)</u> |
| Net cash from investing activities | <u>29,304,393</u> | <u>(104,735,380)</u> | <u>50,201,733</u> | <u>(25,687,837)</u> |
| 3 Cash flows from financing activities | | | | |
| Cash received from capital contributions | - | - | - | - |
| Including: Cash received from issuing shares to minority shareholders by subsidiaries | - | - | - | - |
| Cash received from borrowings | 385,000,000 | 321,431,726 | 292,000,000 | 311,831,726 |
| Cash received relating to other financing activities | - | - | - | - |
| Sub-total of cash inflows | <u>385,000,000</u> | <u>321,431,726</u> | <u>292,000,000</u> | <u>311,831,726</u> |
| Cash repayments of amounts borrowed | (482,000,000) | (38,140,000) | (376,000,000) | (229,000,000) |
| Cash payments for interest expenses and distribution of dividends or profits | (27,820,179) | (12,852,246) | (24,698,455) | (5,523,858) |
| Including: Cash payments to minority shareholders for distribution of dividends or profits | - | - | - | - |
| Cash payments relating to other financing activities | - | - | - | - |
| Including: Cash payments to minority shareholders for distribution of capital | - | - | - | - |
| Sub-total of cash outflows | <u>(509,820,179)</u> | <u>(50,992,246)</u> | <u>(400,698,455)</u> | <u>(234,523,858)</u> |
| Net cash from financing activities | <u>(124,820,179)</u> | <u>270,439,480</u> | <u>(108,698,455)</u> | <u>77,307,868</u> |
| 4 Effect of foreign exchange rate changes on cash and cash equivalents | - | - | - | - |
| 5 Net increase/(decrease) in cash and cash equivalents | <u>(64,383,815)</u> | <u>25,744,753</u> | <u>(967,331)</u> | <u>67,570,133</u> |

The accompanying notes form an integral part of these financial statements.

Legal representative:
Ye Maixin

Person in charge of accounting function:
Yao Yuming

Person in charge of accounting department:
Mao Faqing



Cash Flow Statement (Continued)
For the six months ended 30th June 2005
(Prepared in accordance with the PRC Accounting Standards and System)
(All amounts in RMB Yuan unless otherwise stated)

| Supplementary Information | Group For the six months ended 30 June | | Company For the six months ended 30 June | |
|--|--|----------------------|--|---------------------|
| | 2005 (Unaudited) | 2004 (Unaudited) | 2005 (Unaudited) | 2004 (Unaudited) |
| 1 Reconciliation of Net Profit to Cash Flow from Operating Activities | | | | |
| Net profit | 74,478,674 | 80,200,266 | 74,478,674 | 80,200,266 |
| Add: Share of profit by minority shareholders | 2,679,089 | 5,638,252 | – | – |
| Provision for asset impairment | 10,452,411 | 16,609,471 | 574,210 | – |
| Depreciation of fixed assets | 45,613,099 | 41,894,294 | 20,558,032 | 18,302,121 |
| Amortisation of intangible assets | 2,993,116 | 639,846 | 1,353,864 | 981,229 |
| Amortisation of long-term prepaid expenses | – | – | – | – |
| Decrease (Increase) in prepaid expenses | (1,436,769) | (3,774,114) | (898,966) | (4,133,808) |
| Increase (Decrease) in accrued expenses | 10,792,278 | 8,393,764 | 3,683,994 | 4,828,349 |
| Loss (Gains) on disposal of fixed assets, intangible assets and other long term assets | (287,635) | 819,246 | (53,236) | 348,558 |
| Loss (Gains) on disposal of fixed assets | – | 4,683 | – | – |
| Financial expenses (income) | 4,119,005 | 9,669,378 | 1,964,535 | 3,693,733 |
| Investment losses (income) | (2,010,880) | (5,638,053) | (63,721,318) | (67,383,624) |
| Deferred tax credit (debit) | – | – | – | – |
| Decrease (Increase) in inventories | (3,517,023) | 138,031,121 | 38,402,224 | 60,149,650 |
| Decrease (Increase) in operating receivables | (256,816,557) | (100,717,681) | (160,484,124) | (148,913,962) |
| Increase (Decrease) in operating payables | 144,073,163 | (331,729,820) | 141,671,502 | 67,877,590 |
| Others | – | – | – | – |
| Net cash flows from operating activities | <u>31,131,971</u> | <u>(139,959,347)</u> | <u>57,529,391</u> | <u>15,950,102</u> |
| 2 Investing and financing activities that do not involve cash receipts and payments | | | | |
| Conversion of debt into capital | – | – | – | – |
| Reclassification of current portion of convertible bonds to current liabilities | – | – | – | – |
| Fixed assets capitalized under finance leases | – | – | – | – |
| 3 Net increase/(decrease) in cash and cash equivalents | | | | |
| Cash at end of the year | 939,265,348 | 884,072,778 | 763,221,225 | 734,605,711 |
| Less: Cash at beginning of the year | (1,003,649,163) | (858,328,025) | (764,188,556) | (667,035,578) |
| Add: Cash equivalents at end of year | – | – | – | – |
| Less: Cash equivalents at beginning of year | – | – | – | – |
| Net increase/(decrease) in cash and cash equivalents | <u>(64,383,815)</u> | <u>25,744,753</u> | <u>(967,331)</u> | <u>67,570,133</u> |

The accompanying notes form an integral part of these financial statements.

Legal representative:
Ye Maixin

Person in charge of accounting function:
Yao Yuming

Person in charge of accounting department:
Mao Faqing

Breakdown of assets provision as at 30th June 2005
As at 30th June 2005

(Prepared in accordance with the PRC Accounting Standards and System)
(All amounts in RMB Yuan unless otherwise stated)

| Item | 31st December 2004 (Audited) | | Addition (Unaudited) | | Reversal (Unaudited) | | 30th June 2005 (Unaudited) | |
|--|---------------------------------|------------|-------------------------|-----------|-------------------------|---------|-------------------------------|------------|
| | Group | Company | Group | Company | Group | Company | Group | Company |
| 1. Bad debt provision, total | 177,950,115 | 36,832,886 | 6,635,375 | 1,000,000 | 1,106,866 | - | 183,478,624 | 37,832,886 |
| Including: Accounts receivable | 154,092,189 | 36,562,886 | 6,635,375 | 1,000,000 | 1,006,150 | - | 159,721,414 | 37,562,886 |
| Other receivable | 23,857,926 | 270,000 | - | - | 100,716 | - | 23,757,210 | 270,000 |
| 2. Provision for short-term investment, total | - | - | - | - | - | - | - | - |
| Including: Trading securities | - | - | - | - | - | - | - | - |
| Debenture investment | - | - | - | - | - | - | - | - |
| 3. Provision for inventory, total | 30,765,791 | 10,058,851 | 1,884,150 | - | 194,980 | - | 32,454,961 | 10,058,851 |
| Including: Raw material | 4,541,726 | 10,058,851 | 1,384,150 | - | - | - | 5,925,876 | 10,058,851 |
| Work in progress | 5,161,985 | - | - | - | - | - | 5,161,985 | - |
| Finished goods | 21,062,080 | - | 500,000 | - | 194,980 | - | 21,367,100 | - |
| 4. Provision for long-term investment, total | 1,823,255 | - | 4,000,000 | - | 500,000 | - | 5,323,255 | - |
| Including: Long-term equity investment | 1,823,255 | - | 4,000,000 | - | 500,000 | - | 5,323,255 | - |
| Long-term debenture investment | - | - | - | - | - | - | - | - |
| 5. Provision for fixed assets, total | 44,174,402 | 31,992,401 | - | - | 265,267 | 239,880 | 43,909,135 | 31,752,521 |
| Including: Buildings | 1,494,350 | - | - | - | - | - | 1,494,350 | - |
| Equipment | 42,669,260 | 31,992,401 | - | - | 265,267 | 239,880 | 42,403,993 | 31,752,521 |
| Conveyance | 10,792 | - | - | - | - | - | 10,792 | - |
| 6. Provision for intangible assets | - | - | - | - | - | - | - | - |
| 7. Provision for CIP | - | - | - | - | - | - | - | - |
| 8. Provision for consignment loans | - | - | - | - | - | - | - | - |

The accompanying notes form an integral part of these financial statements.

Legal representative:
Ye Maoxin

Person in charge of accounting function:
Yao Yuming

Person in charge of accounting department:
Mao Faqing

Notes to the Accounts

(Prepared in accordance with the PRC GAAP)
(All amounts in RMB Yuan unless otherwise stated)

I. COMPANY BACKGROUND

Jingwei Textile Machinery Company Limited (the “Company”) was established on 15th August 1995 as a joint stock limited company with China National Textile Machinery Corporation (Group) Company Limited (“CTMC”, formerly known as China National Textile Machinery Corporation) as the sole promoter.

The Company was listed on the Stock Exchange of Hong Kong Limited with the issuance of 180,800,000 H shares during February 1996. In November 1996, the Company issued 23,000,000 A share, which included 10,000,000 employee shares, and 13,000,000 listed shares on Shenzhen Stock Exchange in December 1996. On 24th June 1997, the 10,000,000 employee shares were also listed and traded on Shenzhen Stock Exchange. On 26th May 2000, the Company issued an additional 180,000,000 A shares. Subsequent to this issuance, the total issued share of the Company amounted to 603,800,000 shares.

The Company and its subsidiaries (collectively, referred to as “the Group”) are principally engaged in the manufacture and sale of textile machinery.

The Company and each of its subsidiaries are collectively known as the “Group” in this Accounts.

II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTS ESTIMATIONS AND PREPARATION OF THE COMBINED FINANCIAL STATEMENTS

1. Accounting policies

The accounting policies adopted in preparing the interim accounting report of the Group are consistent with that applied in the immediately preceding year’s annual financial statements.

2. Scope of the consolidated report

The scope of the consolidated accounting report during the reporting period of the Group is consistent with that of last year except the Group liquidated two subsidiaries with net assets less than RMB3,500,000 during the report period.

3. Accounts estimations

There is no change in the accounts estimations of the Group during the reporting period.

4. Accounting differences

There is no significant accounting difference of the Group during the reporting period.

5. Seasonal operations

The Group engages in the manufacture and sale of textile machinery, and thus there is no risk of seasonal operations.

III. NOTES TO THE PRINCIPAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash

| | 30th June 2005 | 31st December 2004 |
|---------------------|-----------------------|---------------------------|
| Cash in hand | 947,818 | 624,877 |
| Cash at bank | 931,235,527 | 991,599,915 |
| Other cash balances | 7,082,003 | 13,238,371 |
| | <u>939,265,348</u> | <u>1,005,463,163</u> |

2. Short-term investments

| | 30th June 2005 | 31st December 2004 |
|-------|-----------------------|---------------------------|
| Funds | <u>8,526,445</u> | <u>8,526,445</u> |

Notes to the Accounts
(Prepared in accordance with the PRC GAAP)
(All amounts in RMB Yuan unless otherwise stated)

III. NOTES TO THE PRINCIPAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS
(continued)

3. Notes receivable

| | 30th June 2005 | 31st December 2004 |
|-------------|-----------------------|---------------------------|
| Bank drafts | <u>445,859,060</u> | <u>400,434,231</u> |

4. Accounts receivable

| | 30th June 2005 | 31st December 2004 |
|----------------------------------|-----------------------|---------------------------|
| Accounts receivable | 681,754,023 | 599,294,646 |
| Less: General bad debt provision | <u>(159,721,414)</u> | <u>(154,092,189)</u> |
| | <u>522,032,609</u> | <u>445,202,457</u> |

The aging of accounts receivable and general bad debt provision are as follows:

| | 30th June 2005 | | | 31st December 2004 | | |
|---------------|-----------------------|------------|---------------------------|---------------------------|------------|---------------------------|
| | Amount | % | Bad debt provision | Amount | % | Bad debt provision |
| Aging: | | | | | | |
| Within 1 year | 440,811,915 | 65 | – | 343,490,108 | 57 | – |
| 1 to 2 years | 65,597,338 | 10 | (11,014,722) | 95,862,154 | 16 | (14,794,438) |
| 2 to 3 years | 52,920,020 | 8 | (26,281,942) | 40,041,416 | 7 | (19,573,331) |
| Over 3 years | 122,424,750 | 17 | (122,424,750) | 119,900,968 | 20 | (119,724,420) |
| | <u>681,754,023</u> | <u>100</u> | <u>(159,721,414)</u> | <u>599,294,646</u> | <u>100</u> | <u>(154,092,189)</u> |

5. Other receivables

| | 30th June 2005 | 31st December 2004 |
|------------------------------------|-----------------------|---------------------------|
| Other receivables | 246,092,245 | 153,408,988 |
| Less: Specific bad debt provisions | <u>(23,757,210)</u> | <u>(23,857,926)</u> |
| | <u>222,335,035</u> | <u>129,551,062</u> |

The aging of other receivables and specific bad debt provision are as follows:

| | 30th June 2005 | | | 31st December 2004 | | |
|---------------|-----------------------|------------|---------------------------|---------------------------|------------|---------------------------|
| | Amount | % | Bad debt provision | Amount | % | Bad debt provision |
| Aging: | | | | | | |
| Within 1 year | 117,193,665 | 48 | – | 34,809,102 | 23 | – |
| 1 to 2 years | 26,207,822 | 11 | – | 70,184,317 | 46 | – |
| 2 to 3 years | 68,449,962 | 28 | – | 5,321,686 | 3 | – |
| Over 3 years | 34,240,796 | 13 | (23,757,210) | 43,093,883 | 28 | (23,857,926) |
| | <u>246,092,245</u> | <u>100</u> | <u>(23,757,210)</u> | <u>153,408,988</u> | <u>100</u> | <u>(23,857,926)</u> |

6. Advances to suppliers

| | 30th June 2005 | | 31st December 2004 | |
|---------------|-----------------------|------------|---------------------------|------------|
| | Amount | % | Amount | % |
| Aging: | | | | |
| Within 1 year | 284,508,711 | 93 | 241,526,975 | 93 |
| 1 to 2 years | 17,603,440 | 6 | 15,736,745 | 6 |
| 2 to 3 years | 1,799,221 | – | 940,895 | – |
| Over 3 years | 2,781,148 | 1 | 2,616,239 | 1 |
| | <u>306,692,520</u> | <u>100</u> | <u>260,820,854</u> | <u>100</u> |

**Notes to the Accounts**(Prepared in accordance with the PRC GAAP)
(All amounts in RMB Yuan unless otherwise stated)**III. NOTES TO THE PRINCIPAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS
(continued)****7. Inventories**

| | 31st December 2004 | 30th June 2005 |
|------------------|---------------------------|-----------------------|
| Goods in transit | 676,634 | – |
| Raw materials | 266,630,905 | 302,608,196 |
| Work in progress | 356,203,040 | 332,882,754 |
| Finished goods | 707,223,231 | 700,449,053 |
| | <u>1,330,733,810</u> | <u>1,335,940,003</u> |

Provision

| | | Addition for the period | Reversal for the period | |
|------------------|----------------------|------------------------------------|------------------------------------|----------------------|
| Raw materials | (4,541,726) | (1,384,150) | – | (5,925,876) |
| Work in progress | (5,161,985) | – | – | (5,161,985) |
| Finished goods | (21,062,080) | (500,000) | 194,980 | (21,367,100) |
| | <u>(30,765,791)</u> | <u>(1,884,150)</u> | <u>194,980</u> | <u>(32,454,961)</u> |
| | <u>1,299,968,019</u> | | | <u>1,303,485,042</u> |

8. Long term equity investment

| | 30th June 2005 | 31st December 2004 |
|---|-----------------------|---------------------------|
| Investment in associated companies | 119,673,275 | 107,173,275 |
| Other equity investment | 202,177,172 | 274,315,954 |
| Consolidation difference | 431,036 | 316,259 |
| Provision for long term equity investment | (5,323,255) | (1,823,255) |
| | <u>316,958,228</u> | <u>379,982,233</u> |

9. Fixed assets

| | Buildings and constructions | Machinery and equipment | Motor vehicles | Total |
|--------------------------------------|--|------------------------------------|---------------------------|----------------------|
| Cost | | | | |
| At 31st December 2004 | 532,444,374 | 1,371,588,410 | 81,360,095 | 1,985,392,879 |
| Net increase/decrease for the period | 1,792,360 | 17,577,161 | 2,032,722 | 21,402,243 |
| At 30th June 2005 | <u>534,236,734</u> | <u>1,389,165,571</u> | <u>83,392,817</u> | <u>2,006,795,122</u> |
| Accumulated depreciation | | | | |
| At 31st December 2004 | 182,938,045 | 751,611,564 | 28,096,245 | 962,645,854 |
| Net increase/decrease for the period | 5,890,309 | 28,968,505 | 2,922,692 | 37,781,506 |
| At 30th June 2005 | <u>188,828,354</u> | <u>780,580,069</u> | <u>31,018,937</u> | <u>1,000,427,360</u> |
| Impairment Provision | | | | |
| At 31st December 2004 | 1,494,350 | 42,669,260 | 10,792 | 44,174,402 |
| Reversal for the period | – | (265,267) | – | (265,267) |
| At 30th June 2005 | <u>1,494,350</u> | <u>42,403,993</u> | <u>10,792</u> | <u>43,909,135</u> |
| Net book value | | | | |
| At 30th June 2005 | <u>343,914,030</u> | <u>566,181,509</u> | <u>52,363,088</u> | <u>962,458,627</u> |
| At 31st December 2004 | <u>348,011,979</u> | <u>577,307,586</u> | <u>53,253,058</u> | <u>978,572,623</u> |

Notes to the Accounts
(Prepared in accordance with the PRC GAAP)
(All amounts in RMB Yuan unless otherwise stated)

III. NOTES TO THE PRINCIPAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS
(continued)

10. Intangible assets

| Item | Cost | 31st December 2004 | Additions for the period | Amortisation for the period | Accumulated Amortisation | 30th June 2005 |
|-----------------------|--------------------|--------------------------|-----------------------------|--------------------------------|-----------------------------|--------------------|
| Land use rights | 165,544,256 | 148,171,831 | – | (1,878,021) | (19,250,446) | 146,293,810 |
| Trademark and patents | 3,060,853 | 125,000 | 7,433,619 | (288,348) | (3,224,201) | 7,270,271 |
| Software | 9,484,247 | 7,059,836 | 2,062,452 | (826,747) | (3,251,158) | 8,295,541 |
| Total | <u>178,089,356</u> | <u>155,356,667</u> | <u>9,496,071</u> | <u>(2,993,116)</u> | <u>(25,725,805)</u> | <u>161,859,622</u> |

11. Short term loans

| | 30th June 2005 | 31st December 2004 |
|--------------|--------------------|--------------------|
| Guaranteed | 308,950,000 | 242,000,000 |
| Unsecured | 206,912,500 | 338,502,100 |
| Secured | – | – |
| Total | <u>515,862,500</u> | <u>580,502,100</u> |

Interest rate of short term loans for the six months ended 30th June 2005 ranged from 4.53% to 4.71% per annum.

12. Notes payable

| | Due Date | 30th June 2005 | 31st December 2004 |
|------------------|---------------|--------------------|--------------------|
| Trade acceptance | November 2005 | 9,079,494 | 16,652,474 |
| Bank acceptance | | 333,718,735 | 235,624,280 |
| | | <u>342,798,209</u> | <u>252,276,754</u> |

13. Accounts payable

The aging analysis of accounts payable is as follows:

| | 30th June 2005 | 31st December 2004 |
|---------------|--------------------|--------------------|
| Within 1 year | 485,608,233 | 498,760,814 |
| 1 to 2 years | 29,875,354 | 16,350,751 |
| 2 to 3 years | 9,752,389 | 4,095,226 |
| Over 3 years | 15,851,071 | 20,123,598 |
| | <u>541,087,047</u> | <u>539,330,389</u> |

14. Dividends payable

| | 30th June 2005 | 31st December 2004 |
|------------------------------------|-------------------|--------------------|
| Dividends due to holding company | 11,000,000 | – |
| Dividends due to A Share investors | – | – |
| Dividends due to H Share investors | – | – |
| | <u>11,000,000</u> | <u>–</u> |



Notes to the Accounts
(Prepared in accordance with the PRC GAAP)
(All amounts in RMB Yuan unless otherwise stated)

III. NOTES TO THE PRINCIPAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS
(continued)

15. Taxes payable

| | 30th June 2005 | 31st December 2004 |
|-------------------------------|-----------------------|---------------------------|
| Value added tax recoverable | 19,561,590 | 21,698,034 |
| Business tax payable | 54,850 | 11,401 |
| City construction tax payable | 900,533 | 2,046,166 |
| Income tax payable | 8,616,380 | 5,303,924 |
| Others | 2,652,807 | 4,601,684 |
| | <u>31,786,160</u> | <u>33,661,209</u> |

16. Long-term loans

| Item | 30th June 2005 | 31st December 2004 |
|--|-----------------------|---------------------------|
| Guaranteed | 20,000,000 | 52,800,000 |
| Less: Current portion of long term loans | <u>(20,000,000)</u> | <u>(12,800,000)</u> |
| | <u>—</u> | <u>40,000,000</u> |

17. Share capital

| | 30th June 2005 | 31st December 2004 |
|--|-----------------------|---------------------------|
| Shares not permitted to be traded | 220,000,000 | 220,000,000 |
| Including: Shares held by domestic promoters and legal persons | 220,000,000 | 220,000,000 |
| Shares permitted to be traded | 383,800,000 | 383,800,000 |
| Including: Domestically listed domestic shares | 203,000,000 | 203,000,000 |
| Overseas listed foreign shares | 180,800,000 | 180,800,000 |
| | <u>603,800,000</u> | <u>603,800,000</u> |

18. Capital surplus

| | 30th June 2005 | 31st December 2004 |
|----------------------------------|-----------------------|---------------------------|
| Share premium | 1,247,954,114 | 1,247,954,114 |
| Equity Investment Provisions | 9,562,443 | 9,562,443 |
| Surplus on revaluation of assets | 4,200,000 | 4,200,000 |
| | <u>1,261,716,557</u> | <u>1,261,716,557</u> |

19. Surplus reserve

| | 30th June 2005 | 31st December 2004 |
|----------------------------|-----------------------|---------------------------|
| Statutory surplus fund | 137,838,693 | 137,838,693 |
| Discretionary surplus fund | 127,763,047 | 27,763,047 |
| Statutory public welfare | 137,838,693 | 137,838,693 |
| | <u>403,440,433</u> | <u>303,440,433</u> |

Notes to the Accounts
(Prepared in accordance with the PRC GAAP)
(All amounts in RMB Yuan unless otherwise stated)

III. NOTES TO THE PRINCIPAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS
(continued)

20. Undistributed profits

| | January to June 2005 | 2004 |
|---|---------------------------------|--------------------|
| Undistributed profit at the beginning of the period | 382,528,813 | 325,112,537 |
| Add: Profit for the period | 74,478,674 | 152,379,413 |
| Less: Transfer to statutory surplus reserve | – | (25,744,821) |
| Transfer to statutory public welfare fund | – | (25,744,821) |
| Transfer to discretionary surplus fund | (100,000,000) | – |
| Dividend for common stock | | |
| – Last year cash dividends approved by general meeting of shareholders | (30,190,000) | (43,473,495) |
| | <u>326,817,487</u> | <u>382,528,813</u> |
| Undistributed profit at the end of the period | <u>326,817,487</u> | <u>382,528,813</u> |

21. Revenues and cost from main operations

Primary reporting format – business segment

The Group's segment revenues, cost, profits, assets and liabilities are primarily attributable to the manufacture and sale of textile machinery.

Other operations of the Group include the sale of textile machinery components, special parts and other products, neither of which are of a sufficient size to be reported separately.

Secondary reporting format – geographical segment

| | For the six months ended 30th June | | | |
|------------------------------|---|-------------------------------------|---|-------------------------------------|
| | 2005 | | 2004 | |
| Location | Revenue from main operations | Cost from main operation | Revenue from main operations | Cost from main operation |
| China | 1,560,599,207 | 1,283,983,951 | 1,844,845,459 | 1,529,818,917 |
| Asia | 170,773,259 | 143,163,735 | 90,269,544 | 77,087,390 |
| Africa | 26,052,742 | 21,525,900 | 14,009,231 | 11,148,550 |
| Other continents and regions | 4,181,027 | 3,438,821 | 1,867,180 | 1,481,300 |
| | <u>1,761,606,235</u> | <u>1,452,112,407</u> | <u>1,950,991,414</u> | <u>1,619,536,157</u> |

22. Profits from other operations

Profits from other operations are mainly attributable to the sale of production raw materials such as steel products and electrical parts and the cotton yarn produced in the textile machinery experiments. The profit for this period amounted to 31,874,687 while the profit for the corresponding period last year was 25,239,697.

23. Financial expenses – net

| | For the six months ended 30th June | |
|---|---|------------------|
| | 2005 | 2004 |
| Interest expense | 8,630,180 | 16,667,391 |
| Less: Interest income | (5,053,470) | (7,884,175) |
| Exchange loss (income) | (120,555) | 116,061 |
| Service charges of financial institutions | 662,850 | 770,101 |
| | <u>4,119,005</u> | <u>9,669,378</u> |

Notes to the Accounts
(Prepared in accordance with the PRC GAAP)
(All amounts in RMB Yuan unless otherwise stated)

III. NOTES TO THE PRINCIPAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS
(continued)

24. Investment income

| | For the six months ended | |
|---------------------------------------|--------------------------|----------------|
| | 2005 | 30th June 2004 |
| Amortisation of investment difference | 114,777 | 129,255 |
| Income from investment in shares | – | 1,347,990 |
| Other investment income | 1,896,103 | 4,160,808 |
| | 2,010,880 | 5,638,053 |

IV. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

1. Related parties with controlling relationship

For the six months ended 30th June 2005, no changes of the related parties with controlling relationship.

2. Related parties in which the Company has no controlling relationship:

| Name of related party | Relationship with the Company |
|---|---|
| Tianjin Textile Machinery Plant | Subsidiary of CTMC |
| Jingwei Machinery (Group) Company Limited | Subsidiary of CTMC |
| Hengyang Textile Machinery Plant | Subsidiary of CTMC |
| Shenyang Textile Machinery Plant | Subsidiary of CTMC |
| Wuxi Hongda Textile Machinery & Special Parts Plant | Subsidiary of CTMC |
| Changde Textile Machinery Plant | Subsidiary of CTMC |
| Changzhou Textile Machinery Plant | Subsidiary of CTMC |
| Taicang Textile Machinery Plant | Subsidiary of CTMC |
| Qingdao Textile Machinery Plant | Subsidiary of CTMC |
| Qingdao Textile Machinery Foundry Company Limited | Subsidiary of CTMC |
| Qingdao Textile Machinery Wires Company Limited | Subsidiary of CTMC |
| Qingdao Textile Machinery Jinhui Mould Company Limited | Subsidiary of CTMC |
| Zhengzhou Textile Machinery Company Limited | Subsidiary of CTMC |
| Zhengzhou Textile Machinery Plant | Subsidiary of CTMC |
| Weinan Textile Machinery Plant | Subsidiary of CTMC |
| China National Textile Machinery (Group) Company Limited | |
| Guangzhou branch office | Subsidiary of CTMC |
| China National Textile Machinery Group Sales Company | Subsidiary of CTMC |
| Huangshi Textile Machinery Plant | Subsidiary of CTMC |
| Shaoyang Textile Machinery Company Limited | Subsidiary of CTMC |
| Beijing Hongda Shiye Company Limited | Subsidiary of CTMC |
| Trading Committee of Zhongji Company | Subsidiary of CTMC |
| Shenyang Hongsheng Textile Machinery Company Limited | Subsidiary of CTMC |
| Shenyang Textile Machinery Spare Parts Sales Company | Subsidiary of CTMC |
| Yichang China National Textile Machinery Components Company Limited | Subsidiary of CTMC |
| Tianjin Textile Machinery Steel Stripped-down Company Limited | Subsidiary of CTMC |
| Tianjin Textile Machinery Heat-Treatment Company Limited | Subsidiary of CTMC |
| Yichang China National Textile Machinery Industrial and Trading Company Limited | Subsidiary of CTMC |
| Urumchi Jingwei Xijin Company | Subsidiary of CTMC |
| China National Textile Machinery Group Finance Company | Associated company of CTMC |
| Jingjin Associated Packing Plant | Associated company of CTMC |
| | Jingwei Machinery (Group) Company Limited |
| Luhuan Construction Company limited | Associated company of the Group |
| Hongda International Trading Company Limited | Associated company of the Group |
| Hongda Research Company Limited | Associated company of the Group |
| Hongda Investment Company Limited | Associated company of the Group |
| Qingdao Jinyi Pressing and Casting Company Limited | Associated company of the Group |
| Qingdao Textile Machinery Technology Co. Ltd, | Associated company of the Group |
| Qingdao Qingfeng Technology Company Limited | Associated company of the Group |
| Shenyang Jinxing Textile Machinery Company Limited | Associated company of the Group |
| China National Textile Machinery Group Beijing Automatic Controlling Technology Company Limited | Associated company of the Group |
| Shenzhen Bolue Science and Technology investment Company Limited | Associated company of the Group |
| China Textile Machinery and Technology Import and Export Company Limited | Associated company of the Group |
| Zhengzhou Hongda Non-woven Fabric Company Limited | Associated company of the Group |

The above related parties are collectively referred to as “Fellow subsidiaries”.

Notes to the Accounts
(Prepared in accordance with the PRC GAAP)
(All amounts in RMB Yuan unless otherwise stated)

IV. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

3. Related party transactions

(1) The following is a summary of significant related party transaction:

(i) Sale of goods and services

| | For the six months ended 30th June | |
|--|---|------------------|
| | 2005 | 2004 |
| Sales of finished goods: | | |
| – Fellow subsidiaries | 97,621,095 | 18,211,408 |
| Sale of raw materials and components | | |
| – Fellow subsidiaries | 112,823,220 | 105,065,112 |
| Receive of processing fee | | |
| – Fellow subsidiaries | 63,044 | 106,326 |
| Provision of other supporting services expense | | |
| – Fellow subsidiaries | 2,791,943 | 2,903,590 |
| Rental income | | |
| – Fellow subsidiaries | <u>3,286,115</u> | <u>3,232,265</u> |

(ii) Purchase of goods and services

| | For the six months ended 30th June | |
|--|---|------------------|
| | 2005 | 2004 |
| Purchase of finished goods: | | |
| – Fellow subsidiaries | 186,236,068 | – |
| Purchase of raw material and components: | | |
| – Fellow subsidiaries | 63,513,763 | 267,882,263 |
| Purchase of tools model: | | |
| – Fellow subsidiaries | 7,522,794 | 9,786,779 |
| Purchase of castings: | | |
| – Fellow subsidiaries | 61,873,036 | 59,349,006 |
| Purchase of package: | | |
| – Fellow subsidiaries | 4,967,217 | – |
| Purchase of energy: | | |
| – Fellow subsidiaries | 2,143,866 | 9,174,154 |
| Payment of Processing expenses: | | |
| – Fellow subsidiaries | 35,928,174 | 13,505,529 |
| Payment of transportation services: | | |
| – Fellow subsidiaries | 4,520,948 | 3,457,082 |
| Payment of repairs and maintenance services: | | |
| – Fellow subsidiaries | 11,536,765 | 13,151,093 |
| Payment of other supporting services: | | |
| – Fellow subsidiaries | 5,649,603 | 6,051,978 |
| Leasing expense: | | |
| – Fellow subsidiaries | <u>5,888,379</u> | <u>5,002,268</u> |

(i), (ii): The term of these transactions with fellow subsidiaries for current period follows the composite service agreements entered into by the Group and CTMC on 18 August 2004.

iii) Exchange of equity interest in Hongda Investment Co. Ltd (“Hongda Investment”) with Jintu Information Technology Co. Ltd (“Jintu”)

The Company signed the Equity Transfer Agreements with the holding company in December 2003, and January 2004 respectively. Pursuant to the agreements, the Company disposed 58.92% equity investment in Jintu Information Technology Company Limited to the holding company at the consideration of RMB24,866,602. At the same time, pursuant to the above agreements, the holding company transferred 16.40% equity interest in Hongda Investment Company Limited to the Company.

Notes to the Accounts
(Prepared in accordance with the PRC GAAP)
(All amounts in RMB Yuan unless otherwise stated)

V. CHANGES IN MAJOR ACCOUNTING ITEMS

(Unit: RMB'000)

| Indicator | As at 30th June 2005 | As at 31st December 2004 | Increase/ (decrease) changes + / (-) | Increase/ (decrease) changes (%) |
|--|-------------------------|-----------------------------|---|---|
| Accounts receivable | 522,033 | 445,202 | 76,831 | 17.26 |
| Other receivable | 222,335 | 129,551 | 92,784 | 41.62 |
| Advance to suppliers | 306,693 | 260,821 | 45,872 | 15.29 |
| Long-term equity investment | 316,958 | 379,982 | (63,024) | (19.89) |
| Notes payable | 342,798 | 252,277 | 90,521 | 26.18 |
| Accrued expenses | 24,909 | 14,117 | 10,792 | 43.49 |
| Current portion of long term liabilities | 20,000 | 12,800 | 7,200 | 36.00 |
| Long term loans | 0 | 40,000 | (40,000) | (100.00) |
| Surplus reserves | 403,440 | 303,440 | 100,000 | 24.79 |
| Shareholders' equity | 2,595,816 | 2,551,527 | 44,289 | 1.74 |
| Total assets | 5,261,899 | 5,133,568 | 128,331 | 2.50 |

| Indicator | For the six months ended 30th June 2005 | For the six months ended 30th June 2004 | Increase/ (decrease) changes + / (-) | Increase/ (decrease) changes (%) |
|------------------------------|--|--|---|---|
| Profit from main operations | 304,585 | 324,520 | (19,935) | (6.14) |
| Profit from other operations | 31,875 | 25,240 | 6,635 | 26.29 |
| Finance expense | 4,119 | 9,669 | (5,550) | (57.40) |
| Investment income | 2,011 | 5,638 | (3,627) | (64.33) |
| Income taxes | 12,896 | 14,990 | (2,094) | (13.97) |
| Net profit | 74,479 | 80,200 | (5,721) | (7.13) |

Reasons for changes:

1. The increase in accounts receivable is mainly attributable to the guaranteed amount for large customers in sales contracts not yet recovered and the late payments from foreign trade companies.
2. The increase in other receivable is mainly attributable to the rise of the current receivables.
3. The increase of advances to suppliers is mainly attributable to the prepayment to suppliers in advance for purchasing fundamental raw material such as steel.
4. The decrease in long-term equity investment is mainly due to the recovery of partial investment in a long-term equity interest.
5. The increase in notes payable is mainly attributable to the greater application of banker's draft in operation.
6. The increase in accrued expenses is mainly attributable to the provision of the intermediary expenses on proportion and the increased repairs of the roads in the plant areas.
7. The increase in surplus reserve is attributable to the provision for a discretionary surplus reserve of RMB 100,000,000 in accordance with a resolution passed at the general meeting.
8. The decrease in profit from main operations is mainly attributable to the decrease in earnings due to the decrease in turnover from main operations.
9. The increase in profit from other operations is mainly due to the increase of profit from non-textile machinery trading business, particularly the increase of material selling and processing.
10. The decrease in finance expenses is mainly due to the fall of interest expenses as a result of the reduction in short-term borrowings.
11. The decrease in investment income is mainly due to the provision for the depreciation of an investment.

VI. PROFIT DISTRIBUTION

The Company has not resolved to recommend the payment of interim dividend and no surplus reserves would be capitalised.

VII. OTHER SIGNIFICANT EVENTS

The Company does not have any significant transactions or events such as transfer or disposal of assets and significant debt restructurings. There is no issuances, repurchases, and payment of debt and equity securities during the reporting period.

VIII. CONTINGENT LIABILITIES

| | 30th June 2005 | 31st December 2004 |
|--|-----------------------|---------------------------|
| Discounted commercial bills | 274,793,050 | 212,000,000 |
| Guarantees for bank loans of third party | <u>240,000,000</u> | <u>240,000,000</u> |
| | <u>514,793,050</u> | <u>452,000,000</u> |

IX. CAPITAL COMMITMENTS

| | As at 30th June 2005 | As at 31st December 2004 |
|---|---------------------------------|-------------------------------------|
| Contracted but not provided for | | |
| Construction in progress and equipment | 3,783,000 | 11,364,000 |
| Investment in a joint controlled entity | 37,500,000 | – |
| Investment in an associated company | <u>11,294,000</u> | <u>–</u> |
| Authorised but not contracted for | | |
| Construction in progress and equipment | <u>18,217,000</u> | <u>14,227,000</u> |

Chapter VII Condensed Interim Financial Statements Prepared in Accordance with Hong Kong Financial Reporting Standard (Unaudited)

Condensed Consolidated Profit and Loss Account (Prepared in Accordance with HKFRS)

For the six months ended 30th June 2005

| | Note | Unaudited Six months ended 30th June | |
|--|------|--|------------------------------|
| | | 2005 RMB '000 | 2004 Restated RMB '000 |
| Turnover | 4 | 1,761,606 | 1,950,991 |
| Cost of sales | | (1,452,112) | (1,619,536) |
| Gross profit | | 309,494 | 331,455 |
| Other revenues | 4 | 41,929 | 37,196 |
| Distribution expenses | | (53,025) | (54,280) |
| Administrative expenses | | (198,557) | (199,673) |
| Operating profit | 5 | 99,841 | 114,698 |
| Finance cost | 6 | (8,509) | (16,783) |
| Share of profits less losses of associated companies | | (1,046) | (498) |
| Profit before taxation | | 90,286 | 97,417 |
| Taxation | 7 | (12,263) | (13,408) |
| Profit for the period | | <u>78,023</u> | <u>84,009</u> |
| Attributable to: | | | |
| Equity holders of the Company | | 75,344 | 78,371 |
| Minority interest | | 2,679 | 5,638 |
| | | <u>78,023</u> | <u>84,009</u> |
| Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in RMB per share) | 8 | | |
| – basic | | 0.12 | 0.13 |
| – diluted | | <u>N/A</u> | <u>N/A</u> |
| Dividends | 9 | <u>–</u> | <u>–</u> |

Condensed Consolidated Balance Sheet
(Prepared in Accordance with HKFRS)

As at 30th June 2005 and 31st December 2004

| | <i>Note</i> | Unaudited As at 30th June 2005 | Audited As at 31st December 2004 <i>As restated</i> |
|---|-------------|---|---|
| | | <i>RMB '000</i> | <i>RMB '000</i> |
| ASSETS | | | |
| Non-current assets | | | |
| Intangible assets | 10 | 15,566 | 7,185 |
| Property, plant and equipment | 10 | 1,032,693 | 1,047,507 |
| Land use rights | 10 | 141,999 | 143,824 |
| Investments in associates companies | | 119,673 | 107,173 |
| Available-for-sale financial assets | 11 | 28,921 | – |
| Investment securities | | – | 272,493 |
| Deferred tax assets | | 23,717 | 24,303 |
| | | <u>1,362,569</u> | <u>1,602,485</u> |
| Current assets | | | |
| Inventories | | 1,303,485 | 1,299,968 |
| Available-for-sale financial assets | 11 | 167,933 | – |
| Trade and bills receivables | 12 | 941,944 | 729,821 |
| Prepayment to suppliers | | 293,523 | 198,308 |
| Amounts due from fellow subsidiaries | 16 | 96,036 | 212,541 |
| Deposits, other receivables and prepayment | | 195,456 | 88,729 |
| Short-term investments | | – | 8,526 |
| Other financial assets at fair value through profit or loss | 14 | 8,822 | – |
| Cash and cash equivalents | | 905,669 | 995,649 |
| | | <u>3,912,868</u> | <u>3,533,542</u> |
| Total assets | | <u><u>5,275,437</u></u> | <u><u>5,136,027</u></u> |
| EQUITY | | | |
| Capital and reserves attributable to the Company's equity holders | | | |
| Share capital | 17 | 603,800 | 603,800 |
| Other Reserves | 18 | 1,653,346 | 1,553,345 |
| Retained earnings | | | |
| – Proposed final dividend | | – | 30,190 |
| – Others | | 358,902 | 383,558 |
| | | <u>2,616,048</u> | <u>2,570,893</u> |
| Minority interest | | <u>149,596</u> | <u>146,917</u> |
| Total equity | | <u><u>2,765,644</u></u> | <u><u>2,717,810</u></u> |



Condensed Consolidated Balance Sheet (Continued)
(Prepared in Accordance with HKFRS)

As at 30th June 2005 and 31st December 2004

| | <i>Note</i> | Unaudited As at 30th June 2005 | Audited As at 31st December 2004 <i>As restated</i> |
|---------------------------------------|-------------|---|---|
| | | <i>RMB '000</i> | <i>RMB '000</i> |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Bank Borrowings | 15 | – | 40,000 |
| Deferred income tax liabilities | | – | 1,219 |
| | | <u>–</u> | <u>41,219</u> |
| Current liabilities | | | |
| Trade and bills payables | 13 | 815,229 | 729,623 |
| Current income tax liabilities | | 31,786 | 33,661 |
| Bank Borrowings | | 535,863 | 581,552 |
| Advances from customers | | 669,866 | 619,506 |
| Amount due to fellow subsidiaries | 16 | 96,341 | 107,178 |
| Amount due to holding company | 16 | 17,435 | 10,252 |
| Other payables and accruals | | 332,273 | 295,226 |
| Dividend payable | | 11,000 | – |
| | | <u>2,509,793</u> | <u>2,376,998</u> |
| Total liabilities | | <u>2,509,793</u> | <u>2,418,217</u> |
| Total equity and liabilities | | <u>5,275,437</u> | <u>5,136,027</u> |
| Net current assets | | <u>1,403,075</u> | <u>1,156,544</u> |
| Total assets less current liabilities | | <u>2,765,644</u> | <u>2,759,029</u> |

Condensed Consolidated Statement of Changes in Equity
(Prepared in Accordance with HKFRS)

For the six months ended 30th June 2005

| | Unaudited | | | | Total RMB '000 |
|---|--|-------------------------------|----------------------------------|----------------------------------|-------------------|
| | Attributable to equity holders of the Company | | | Minority Interest RMB '000 | |
| | Share capital RMB '000 | Other reserves RMB '000 | Retained earnings RMB '000 | | |
| Balance at 1st January 2004 , as previously reported as equity | 603,800 | 1,501,859 | 357,391 | – | 2,463,050 |
| Balance at 1st January 2004 , as previously separately reported as minority interest | – | – | – | 142,826 | 142,826 |
| Balance at 1st January 2004 , as restated | 603,800 | 1,501,859 | 357,391 | 142,826 | 2,605,876 |
| Profit for the period | – | – | 78,371 | 5,638 | 84,009 |
| Acquisition of Minority interest | – | – | – | (2,710) | (2,710) |
| Dividend relating to 2003 | – | – | (43,474) | (588) | (44,062) |
| Balance at 30th June 2004 | <u>603,800</u> | <u>1,501,859</u> | <u>392,288</u> | <u>145,166</u> | <u>2,643,113</u> |
| Balance at 1st January 2005 , as previously reported as equity | 603,800 | 1,553,345 | 413,748 | – | 2,570,893 |
| Balance at 1st January 2005 , as previously separately reported as minority interest | – | – | – | 146,917 | 146,917 |
| Balance at 1st January 2005 , as restated | 603,800 | 1,553,345 | 413,748 | 146,917 | 2,717,810 |
| Exchange differences arising on translation of the accounts of a foreign subsidiary | – | 1 | – | – | 1 |
| Net income recognised directly in equity | – | 1 | – | – | 1 |
| Profit for the period | – | – | 75,344 | 2,679 | 78,023 |
| Transfer from retain earnings | – | 100,000 | (100,000) | – | – |
| Dividend relating to 2004 | – | – | (30,190) | – | (30,190) |
| Balance at 30th June 2005 | <u>603,800</u> | <u>1,653,346</u> | <u>358,902</u> | <u>149,596</u> | <u>2,765,644</u> |

Condensed Consolidated Cash Flow Statement
(Prepared in Accordance with HKFRS)

For the six months ended 30th June 2005

| | Unaudited | |
|--|-------------------------|-----------------------|
| | Six months ended | |
| | 30th June | |
| | 2005 | 2004 |
| | <i>RMB '000</i> | <i>RMB '000</i> |
| Net cash used in operating activities | (464) | (160,358) |
| Net cash from/(used in) investing activities | 33,304 | (89,274) |
| Net cash (used in)/from financing activities | <u>(116,190)</u> | <u>283,292</u> |
| Net (decrease)/increase in cash and cash equivalents | (83,350) | 33,660 |
| Cash and cash equivalents at 1st January | <u>983,019</u> | <u>843,206</u> |
| Cash and cash equivalents at 30th June | <u><u>899,669</u></u> | <u><u>876,866</u></u> |
| Analysis of balances of cash and cash equivalents: | | |
| Cash at bank and in hand | 905,669 | 894,866 |
| Time deposits with maturity more than three months | <u>(6,000)</u> | <u>(18,000)</u> |
| | <u><u>899,669</u></u> | <u><u>876,866</u></u> |

Notes to the Unaudited Condensed Interim Financial Statements
(Prepared in Accordance with HKFRS)

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This unaudited condensed consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

This condensed consolidated financial information should be read in conjunction with the 2004 annual financial statements.

The accounting policies and methods of computation used in the preparation of this condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31 December 2004 except that the Group has changed certain of its accounting policies following its adoption of new/ revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“HKFRS”) which are effective for accounting periods commencing on or after 1 January 2005.

The changes to the Group’s accounting policies and the effect of adopting these new policies are set out in note 2 below.

2. CHANGES IN ACCOUNTING POLICIES

(a) Effect of adopting HKFRS

In 2005, the Group adopted the new/revised standards of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

| | |
|-------------|---|
| HKAS 1 | Presentation of Financial Statements |
| HKAS 2 | Inventories |
| HKAS 7 | Cash Flow Statements |
| HKAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors |
| HKAS 10 | Events after the Balance Sheet Date |
| HKAS 16 | Property, Plant and Equipment |
| HKAS 17 | Leases |
| HKAS 21 | The Effects of Changes in Foreign Exchange Rates |
| HKAS 23 | Borrowing Costs |
| HKAS 24 | Related Party Disclosures |
| HKAS 27 | Consolidated and Separate Financial Statements |
| HKAS 28 | Investments in Associates |
| HKAS 31 | Investments in Joint Ventures |
| HKAS 32 | Financial Instruments: Disclosures and Presentation |
| HKAS 33 | Earnings per Share |
| HKAS 36 | Impairment of Assets |
| HKAS 38 | Intangible Assets |
| HKAS 39 | Financial Instruments: Recognition and Measurement |
| HKAS Int 15 | Operating Leases – Incentives |
| HKFRS 3 | Business Combinations |

Notes to the Unaudited Condensed Interim Financial Statements
(Prepared in Accordance with HKFRS)

2. CHANGES IN ACCOUNTING POLICIES (Continued)

(a) Effect of adopting HKFRS (Continued)

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28, 31, 33, 36 HKAS-Ints 15 and HKFRSs 3 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interest, share of profit less loss of associates and other disclosures.
- HKASs 2, 7, 8, 10, 16, 23, 27, 28, 31, 33, 36 HKAS-Ints 15 and HKFRSs 3 had no material effect on the Group's policies.
- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land was accounted for at cost less accumulated depreciation and accumulated impairment.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

- HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investments in securities" to investments in securities and also to hedge relationships for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 January 2005.

Notes to the Unaudited Condensed Interim Financial Statements
(Prepared in Accordance with HKFRS)

2. CHANGES IN ACCOUNTING POLICIES (Continued)

(b) New Accounting Policies

The accounting policies used for the condensed consolidated financial information for the six months ended 30 June 2005 are the same as those set out in note I to the 2004 annual financial statements except for the following:

2.1 Acquisition of subsidiaries and associates

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

An investment in an associate is accounted for using the equity method from the date on which it becomes an associate. On acquisition of the investment, the measurement and recognition of goodwill is same as that of goodwill arising from the acquisition of subsidiaries. Goodwill relating to an associate is included in the carrying amount of the investment. Appropriate adjustments to the investor's share of the profits or losses after acquisition are made to account based on their fair values at the date of acquisition.

2.2 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

Notes to the Unaudited Condensed Interim Financial Statements
(Prepared in Accordance with HKFRS)

2. CHANGES IN ACCOUNTING POLICIES (Continued)

(b) New Accounting Policies (Continued)

2.3 Property, plant and equipment

The residual values of assets and their useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

2.4 Impairment of assets

Assets that have an indefinite useful life are not subject to amortization, which are at least tested annually for impairment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.5 Investments

From 1 January 2004 to 31 December 2004:

The Group classified its investments in securities, other than subsidiaries, associates, as investment securities and short-term investments.

(a) Investment securities

Investment securities are held for the long-term and are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amount. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account.

This impairment loss is written back to profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist in the foreseeable future.

(b) Short-term investment

Short-term investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of short-term investments are recognised in the profit and loss account. Profits or losses on disposal of short-term investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

From 1 January 2005 onwards:

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date.

Notes to the Unaudited Condensed Interim Financial Statements
(Prepared in Accordance with HKFRS)

2. CHANGES IN ACCOUNTING POLICIES (Continued)

(b) New Accounting Policies (Continued)

2.5 Investments (continued)

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Realized and unrealized gains and losses arising from changes in the fair value of the ‘financial assets at fair value through profit or loss’ category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer’s specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

2.6 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

2.7 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Notes to the Unaudited Condensed Interim Financial Statements
(Prepared in Accordance with HKFRS)

2. CHANGES IN ACCOUNTING POLICIES (Continued)

(b) New Accounting Policies (Continued)

2.8 Comparatives

The Group previously disclosed interest and dividend income within 'finance cost-net'. Management believes that their inclusion in 'other gains/(losses)-net' is a fairer representation of the Group's activities

3. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settles in RMB and did not have significant exposure to foreign exchange risk during the period. As at 30th June 2005, cash and bank balances of approximately RMB38,900,000 were mainly comprised in Hong Kong Dollars. The conversion of Renminbi into foreign currencies is subject to the rules and regulation of the foreign exchange control promulgated by the PRC government.

(ii) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet either as available-for-sale financial assets or as financial assets at fair value through profit or loss. The Group is not exposed to commodity price risk.

(b) Credit risk

The Group has no significant concentrations of credit risk. The carrying amount of the trade receivables included in the balance sheets represents the Group's maximum exposure to credit risk in relation to its financial assets. The Group has policy in place to ensure that sales of products and services are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the directors are of the opinion that adequate provision for uncollectible trade and other receivables has been made in the profit and loss accounts.

(c) Liquidity risk

The Group ensure that it maintains sufficient cash, which is available to meet its liquidity requirements.

Notes to the Unaudited Condensed Interim Financial Statements
(Prepared in Accordance with HKFRS)

4. TURNOVER, REVENUE AND SEGMENT INFORMATION

Turnover represents the value of goods sold, net of output value added tax (“VAT”). VAT was assessed on the Group’s sales at the statutory rate of 17% (2004: 17%) less deductible input VAT.

The Group is principally engaged in the manufacture and sale of textile machinery. Revenues recognised during the period are as follows:

| | Six months ended 30th June | |
|----------------------------------|-----------------------------------|-------------------------|
| | 2005 | 2004 |
| | <i>RMB '000</i> | <i>RMB '000</i> |
| Turnover | | |
| Sale of goods | <u>1,761,606</u> | <u>1,950,991</u> |
| Other revenues | | |
| Sale of raw materials and others | 35,731 | 26,639 |
| Interest Income | 5,053 | 7,884 |
| Investment income | <u>1,145</u> | <u>2,673</u> |
| | <u>41,929</u> | <u>37,196</u> |
| Total revenues | <u><u>1,803,535</u></u> | <u><u>1,988,187</u></u> |

Primary reporting format – business segments

No analysis on business segments for the six months ended 30th June 2005 and 2004 is presented as the Group engaged only in the manufacture and sale of textile machinery during this period.

Secondary reporting format – geographical segment

| | Turnover | | Segment results | | Capital expenditure | | Total Assets | |
|-------------------------------------|----------------------------|-------------------------|----------------------|-----------------------|----------------------------|----------------------|-------------------------|-------------------------|
| | Six months ended 30th June | | As restated | | Six months ended 30th June | | As at 30th | As at 31st |
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | June 2005 | December 2004 |
| | <i>RMB '000</i> | <i>RMB '000</i> | <i>RMB '000</i> | <i>RMB '000</i> | <i>RMB '000</i> | <i>RMB '000</i> | <i>RMB '000</i> | <i>RMB '000</i> |
| PRC | 1,560,600 | 1,844,845 | 71,718 | 109,249 | 49,131 | 57,855 | 5,077,420 | 4,957,389 |
| Other countries | <u>201,006</u> | <u>106,146</u> | 26,978 | 2,776 | – | – | 78,344 | 71,465 |
| | <u><u>1,761,606</u></u> | <u><u>1,950,991</u></u> | 98,696 | 112,025 | <u><u>49,131</u></u> | <u><u>57,855</u></u> | 5,155,764 | 5,028,854 |
| Investment income | | | <u>1,145</u> | <u>2,673</u> | | | | |
| Operating profit | | | <u><u>99,841</u></u> | <u><u>114,698</u></u> | | | | |
| Investments in associated companies | | | | | | | <u>119,673</u> | <u>107,173</u> |
| Total assets | | | | | | | <u><u>5,275,437</u></u> | <u><u>5,136,027</u></u> |



Notes to the Unaudited Condensed Interim Financial Statements
(Prepared in Accordance with HKFRS)

5. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

| | Six months ended 30th June | |
|---|-----------------------------------|------------------|
| | 2005 | 2004 |
| | <i>RMB '000</i> | <i>RMB '000</i> |
| Crediting | | |
| Gain on disposal of fixed assets | 450 | 569 |
| Reversal of provision for fixed assets | <u>265</u> | <u>–</u> |
| Charging | | |
| Amortisation of intangible assets <i>(Note 10)</i> | 1,114 | 623 |
| Depreciation <i>(Note 10)</i> | 49,707 | 41,863 |
| Amortisation of land use right <i>(Note 10)</i> | 1,825 | 1,559 |
| Provision for doubtful debts | 5,528 | – |
| Staff costs, including directors' and supervisors' emoluments | 191,931 | 194,403 |
| Provision for inventories | 1,689 | – |
| Provision for available-for-sale financial assets | 3,500 | – |
| Cost of inventories sold | <u>1,452,112</u> | <u>1,619,536</u> |

6. FINANCE COST

| | Six months ended 30th June | |
|--------------------------|-----------------------------------|---------------------------------|
| | 2005 | 2004 |
| | <i>RMB '000</i> | <i>As restated RMB '000</i> |
| Interest expense | 8,630 | 16,667 |
| Net exchange (gain)/loss | <u>(121)</u> | <u>116</u> |
| Finance cost | <u>8,509</u> | <u>16,783</u> |

Notes to the Unaudited Condensed Interim Financial Statements
(Prepared in Accordance with HKFRS)

7. TAXATION

Hong Kong profits tax has not been provided as the Group had no taxable profits in Hong Kong for the period (2004: Nil). The Company and its subsidiaries are subject to PRC enterprise income tax on their assessable profits.

| | Six months ended 30th June 2005 | 2004 |
|--------------------------|--|--------------------------------|
| | <i>RMB '000</i> | As restated <i>RMB '000</i> |
| Company and subsidiaries | | |
| – PRC taxation | 12,896 | 14,990 |
| Deferred taxation | (633) | (1,582) |
| | <u>12,263</u> | <u>13,408</u> |

In accordance with an approval document issued by the State Administration of Taxation of Beijing on 19th January 2004, enterprise income tax rate of 15% (2004: 15%) is applicable to the Company during 2005. The enterprise income tax rates of the Company's subsidiaries range from 15% to 33% (2004: 15% to 33%). One of the Company's subsidiaries is subject to a preferential tax rate of 15% and enjoys half tax exemption from 2003 to 2005. Another subsidiary is subject to a preferential tax rate of 15%, enjoys full tax exemption from 2004 to 2005 and half tax exemption from 2006 to 2008. In addition, six other subsidiaries of the Company are subject to a preferential tax rate of 15% in 2005(2004: 15%).

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to the shareholders of RMB75,344,000 (2004: RMB78,371,000) and 603,800,000 (2004: 603,800,000) shares in issue during the period.

No diluted earnings per share is presented as the Company does not have any dilutive potential shares as at 30th June 2005 (2004: Nil).

9. DIVIDENDS

- (a) No dividend was proposed by the Company for the six months ended 30th June 2005 (2004: Nil).
- (b) Pursuant to a meeting of the Board of Directors held on 29th March 2005, the directors have proposed a final dividend of RMB0.05 per share for all state-owned legal person, A and H shares. Such dividend is not reflected as dividend payable as at 31st December 2004, but has been reflected as an appropriation of retained profits for the six months ended 30th June 2005.

10. CAPITAL EXPENDITURE

| | Patents and trademarks | Software | Total intangible assets | Fixed assets | Land use rights |
|---|-----------------------------------|-----------------|--|-------------------------|----------------------------|
| | <i>RMB '000</i> | <i>RMB '000</i> | <i>RMB '000</i> | <i>RMB '000</i> | <i>RMB '000</i> |
| Opening net book amount as at | | | | | |
| 1st January 2005 | 125 | 7,060 | 7,185 | 1,047,507 | 143,824 |
| Additions | 7,433 | 2,063 | 9,495 | 39,635 | – |
| Disposals | – | – | – | (4,742) | – |
| Amortisation/depreciation charge (Note 5) | (288) | (827) | (1,114) | (49,707) | (1,825) |
| Closing net book amount as at 30th June 2005 | <u>7,270</u> | <u>8,296</u> | <u>15,566</u> | <u>1,032,693</u> | <u>141,999</u> |

Notes to the Unaudited Condensed Interim Financial Statements
(Prepared in Accordance with HKFRS)

10. CAPITAL EXPENDITURE (Continued)

| | Patents and trademarks <i>RMB'000</i> | Software <i>RMB'000</i> | Total intangible assets <i>RMB'000</i> | Fixed assets <i>RMB'000</i> | Land use rights <i>RMB'000</i> |
|--|---|-----------------------------------|--|---|--|
| Opening net book amount as at 1st January 2004 | 326 | 6,378 | 6,704 | 983,698 | 134,733 |
| Additions | – | 1,265 | 1,265 | 44,343 | 12,248 |
| Disposals | – | – | – | (2,307) | – |
| Write-off | – | – | – | (320) | – |
| Amortisation/depreciation charge (<i>Note 5</i>) | (52) | (571) | (623) | (41,863) | (1,559) |
| Closing net book amount as at 30th June 2004 | 274 | 7,072 | 7,346 | 983,551 | 145,422 |
| Additions | – | 705 | 705 | 124,377 | – |
| Disposals | – | – | – | (3,126) | – |
| Amortisation/depreciation charge (<i>Note 5</i>) | (149) | (717) | (866) | (57,295) | (1,598) |
| Closing net book amount as at 31st December 2004 | <u>125</u> | <u>7,060</u> | <u>7,185</u> | <u>1,047,507</u> | <u>143,824</u> |

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | Unlisted securities <i>RMB'000</i> |
|------------------------|--|
| As at 1st January 2005 | 272,493 |
| Disposal | (71,639) |
| Provision | (4,000) |
| As at 30th June 2005 | 196,854 |
| Less: current portion | (167,933) |
| Non-current portion | <u>28,921</u> |

The Group assessed at balance sheet date where the financial assets is impaired. Impairment losses was recognised in the income statement of RMB4,000,000 with the difference between the recoverable amount and carrying amount

Notes to the Unaudited Condensed Interim Financial Statements
(Prepared in Accordance with HKFRS)

12. TRADE AND BILLS RECEIVABLES

| | As at 30th June 2005 | As at 31st December 2004 |
|-----------------------------|---------------------------------|-------------------------------------|
| | <i>RMB '000</i> | <i>RMB '000</i> |
| Trade and bills receivables | 1,101,665 | 883,913 |
| Less: Provision | <u>(159,721)</u> | <u>(154,092)</u> |
| | <u>941,944</u> | <u>729,821</u> |

The aging analysis of the gross trade and bills receivables is as follows:

| | As at 30th June 2005 | As at 31st December 2004 |
|------------------|---------------------------------|-------------------------------------|
| | <i>RMB '000</i> | <i>RMB '000</i> |
| Less than 1 year | 860,723 | 647,747 |
| 1-2 years | 65,597 | 81,172 |
| 2-3 years | 52,920 | 39,117 |
| Over 3 years | <u>122,425</u> | <u>115,877</u> |
| Total | <u>1,101,665</u> | <u>883,913</u> |

The Group requires advance deposit from customers. Settlement is normally due on presentation of sales invoices.

13. TRADE AND BILLS PAYABLES

The aging analysis of trade and bills payables were as follows:

| | As at 30th June 2005 | As at 31st December 2004 |
|------------------|---------------------------------|-------------------------------------|
| | <i>RMB '000</i> | <i>RMB '000</i> |
| Less than 1 year | 759,751 | 692,949 |
| 1-2 years | 29,875 | 16,350 |
| 2-3 years | 9,752 | 4,095 |
| Over 3 years | <u>15,851</u> | <u>16,229</u> |
| Total | <u>815,229</u> | <u>729,623</u> |

14. OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | As at 30th June 2005 |
|-----------------------------------|-----------------------------|
| | <i>RMB '000</i> |
| Listed securities: | |
| – Open Investment Fund – PRC | <u>8,822</u> |
| Market value of listed securities | <u>8,822</u> |

Notes to the Unaudited Condensed Interim Financial Statements
(Prepared in Accordance with HKFRS)

15 BORROWINGS

| | As at 30th June 2005 | As at 31st December 2004 |
|---|---------------------------------|-------------------------------------|
| | <i>RMB '000</i> | <i>RMB '000</i> |
| Non-Current | | |
| Bank borrowings | — | 40,000 |
| | <u>—</u> | <u>40,000</u> |
| Current | | |
| Short term bank borrowings | 515,863 | 568,752 |
| Current portion of long term borrowings (<i>Note</i>) | 20,000 | 12,800 |
| | <u>535,863</u> | <u>581,552</u> |
| Total Borrowings | <u><u>535,863</u></u> | <u><u>621,552</u></u> |

At 30th June 2005, the group's bank loans were repayable as follows:

| | As at 30th June 2005 | As at 31st December 2004 |
|----------------------------|---------------------------------|-------------------------------------|
| | <i>RMB '000</i> | <i>RMB '000</i> |
| Within one year | 535,863 | 581,552 |
| In the second year | — | 20,000 |
| In the third to fifth year | — | 20,000 |
| | <u><u>535,863</u></u> | <u><u>621,552</u></u> |

Note: Included in the unsecured current portion of long term bank borrowings above was a loan of RMB 20,000,000 as at 30th June 2005 which was guaranteed by Jingwei Machinery (Group) Company Limited with an aggregate amount of facility of RMB 70,000,000 (note 21).

16. AMOUNT DUE FROM/TO HOLDING COMPANY, FELLOW SUBSIDIARIES

The amounts with the holding company are unsecured, interest free and have no fixed terms of repayment.

The amounts with fellow subsidiaries are unsecured, except for deposits of RMB7,540,000 (2004: RMB7,540,000) placed with China Textile Machinery Group Finance Company ("CTMGFC") carries interest at a rate of 1.98% (2004: 1.98%) per annum and are repayable within one year, all other balance with fellow subsidiaries are interest free and have no fixed terms of repayment.

17. SHARE CAPITAL

| | No. of shares | RMB '000 |
|---|---------------------------|-----------------------|
| Registered, issued, and fully paid | | |
| State-owned legal person shares of RMB1.00 each | 220,000,000 | 220,000 |
| H shares of RMB1.00 each | 180,800,000 | 180,800 |
| A shares of RMB1.00 each | <u>203,000,000</u> | <u>203,000</u> |
| At 30th June 2005 and 31st December 2004 | <u><u>603,800,000</u></u> | <u><u>603,800</u></u> |

Notes to the Unaudited Condensed Interim Financial Statements
(Prepared in Accordance with HKFRS)

18. OTHER RESERVES

| | Capital reserve <i>RMB'000</i> | Statutory surplus reserve <i>RMB'000</i> | Statutory public welfare fund <i>RMB'000</i> | Discretionary surplus reserve <i>RMB'000</i> | Exchange difference <i>RMB'000</i> | Total <i>RMB'000</i> |
|---|--|--|--|--|--|--------------------------------|
| Balance at 1st January 2004 and 30th June 2004 | 1,249,865 | 112,093 | 112,093 | 27,764 | 44 | 1,501,859 |
| Transfer from profit and loss account | – | 25,745 | 25,745 | – | – | 51,490 |
| Exchange difference | – | – | – | – | (4) | (4) |
| Balance at 31st December 2004 | 1,249,865 | 137,838 | 137,838 | 27,764 | 40 | 1,553,345 |
| Balance at 1st January 2005 | 1,249,865 | 137,838 | 137,838 | 27,764 | 40 | 1,553,345 |
| Exchange difference | – | – | – | – | 1 | 1 |
| Transfer from retain earnings | – | – | – | 100,000 | – | 100,000 |
| Balance at 30th June 2005 | <u>1,249,865</u> | <u>137,838</u> | <u>137,838</u> | <u>127,764</u> | <u>41</u> | <u>1,653,346</u> |

19. CONTINGENT LIABILITIES

| | As at 30th June 2005 <i>RMB'000</i> | Group As at 31st December 2004 <i>RMB'000</i> |
|--|---|---|
| Discount of commercial bills | 274,793 | 212,000 |
| Guarantees for bank loans of third parties | 240,000 | 240,000 |
| | <u>514,793</u> | <u>452,000</u> |

20. CAPITAL COMMITMENTS

| | As at 30th June 2005 <i>RMB'000</i> | As at 31st December 2004 <i>RMB'000</i> |
|---|---|---|
| Contracted but not provided for | | |
| Construction in progress and equipment | 3,783 | 11,364 |
| Investment in a joint controlled entity | 37,500 | – |
| Investment in an associated company | 11,294 | – |
| | <u>52,577</u> | <u>11,364</u> |
| Authorised but not contracted for | | |
| Construction in progress and equipment | 18,217 | 14,227 |
| | <u>18,217</u> | <u>14,227</u> |

Notes to the Unaudited Condensed Interim Financial Statements
(Prepared in Accordance with HKFRS)

21. RELATED PARTIES TRANSACTIONS

The Company is controlled by China Textile Machinery (Group) Company Limited, which owns 36.44% equity interest of the Company, with the remaining held individually by other shareholders. China Textile Machinery (Group) Company Limited is therefore the controlling shareholder of the Company. The controlling shareholder also holds investments in various subsidiaries and associated companies. These subsidiaries and associated companies (“fellow subsidiaries”) sell goods and provide relevant services and leases to the Company and vice versa. Fellow subsidiaries, similar to the Company are also under the control of the controlling shareholder, and therefore constitute related parties of the Company. In accordance with the revised HKAS 24, “Related Party Disclosures”, state-owned enterprises and their subsidiaries (“Other state owned enterprise”), other than fellow subsidiaries, directly or indirectly controlled by the PRC government are also defined as related parties of the Company and its subsidiaries.

For the purpose of the related party transactions disclosure in accordance with HKAS 24, the Company and its subsidiaries have established procedures to determine, to the extent possible, the identification of the ownership structure of its customers and suppliers as to whether they are state-owned enterprises. However, many state-owned enterprises have a multi-layered corporate structure and the ownership structures change over time as a result of transfers and privatization programs. Nevertheless, management believes that all material related party balances and transactions have been adequately disclosed.

In addition to the related party information shown elsewhere in the unaudited condensed consolidated interim financial statements, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Company and its subsidiaries and their related parties during the period and balances arising from related party transactions at the end of the period.

1) The following is a summary of significant related party transactions

i) Sales of goods and services

| | Six months ended | |
|--|-------------------------|-----------------|
| | 30 June | |
| | 2005 | 2004 |
| | <i>RMB '000</i> | <i>RMB '000</i> |
| Sales of finished goods: | | |
| – Fellow subsidiaries | 97,621 | 18,211 |
| – Other state-owned enterprises | 194,497 | 183,730 |
| Sale of raw materials and components | | |
| – Fellow subsidiaries | 112,823 | 105,065 |
| – Other state-owned enterprises | 85,913 | – |
| Receive of processing fee | | |
| – Fellow subsidiaries | 63 | 106 |
| Provision of other supporting services expense | | |
| – Fellow subsidiaries | 2,792 | 2,905 |
| Rental income | | |
| – Fellow subsidiaries | 3,286 | 3,232 |
| Interest income | | |
| – Other state-owned enterprises | <u>417</u> | <u>395</u> |

Notes to the Unaudited Condensed Interim Financial Statements
(Prepared in Accordance with HKFRS)

21. RELATED PARTIES TRANSACTIONS (Continued)

1) The following is a summary of significant related party transactions (Continued)

ii) Purchases of goods and services

| | Six months ended 30 June | |
|--|-----------------------------|------------------|
| | 2005 RMB '000 | 2004 RMB '000 |
| Purchases of finished goods: | | |
| – Fellow subsidiaries | 186,236 | – |
| Purchases of raw material and components: | | |
| – Fellow subsidiaries | 63,514 | 267,882 |
| – Other state-owned enterprise | 226,284 | 113,613 |
| Purchase of tools model | | |
| – Fellow subsidiaries | 7,523 | 9,787 |
| – Other state-owned enterprise | 90 | 181 |
| Purchase of castings | | |
| – Fellow subsidiaries | 61,873 | 59,349 |
| Purchase of package | | |
| – Fellow subsidiaries | 4,967 | – |
| Purchase of energy | | |
| – Fellow subsidiaries | 2,144 | 9,174 |
| – Other state-owned enterprise | 454 | 541 |
| Processing fees paid | | |
| – Fellow subsidiaries | 35,928 | 13,505 |
| – Other state-owned enterprise | 1,456 | 918 |
| Fees paid for transportation services | | |
| – Fellow subsidiaries | 4,521 | 3,457 |
| – Other state-owned enterprise | – | 20 |
| Fees paid for repairs and maintenance services | | |
| – Fellow subsidiaries | 11,537 | 13,151 |
| – Other state-owned enterprise | 734 | 194 |
| Fees paid for other supporting services | | |
| – Fellow subsidiaries | 5,650 | 6,052 |
| Rental expense | | |
| – Fellow subsidiaries | 5,888 | 5,002 |
| Interest expense | | |
| – Other state-owned enterprise | <u>3,062</u> | <u>3,775</u> |

iii) Guaranteed debt

| | Six months ended 30 June | |
|---------------------------|-----------------------------|------------------|
| | 2005 RMB '000 | 2004 RMB '000 |
| Guaranteed debt received: | | |
| – Fellow subsidiaries | <u>70,000</u> | <u>338,000</u> |

iv) Loans

| | Six months ended 30 June | |
|--------------------------------|-----------------------------|------------------|
| | 2005 RMB '000 | 2004 RMB '000 |
| Unsecured loans received | | |
| – Other state-owned enterprise | <u>385,000</u> | <u>321,431</u> |



Notes to the Unaudited Condensed Interim Financial Statements
(Prepared in Accordance with HKFRS)

21. RELATED PARTIES TRANSACTIONS (Continued)

1) The following is a summary of significant related party transactions (Continued)

v) *Key management compensation*

| | Six months ended | |
|---|-------------------------|-----------------|
| | 30 June | |
| | 2005 | 2004 |
| | <i>RMB '000</i> | <i>RMB '000</i> |
| Salaries and other short-term employee benefits | 1033 | 1020 |
| Post-employment benefits | 30 | 29 |
| | <u>1063</u> | <u>1049</u> |

vi) The Company signed the Equity Transfer Agreements with the holding company in December 2003, and January 2004 respectively. Pursuant to the agreements, the Company disposed 58.92% equity investment in Jintu Information Technology Company Limited to the holding company at the consideration of RMB24,866,602. At the same time, pursuant to the above agreements, the holding company transferred 16.40% equity interest in Hongda Investment Company Limited to the Company.

2) Included in the unaudited condensed consolidated balance sheet, the balance with other state-owned enterprises are as follows:

| | Unaudited | Unaudited |
|--|------------------|----------------------|
| | As at | As at |
| | 30th June | 31st December |
| | 2005 | 2004 |
| | <i>RMB '000</i> | <i>RMB '000</i> |
| Current assets | | |
| Trade and bills receivables | 92,856 | 81,749 |
| Prepayment to suppliers | 33,812 | 50,798 |
| Deposits, other receivables and prepayment | 58,135 | 50,144 |
| Cash and cash equivalents | <u>148,150</u> | <u>172,513</u> |
| Non-current liabilities | | |
| Bank Borrowings | – | 40,000 |
| Current liabilities | | |
| Trade and bills payables | 45,371 | 22,113 |
| Bank Borrowings | 148,000 | 292,000 |
| Advances from customers | 20,557 | 40,620 |
| Other payables and accruals | <u>3,368</u> | <u>2,920</u> |

There was no guaranteed debt for other assets or liabilities except for the Cash & Bank and bank loan.



Chapter VIII Documents Available for Inspection

The following documents are available for inspection at the Secretariat to the Board of Directors of the Company:

1. the interim report for year 2005 duly signed by the Chairman of the Board of Directors;
2. the financial reports duly signed and sealed by the officer in charge of the Company, the officer in charge of the Company's accounting matter and the person in charge of accounting firm;
3. all documents which were publicly disclosed in the newspapers and magazines specified by the China Securities Regulatory Commission during the reporting period; and
4. Memorandum and Articles of Association of the Company.

Jingwei Textile Machinery Company Limited
Board of Directors
15th August 2005