经纬纺织机械股份有限公司
JINGWEI TEXTILE MACHINERY CO., LTD.

ANNUAL REPORT

2007

IMPORTANT NOTES

The Board of Directors, Supervisory Committee, Directors, Supervisors and senior management of Jingwei Textile Machinery Company Limited ("Company") undertake that there are no misrepresentation, misleading statement or material omission in this report and are jointly and severally liable for the authenticity, accuracy and completeness of the information contained in this annual report.

Mr. Zhang Jianguo and Ms. Li Hui, Directors who were on other business engagement, could not attend the sixth meeting of the fifth Board in person. Directors Mr. Yao Yuming and Mr. Yu Shiquan were appointed as their respective alternates to attend the meeting and exercise voting rights on their behalf in respect of the resolutions of the Board meeting respectively.

Deloitte Touche Tohmatsu CPA Limited (Certified Public Accountants registered in the People's Republic of China ("PRC")) and Deloitte Touche Tohmatsu (Certified Public Accountants registered in Hong Kong) have audited the financial statements of the Company, its subsidiaries and jointly controlled entities (the "Group") for the year ended 31st December 2007 in accordance with the PRC Corporate Accounting Standards and the Hong Kong Financial Reporting Standards and have given unqualified opinions on both financial statements.

Mr. Liu Haitao (Chairman), Mr. Ye Maoxin (General Vice Chairman), Mr. Yao Yuming (Managing Director) and Mr. Mao Faqing (Financial Controller and Head of Finance Department) hereby confirm that the financial report as disclosed in this annual report is accurate and complete.

The report is prepared in both Chinese and English. Except for the Accounts Prepared in Accordance with Hong Kong Financial Reporting Standards, if there is any discrepancy between the two versions, the Chinese version shall prevail.

Contents

Chapter I Company Profile

1.	Legal name of the Company	:	經緯紡織機械股份有限公司
	Name of the Company in English	:	Jingwei Textile Machinery Company Limited
	Abbreviation of Company's Chinese name	:	經緯紡織
	Abbreviation of Company's English name	:	JWTM
2.	Legal representative of the Company	:	Liu Haitao
3.	Company Secretary to the Board of Directors	:	Ye Xuehua
	Telephone	:	8610 84534078-8188
	E-mail address	:	yxh@jwgf.com
	Stock representative	:	Qiu Lin
	Telephone	:	8610 84534078-8501
	E-mail address	:	ql@jwgf.com
	Correspondence address	:	Room 701 First Shanghai Centre, 39 Liangmachiao Road, Chaoyang District, Beijing, the PRC
	Postal Code	:	100125
	Facsimile no.	:	8610 84534135
4.	Registered address of the Company	:	8 Yongchangzhong Road, Beijing Economic & Technological Development Zone, Beijing, the PRC
	Postal Code	:	100176
	Business address of the Company	:	Level 7, First Shanghai Centre, 39 Liangmaqiao Road, Chaoyang District, Beijing, the PRC
	Postal Code	:	100125
	Worldwide website	:	http://www.jwgf.com
	E-mail address	:	jwgf@jwgf.com
5.	Name of newspaper for the Company's information disclosure		
	PRC	:	Securities Times
	Hong Kong	:	Wen Wei Po (Chinese); The Standard (English)
	Website on which the Company's annual report is posted	:	http://www.cninfo.com.cn http://www.hkex.com.hk
	Place where the annual report is available	:	Secretariat of the Board
6.	Stock Exchanges on which shares of the Company are listed and stock codes		
	A Shares		
	Place of listing	:	Shenzhen Stock Exchange
	Stock abbreviation	:	Jingwei Textile
	Stock code	:	000666
	H Shares		
	Place of listing	:	The Stock Exchange of Hong Kong Limited
	Stock abbreviation	:	Jingwei Textile
	Stock code	:	0350
7.	Other relevant information of the Company		
	(1) Incorporation and registration		
	Date and place of incorporation of the Company	:	15th August 1995 at Taiyuan, Shanxi, the PRC
	Dates and places of changes to registration particulars	:	29th March 1996 at Taiyuan, Shanxi, the PRC 5th September 1996 at Taiyuan, Shanxi, the PRC 4th December 1996 at Taiyuan, Shanxi, the PRC 31st October 2000 at Taiyuan, Shanxi, the PRC 8th October 2003 at Beijing, the PRC
	Business licence registration number of enterprise legal person	:	110000450005710
	Tax registration certificate number	:	GSJZ110192110052522
	Organization code	:	11005252-2
	(2) Auditors		
	PRC	:	Deloitte Touche Tohmatsu CPA Limited 30/F Bund Center, 222 Yan Au Road East Shanghai, the PRC
	Hong Kong	:	Deloitte Touche Tohmatsu 35/F One Pacific Place 88 Queensway Hong Kong
	(3) Hong Kong legal advisers	:	Chiu & Partners 41st Floor, Jardine House 1 Connaught Place Central Hong Kong
	(4) Registrar and transfer office for H shares	:	Computershare Hong Kong Investor Services Limited Shops 1712-1716 17th Floor, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong

Chapter II Summary of Accounting and Business Data

Section I Key operating data for the year

1. Key operating data prepared in accordance with the PRC Corporate Accounting Standards

	2007 *RMB*
Operating profit	187,043,572.92
Total profit	202,119,727.22
Net profit attributable to Shareholders of the Company	162,206,513.23
Net profit attributable to Shareholders of the Company after extraordinary gains/losses	116,796,229.01
Net cash flow from operating activities	122,924,903.07

2. Breakdown of extraordinary items

	2007 *RMB*
Gains/losses on disposal of non-current assets	16,040,942.09
Government subsidies	11,875,298.18
Gain from entrusted loans	9,535,514.30
Other non-operating net income/expenses excluding the above	3,011,626.36
Other extraordinary gains/losses	17,956,881.98
Effects of income tax on extraordinary gains/losses	(13,009,978.69)
Total	45,410,284.22

3. Items measured by fair value

Unit: RMB

Item	Outstanding amount at period start	Outstanding amount at period end	Changes during the period	Amount recorded as being impact on profit for the period
Trading financial assets	8,885,556.39	4,945,000.00	87,969,379.47	63,377,856.97
Total	8,885,556.39	4,945,000.00	87,969,379.47	63,377,856.97

The above items measured by fair value are the fair value at period end of public shares successfully applied for and allotted under the initial public offerings for new shares conducted by the Company. There are no material restrictions on the disposal and realisation of the investment. Amount recorded as being impact on profit for the period was gain from equity investment for the year.

Section II Key accounting data and financial indicators prepared in accordance with PRC Corporate Accounting Standards for the three years immediately preceding the end of reporting period

1. Key accounting data

Unit: RMB

	2007	2006 Before adjustment	2006 After adjustment	Increase/decrease over previous year (after adjustment) %	2005 Before adjustment	2005 After adjustment
Operating Income	5,432,661,954.93	5,583,730,874	5,581,692,194.65	-2.67%	5,037,558,101	5,037,558,101
Total profit	202,119,727.22	223,806,562	230,540,539.43	-12.33%	172,122,180	177,549,474
Net profit attributable to Shareholders of the Company	162,206,513.23	200,885,027	189,095,795.64	-14.22%	144,730,884	151,971,836
Net profit attributable to Shareholders of the Company after extraordinary gains/losses	116,796,229.01	138,046,436	180,369,379.63	-35.25%	127,628,983	134,869,205
Net cash flow generated by operating activities	122,924,903.07	131,321,490	129,641,000.76	-5.18%	286,723,405	286,723,405

	End of 2007	End of 2006 Before adjustment	End of 2006 After adjustment	% Increase/decrease of current year-end over previous year-end (after adjustment)	End of 2005 Before adjustment	End of 2005 After adjustment
Total assets	6,386,010,247.94	5,308,920,296	6,409,565,937.79	-0.37%	5,442,056,894	5,325,726,716
Shareholders' equity	2,827,915,964.95	2,819,661,936	2,714,385,339.60	4.18%	2,657,977,651	2,557,501,320

2. Key financial indicators

Unit: RMB

	2007	2006 Before adjustment	2006 After adjustment	% Increase/decrease of current year over previous year (after adjustment)	2005 Before adjustment	2005 After adjustment
Basic earnings per share	0.27	0.30	0.31	-12.90%	0.23	0.25
Diluted earnings per share	0.27	0.30	0.31	-12.90%	0.23	0.25
Basic earnings per share after extraordinary gains/losses	0.19	0.20	0.30	-36.67%	0.20	0.22
Fully diluted net return on assets	5.74%	7.12%	6.97%	Decreased by -1.23%	5.45%	5.94%
Weighted average net return on assets	5.87%	6.71%	6.95%	Decreased by -1.08%	5.23%	6.17%
Fully diluted net return on assets after extraordinary gains/losses	4.13%	4.90%	6.64%	Decreased by -2.51%	4.80%	5.27%
Weighted average net return on assets after extraordinary gains/losses	4.23%	4.42%	6.63%	Decreased by -2.40%	4.57%	5.47%
Net cash flow per share generated by operating activities	0.204	0.217	0.215	-5.12%	0.475	0.475

Section II Key accounting data and financial indicators prepared in accordance with PRC Corporate Accounting Standards for the three years immediately preceding the end of reporting period (continued)

	End of 2007	End of 2006		% Increase/decrease of current year-end over previous year-end (after adjustment)	End of 2005	
		Before adjustment	After adjustment		Before adjustment	After adjustment
Net asset per share attributable to Shareholders of the Company	4.684	4.670	4.496	4.18%	4.402	4.236

Section III Audited financial information prepared in accordance with the HKFRS

Income statement

For the year ended 31st December	2007	2006	2005	2004	2003
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	5,370,325	5,523,945	4,241,912	3,611,043	4,305,743
Profit before taxation	202,119	230,540	177,549	175,519	208,247
Taxation	(26,513)	(23,574)	(17,141)	(10,405)	(26,295)
Profit for the year	175,606	206,966	160,408	165,114	181,952
Attributable to:					
Equity holders of the Company	162,206	189,095	151,971	155,818	178,313
Minority interests	13,400	17,871	8,437	9,296	3,639
	175,606	206,966	160,408	165,114	181,952
Earnings per share (RMB)	0.27	0.31	0.25	0.26	0.3
Net assets per share (RMB)	4.68	4.50	4.24	4.01	3.82
Return on net assets (%)	5.74	6.97	5.94	6.59	7.73

Assets and Liabilities

As at 31st December	2007	2006	2005	2004	2003
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total Assets	6,387,817	6,411,037	6,129,672	5,136,027	5,456,709
Total Liabilities	(3,329,803)	(3,535,276)	(3,412,433)	(2,715,854)	(3,149,149)
Shareholders' Equity	3,058,014	2,875,761	2,717,239	2,420,173	2,307,560

Chapter III Movements in Share Capital and Information on Shareholders

Section 1 Changes in the number of shares during the year

Unit : share

	Before change		Increase/(decrease)					After change	
	Number of shares	Proportion	New issue	Bonus shares	Conversion from statutory surplus reserve	Others	Sub-total	Number of shares	Proportion
A. Restricted floating shares subject to terms of lock-up	**204,280,352**	**33.83%**	–	–	–	**(8,621,524)**	**(8,621,524)**	**195,658,828**	**32.40%**
1. State-owned shares									
2. Shares owned by State legal person	204,255,248	33.83%	–	–	–	(8,615,248)	(8,615,248)	195,640,000	32.40%
3. Other domestic shares	25,104	0.04%	–	–	–	(6,276)	(6,276)	18,828	0.003%
Of which,									
Shares owned by domestic non-state legal persons									
Shares owned by domestic natural persons	25,104	0.004%	–	–	–	(6,276)	(6,276)	18,828	0.003%
4. Foreign shares	–	–	–	–	–	–	–	–	–
Of which,									
Shares owned by foreign legal persons	–	–	–	–	–	–	–	–	–
Shares owned by foreign natural persons	–	–	–	–	–	–	–	–	–
B. Unrestricted floating shares not subject to terms of lock-up	**399,519,648**	**66.17%**	–	–	–	**8,621,524**	**8,621,524**	**408,141,172**	**67.60%**
1. Domestically listed domestic shares	218,719,648	36.22%	–	–	–	8,621,524	8,621,524	227,341,172	37.65%
2. Domestically listed foreign shares	–	–	–	–	–	–	–	–	–
3. Overseas listed foreign shares	180,800,000	29.94%	–	–	–	–	–	180,800,000	29.94%
4. Others	–	–	–	–	–	–	–	–	–
C. Total number of shares	**603,800,000**	**100.00%**	–	–	–	–	–	**603,800,000**	**100.00%**

Changes in the number of shares subject to terms of lock-up

Unit: share

Name of shareholder	Number of shares subject to terms of lock-up at the beginning of the year	Number of shares released from lock-up in the year	Number of new shares subject to terms of lock-up in the year	Number of shares subject to terms of lock-up at the end of the year	Reasons for terms of lock-up	Date of release from terms of lock-up
China National Textile Machinery Corporation (Group) Company Limited	204,255,248	8,615,248		195,640,000	Share segregation reform	23rd March 2007
Ye Maoxin	11,440	2,860		8,580	Shares held by senior management	22nd May 2007
Yao Yuming	10,304	2,576		7,728	Shares held by senior management	22nd May 2007
Liu Xianming	3,360	840		2,520	Shares held by senior management	22nd May 2007
Total	204,280,352	8,621,524		195,658,828	–	–

Note: As set forth in the above table, up to 31st December 2007, there was no change in the Company's shareholding structure. However, the controlling shareholder of the Company has since June 2006 taken steps to implement the share segregation reform, and the holding company, China Textile Machinery (Group) Company Limited, increased its shareholdings in the Company by 8,615,248 shares in accordance with the undertaking of the Share Segregation Reform Proposal of the Company on 22nd September 2006. The controlling shareholder also undertook not to dispose of the acquired shares within a period of six months after the implementation of such plan to increase its shareholdings. As the lock-up period over the 8,615,248 shares of the Company acquired by the controlling shareholder expired on 23rd March 2007, these shares became unrestricted floating A shares. In addition, according to "Management Rules on Shares Held by the Directors, Supervisors and Senior Management of the Listed Company and the Changes" issued by the CSRC, an aggregate of 6,276 shares of the Company held by 3 senior management of the Company previously subject to lock-up was released on 22nd May 2007, therefore such shares became unrestricted floating A shares.

Section 1 Changes in the number of shares during the year (continued)

Terms of lock-up of holder of the originally non-floating shares

Name of holder of the originally non-floating shares	Number of shares held subject to terms of lock-up (share)	Date on which shares become tradeable	Number of new tradeable shares (share)	Terms of lock-up
China Textile Machinery (Group) Company Limited	204,255,248	23rd March 2007	8,615,248	Nil
		8th August 2009	58,692,000	Sale price not lower than RMB7 per share
		8th August 2011	136,948,000	Nil

Section 2 Share offering and listing

The Company has not issued any new shares or derivative securities over the three years preceding the end of the reporting period. Except as disclosed in Section 1 of this Chapter, there have been no other change in total number and structure of Shares. Furthermore, the Company has no outstanding internal employee shares.

Section 3 Information on Shareholders

1. Shareholdings of substantial shareholders

As at 31st December 2007, the Company's top ten registered shareholders and the top ten holders of unrestricted floating shares not subject to terms of lock-up are as follows:

Total number of shareholders:	57,296 shareholders including one legal-person promoter shareholder, 57,264 holders of domestically listed domestic shares held by the public (A shares), 31 holders of overseas listed foreign shares (H Shares)				
Shareholding of top ten shareholders					
Name of shareholder	**Type of shareholder**	**Percentage to total share capital** *(%)*	**Total number of shares held** *(shares)*	**Number of restricted floating shares held** *(shares)*	**Number of shares under pledge or lock-up** *(shares)*
China Textile Machinery (Group) Company Limited *(Note i (1))*	State-owned legal person	33.83%	204,255,248	195,640,000	204,255,248
HKSCC Nominees Limited *(Note i (2))*	Overseas legal person	29.85%	180,259,899	0	
Industrial and Commercial Bank of China – Lion Equity Securities Investment Fund	Domestic non-state legal person	1.16%	6,979,254	0	
Agricultural Bank of China – Great Wall An Xin Return Hybrid Securities Investment Fund	Domestic non-state legal person	1.06%	6,398,015	0	
Agricultural Bank of China – Huaxia Stable Growth Mixed Securities Investment Fund	Domestic non-state legal person	1.02%	6,155,087	0	
China Construction Bank – Huaxia Bonus Mixed Open-ended Securities Investment Fund	Domestic non-state legal person	0.33%	1,999,962	0	
Bank of China – Huaxia Dapan Select Securities Investment Fund	Domestic non-state legal person	0.30%	1,800,945	0	
Meng Nan	Domestic natural person	0.19%	1,144,662	0	
Shanghai Xiexin Zhaobang Investment Management Company Limited	Domestic non-state legal person	0.17%	1,048,600	0	
Xiang Menghua	Domestic natural person	0.16%	960,000	0	

Shareholdings of the top ten shareholders of shares not subject to terms of lock-up		
Name of shareholder	**Number of shares not subject to terms of lock-up held** *(shares)*	**Class of shares**
HKSCC Nominees Limited (Note i (2))	180,259,899	H Shares
Industrial and Commercial Bank of China – Lion Equity Securities Investment Fund	6,979,254	A Shares
Agricultural Bank of China – Great Wall An Xin Return Hybrid Securities Investment Fund	6,398,015	A Shares
Agricultural Bank of China – Huaxia Stable Growth Mixed Securities Investment Fund	6,155,087	A Shares
China Construction Bank – Huaxia Bonus Mixed Open-ended Securities Investment Fund	1,999,962	A Shares
Bank of China – Huaxia Dapan Select Securities Investment Fund	1,800,945	A Shares
Meng Nan	1,144,662	A Shares
Shanghai Xiexin Zhaobang Investment Management Company Limited	1,048,600	A Shares
Xiang Menghua	960,000	A Shares
Ye Qiaoji	801,056	A Shares
Connected relationship or concert-party relationship among the above shareholders	Among the top ten registered substantial shareholders of the Company, China Textile Machinery (Group) Company Limited is not connected with any of the other nine shareholders, nor is it a party acting in concert with any of them as defined in Administrative Measures for Information Disclosure of the Movement in Shareholdings of Listed Companies. It is not known whether other holders of floating shares as aforesaid are connected with one another or whether any of these shareholders falls within the meaning of parties acting in concert as defined in Administrative Measures for Information Disclosure of Movement in the Shareholdings of Listed Companies.	

Notes:

i. Particulars of shareholders holding 5% or more of the shares in the Company:

(1) China Textile Machinery (Group) Company Limited is the holder of state owned legal person shares in the Company and is the controlling shareholder of the Company.

The legal representative of China Textile Machinery (Group) Company Limited is Wang Tiankai. It was established on 28th December 1983, with a registered capital of RMB 2,735,820,000. China Textile Machinery (Group) Company Limited is principally engaged in the manufacture and sale of textile machinery.

On 15th January 2007, China Textile Machinery (Group) Company Limited pledged 204,255,248 shares of the Company (representing 33.83% of the Company's total share capital, including the 100% state-owned legal person shares) held by it to China Hengtian Group Company as a security for the guarantee in the amount of RMB 1.494 billion given by China Hengtian Group Company. The pledge period commences from the effective date of the registration of the pledge of shares (15th January 2007) and ends on the date falling two years after the expiry date of the guarantee period according to the guarantee agreement.

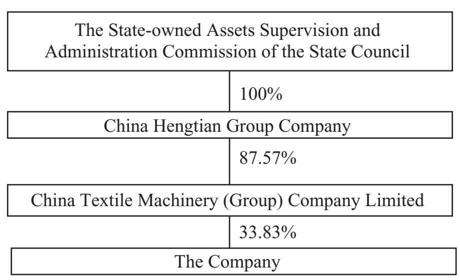
On 28th September 2007, the Company received a notice from China Textile Machinery (Group) Company Limited that its holding of equity interests of the Company was judicially re-frozen. As stated in the notice: upon enquiry made to China Securities Depository and Clearing Corporation Limited Shenzhen Branch by China Textile Machinery (Group) Company Limited, it was acknowledged that the 204,255,248 shares of the Company pledged to China Hengtian Group Company was re-frozen by a judicial order of High People's Court of Beijing Municipality on 17th September 2007.

On 12th December 2007, the Company received a notice from China Textile Machinery (Group) Company Limited that its holding of equity interests of the Company was put on the pending list for freezing. As stated in the notice: as the Export-Import Bank of China, Shanghai Branch commenced action against China Textile Machinery (Group) Company Limited of assuming guarantee obligations of a third party loan, its 195,640,000 shares of equity of the Company was put on the pending list for freezing by Shanghai No. 1 Intermediate People's Court. The applicant was the Export-Import Bank of China Shanghai Branch.

On 2nd January 2008, the pledge of 204,255,248 shares in favour of China Hengtian Group Company by China Textile Machinery (Group) Company Limited were released. Currently, those shares were still subject to the freezing orders.

China Hengtian Group Company is the beneficial controller of the Company. China Textile Machinery (Group) Company Limited is a controlled subsidiary of China Hengtian Group Company. The legal representative of China Hengtian Group Company is Wang Tiankai and it was established in September 1998 with a registered capital of RMB1,801,950,000. China Hengtian Group Company is principally engaged in the design, production and sale of full set of textile machinery and part components and other machinery equipment.

The structure of controlling relationship between the beneficial controller of China Textile Machinery (Group) Company Limited (being the largest shareholder of the Company), the largest shareholder and the Company is shown as follows:



(2) The H shares held by HKSCC Nominees Limited were held in the capacity of nominee on behalf of various clients, and HKSCC Nominees Limited itself has not owned 5% or more of the Company's total share capital.

ii. As at 31st December 2007, so far as the Directors, Supervisors and senior management of the Company are aware, the following person/entity (other than Directors, Supervisors or senior management of the Company) who had interests in the shares of the Company, which were required to be recorded in the register kept in accordance with section 336 of Part XV of the Securities and Futures Ordinance were as follows:

Long positions in the H shares of the Company:

	Capacity	Number of H shares	Approximate % of total issued H share capital	Approximate % of total issued share capital
Montpelier Asset Management Limited	Investment Manager	16,738,000	9.26	2.77
Fidelity International Limited	Investment Manager	11,080,000	6.13	1.84
Platinum Asset Management Limited as trustee for the Platinum Asset Management Trust	Trustee (other than a bare trustee)	10,980,000	6.07	1.82
Baring Asset Management Limited	Investment Manager	10,130,000	5.60	1.68
Northern Trust Fiduciary Services (Ireland) Limited	Trustee (other than a bare trustee)	9,312,000	5.15	1.54
Zhang Sheng Hang	Beneficial Owner	10,240,000	5.00 (note 1)	1.70

Note: Such information is extracted from the individual substantial shareholder notice of Zhang Sheng Hang filed on 21st October 2003 as shown on the website of the Stock Exchange. However, the number of H Shares held by Zhang Sheng Hang stated in such notice was 10,240,000 shares, which, if correct, represents approximately 5.66%, instead of 5.00% (as stated in such notice) of the total issued H shares of the Company as at 31st December 2007. Zhang Sheng Hang had not filed any individual substantial shareholder notice with the Company since 21st October 2003. The Company is also unable to ascertain the actual number of H Shares held by Zhang Sheng Hang from the register of members of the Company as none of the H Shares was registered in the name of Zhang Sheng Hang as at 31st December 2007.

Long positions in the A shares of the Company:

	Capacity	Number of A shares	Approximate % of total issued A share capital	Approximate % of total issued share capital
China Textile Machinery (Group) Company Limited	Beneficial Owner	204,255,248	48.29	33.83

Save as disclosed above, in accordance with the register required to be kept under Section 336 of Part XV of the Securities and Futures Ordinance, the Company had not received any notice regarding the interests or short positions owned in the shares and underlying shares of the Company as at 31st December 2007.

Chapter IV Directors, Supervisors, Senior Management and Staff

Section I Directors, supervisors and senior management

1. The following is a list of all current directors, supervisors and senior management and their biographical information:

Executive directors

Mr. Liu Haitao, aged 43, post-graduate and Senior Engineer, is Chairman of the Company. Since 1992, Mr. Liu has been Deputy Chief, Deputy Factory Manager, Factory Manager and Deputy Secretary of the Party Committee of production office of Zhengzhou Textile Machinery Factory, Chairman of Zhengzhou Hongda New Textile Machinery Co., Ltd.. Mr. Liu was also the General Manager and Secretary of the Party Committee of Zhengzhou Textile Machinery Joint Stock Co., Ltd. He has been Deputy General Manager of China Hengtian Group Company since November 2004 and Deputy General Manager of China Textile Machinery (Group) Company Limited since December 2004. Since October 2005, he has been Vice-chairman, General Manager and Deputy Secretary of the Party Committee of China Textile Machinery (Group) Company Limited, and has been Director and General Manager of China Hengtian Group Company since September 2006. He has been Director of the Company since June 2001 and Chairman of the board of the Company since 30th December 2005.

Mr. Ye Maoxin, aged 45, post-graduate and Senior Engineer, is General Vice-chairman of the Company. Mr. Ye is also the Chairman of the Company's subsidiaries of including Zhengzhou Hongda New Textile Machinery Co., Ltd., Qingdao Hongda Textile Machinery Co., Ltd., Shenyang Hongda Textile Machinery Co., Ltd., Wuxi Textile Technology Testing Co., Ltd., Yichang Jingwei Textile Machinery Co., Ltd., Beijing Jingwei Textile Machinery New Technology Co., Ltd., Shanghai Weixin Electrical & Machinery Co., Ltd. and Hong Kong Huaming Co., Ltd., Director of Tianjin Hongda Textile Machinery Co., Ltd., Tianjin Jingwei New Textile Machinery Co., Ltd., Changde Textile Machinery Co., Ltd., Shanxi Jingwei Heli Machinery Manufacture Co., Wuxi Hongda Textile Machinery Parts Co., Ltd., and Shanghai Jingwei Dongxing Blowing Carding Machinery Co., Ltd., Vice-chairman of the equity holding company Anhui Huamao Jingwei New Textile Co., Ltd. and Director of China Texmatech Co., Ltd., Hongda Research Institute Co., Ltd. and Hongda Investment Co., Ltd. Mr. Ye has served as Deputy Chief, Chief and Assistant to Factory Manager of Technical Section of Jingwei Textile Machinery Plant since July 1990, Manager of the Chemical Fibre Machinery Department since January 1995, Deputy General Manager of the Company since August 1995, Standing Deputy General Manager of the Company since April 1997 and Director of the Company since August 1998. He was Director and General Manager of the Company from August 2000 to August 2007, Secretary of the Party Committee of the Company from July 2002 to August 2007, Deputy General Manager of China Textile Machinery (Group) Co., Ltd. in October 2005, Vice-chairman of the Company from December 2005 to August 2007, Deputy Manager of China Hengtian Group Company in September 2006. He has been General Vice-chairman of the Company since August 2007.

Mr. Fan Xinmin, aged 58, university graduate and Senior Economist, is Vice-Chairman of the Company. Since 1983, Mr. Fan held positions including Deputy Secretary and Secretary of The Seventh Workshop of Jingwei Textile Machinery Plant, and Deputy Secretary of the Disciplinary Committee, Head of Parts and Components Factory No. 5, Deputy General Manager of Labour Service Company of the Factory, Factory Manager of Components General Factory and General Manager and Deputy Secretary of the Party Committee of its Labour Service Company, Deputy Factory Manager of Jingwei Textile Machinery Plant, Deputy Secretary of Party Committee and Secretary to the Disciplinary Committee, Secretary of the Party Committee of the Company, Acting General Manager, and General Manager and Secretary of the Party Committee of Jingwei Machinery (Group) Company Limited. He has been Deputy General Manager of China Textile Machinery (Group) Company Limited since August 2001, Assistant to the General Manager of China Hengtian Group Company since December 2005, and Vice-Chairman of the Company since March 2000.

Mr. Yan Fuquan, aged 44, university graduate, PhD student and Senior Accountant, is Director of the Company. Since 1992, Mr. Yan was the Deputy Director of Chief Accountant Office, Head of Finance Department, Chief Accountant, Secretary of the Party Committee and Factory Manager of Hengyang Textiles Machinery Factory. Since June, 2004, he has been Chief Accountant of China Hengtian Group Company and has become Director and Chief Accountant of China Textile Machinery (Group) Company Limited since December 2004. He was supervisor of the Company from August 2001 to 13th April 2006 and has been Director of the Company since April 2006.

Mr. Liu Hong, aged 49, post-graduate and Senior Economist, is Director of the Company. Since 1992, Mr. Liu had held positions of Assistant to Factory Manager, Deputy Factory Manager, Acting Factory Manager, Secretary of the Party Committee, Factory Manager of Yichang Textile Machinery Plant and Director and Vice-Chairman of China Textile Machinery (Group) Company Limited. He has been Deputy General Manager of China Textile Machinery (Group) Company Limited since October 1997, Deputy General Manager of China Hengtian Group Company since September 2006 and Director of the Company since August 1998.

Mr. Shi Tinghong, aged 45, university graduate, EMBA Program participant, Senior Economist and Senior Information Manager, is a Director of the Company. Since 1992, Mr. Shi was the Production Director, Corporate Management Director, Deputy Factory Manager, Factory Manager of Handan Textiles Machinery Factory, General Manager of Hongda Chemical Fibre Technological Equipment Co., Ltd., Director of Strategic Management Department and Assistant to General Manager of China Textile Machinery (Group) Company Limited. Since December 2005, he has been the Director of Strategic Management Department of China Hengtian Group Company. He has also been the Secretary to the Board of Directors of China Hengtian Group Company since January 2007. He has been Director of the Company since June 2005.

Section I Directors, supervisors and senior management (continued)

1. **The following is a list of all current directors, supervisors and senior management and their biographical information: (continued)**

Executive directors (continued)

Mr. Yao Yuming, aged 47, post-graduate and Senior Accountant, is Director, General Manager and Secretary of the Party Committee of the Company. He is also Chairman of Beijing Jingpeng Investment Management Co., Ltd. and Shanghai Chuangan Commercial and Trading Co., Ltd., subsidiaries of the Company, Director of Zhengzhou Hongda New Textile Machinery Co., Ltd., Qingdao Hongda Textile Machinery Co., Ltd., Shenyang Hongda Textile Machinery Co., Ltd., Tianjin Hongda Textile Machinery Co., Ltd., Tianjin Jingwei New Textile Machinery Co., Ltd., Change Textile Machinery Co., Ltd., Yichang Jingwei Textile Machinery Co., Ltd., Wuxi Jingwei Textile and Technology Testing Co., Ltd., Wuxi Hongda Textile Machinery Parts Co., Ltd., Beijing Jingwei Textile New Technology Co., Ltd., Shanxi Jingwei Heli Machinery Manufacture Co., Ltd., Shanghai Jingwei Dongxing Blowing Carding Machinery Co., Ltd., Shanghai Weixin Machinery and Electrical Co., Ltd., Xianyang Jingwei Woven Machinery Co., Ltd. and Beijing Bohong Property Development Co., Ltd., Director and General Manager of Hong Kong Huaming Co., Ltd., Director of the equity holding companies Hongda Research Institute Co., Ltd. and Zhengzhou Hongda Non-woven Fabric Engineering and Technology Co., Ltd., Chairman of the Supervisory Committee of Anhui Huamao Jingwei New Textile Co., Ltd. Mr. Yao has been Deputy Director of the Finance Office, Assistant to the Factory Manager and Director of the Factory's Finance Office of Jingwei Textile Machinery Factory since July 1990, Director of the Company since August 1995 and was Financial Controller of the Company from August 1995 to April 2008. He was General Deputy Manager of the Company from August 2000 to August 2007. He has been General Manager and Secretary of the Party Committee since August 2007.

Mr. Zhang Jianguo, aged 55, post graduate and Economist, is Director of the Company. Since 1976, he had been Deputy Supervisor of 2nd workshop, Deputy Head of Production Office, Supervisor of Assembling Workshop, Manager of Branch Factory of Jin'er, Assistant of Plant Manager, Deputy Plant Manager, Plant Manager and Secretary of the Party Committee of Tianjin Textile Machinery Plant. He has been Director of Tianjin Hongda Textile Machinery Co., Ltd. and the secretary of its Party Committee, and Director of the Company since November 1999.

Independent Non-Executive Directors

Mr. Gao Yong, aged 54, university graduate, senior engineer, is Independent Non-Executive Director of the Company. He is currently Vice-Chairman of the PRC Textile Industry Federation, Chairman of the council member of the China Federation of Textile Machinery Industry, Director of International Trade Office of PRC Textile Industry Federation, and is currently an Independent Director of China Textile Machinery Co. Ltd. and Shanghai No. 2 Textile Machinery Co. Ltd.. Mr. Gao has been Head of and Deputy Director-General of the former State Textile Equipment Department and Executive Vice-President of China Textile Enterprises Federation since 1993 and an Independent Non-Executive Director of the Company since August 2004.

Mr. Zhao Xizi, aged 63, postgraduate, a professor senior engineer, is Independent Non-executive Director of the Company. Mr. Zhao was General Manager of The 19th Metallurgy Construction Company from 1985 to 1989. He had worked in the State Metallurgy Department since 1989 and was the head of construction department of the State Metallurgy Department from 1989 to 1993, the supervisor of administrative office of the State Metallurgy Department from 1993 to 1998, the party committee member and deputy head of the State Metallurgy Department in 1998, and the chairman of supervisory committee (vice minister level) of State-owned Key Large-scaled Enterprises of the State Council from early 2001 to August 2007. He then resigned and retired in August 2007. He has been Independent Non-executive Director of the Company since 29th February 2008.

Mr. Chen Zhong, aged 51, PhD in Economics and researcher, is Independent Non-Executive Director of the Company. He is Executive Vice-President of China Textile Enterprises Federation, Member of Appraisal Committee on Management of National Natural Science Foundation, Vice-Chairman of China Youth Entrepreneur Association, Vice-Chairman of Chinese Society for Management Modernization, part-time Professor of Jilin University and the University of Industry and Commerce of Beijing. Since 1985, Mr. Chen had been Director of Research Department of China Enterprises Association, Publisher of China Enterprise News, Secretary-General of China Business Management Science Foundation, Deputy Secretary-General and member of the Party Committee of People's Government of Chongqing. He has been an Independent Non-Executive Director of the Company since August 2004.

Ms. Li Hui, aged 45, is Independent Non-Executive Director of the Company. Since 1992, Ms. Li had been involved in property and securities research work. She had been Head of China Research of Indosuez W.I. Carr Securities (HK) Ltd, Head of China Research of Donaldson, Lufkin & Jenrette, Head of China Research of Societe Generale and Managing Director and Head of China Research Team of Credit Lyonnais Securities Asia Ltd. since August 1996. She has been the Lead Fund Manager of Ajia Acorn China Special Opportunity Fund since June 2007, and an Independent Non-Executive Director of the Company since 15th August 2007.

Section I Directors, supervisors and senior management (continued)

1. The following is a list of all current directors, supervisors and senior management and their biographical information: (continued)

Independent Non-Executive Directors (continued)

Mr. Yu Shiquan, aged 41, university graduate, PRC Certified Public Accountant, Registered Tax Advisor, Economist and Accountant, is Independent Non-Executive Director of the Company. Mr. Yu had worked in State Tax Bureau of Huaying City in Sichuan Province, Huaying Tax Firm, Huaying CPA Firm, Dongguan Qingxi Auditor's Firm in Guangdong Province, Sichuan Xingguang CPA Firm, State-owned Enterprises Supervisory Committee's Office and Chengdu Zhongcai Guozheng CPA Firm respectively, as Deputy Head, Head and Secretary, and has been an Officer of State-owned Enterprise Supervisory Committee under the State Council. He is also an Independent Director of Tibet Shengdi, Co. Ltd. (a listed company on the Shanghai Stock Exchange), China Great Wall Computer Shenzhen Co., Ltd. (a listed company on the Shenzhen Stock Exchange) Huafang Co., Ltd. (a listed company on the Shanghai Stock Exchange) and Shanghai Worldbest Pharmaceutical Co., Ltd. (a listed company on the Shanghai Stock Exchange). He has been an Independent Non-Executive Director of the Company since June 2004.

Mr. Wang Zengjing, aged 74, post-graduate and professor, was Independent Non-Executive Director of the Company from June 1999 to 15th August 2007 and has retired from such office. He is Chairman of China Fashion Colour Association and Vice-Chairman of China Small to Medium Enterprises International Cooperation Association. Mr. Wang was the professor of People's University of China and the professor and post-graduate tutor of Harbin Polytechnic University, Director-General of State Economic Commission, Director-General of State Planning Commission, General Manager of China New Technology Investment Company, Vice-Minister of Ministry of Textile Industry, Member of Finance and Economic Committee of the 8th National People's Congress and Chairman of Supervisory Committee of China Worldbest Group Co. Ltd.

Mr. Kon Hiu King, Kenneth, aged 45, graduated from Middlesex University in the United Kingdom with a Bachelor's Degree in Business Studies. He was Independent Non-Executive Director of the Company from June 1999 to 15th August 2007 and has retired from such office. He has been involved in the planning of many large-scale investment and development projects in the PRC and Hong Kong and has nearly 20 years of experience in investment and management in manufacturing industries and property development. He also has extensive experience in securities trading, corporate finance, mergers and acquisitions and corporate restructuring. He is Deputy Managing Director of Dan Form International Limited, and Dan Form Group Limited. He is also General Manager of Dan Form (Hong Kong) Limited, a wholly-owned subsidiary of Dan Form Holdings Co., Ltd.

The Company has received from each current independent non-executive Director an annual confirmation letter confirming their independence in accordance with Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). The Board considers that the independent non-executive Directors are in compliance with Rule 3.13 of the Listing Rules, and are considered to be independent.

Section I Directors, supervisors and senior management (continued)

1. **The following is a list of all current directors, supervisors and senior management and their biographical information: (continued)**

Supervisors

Mr. Tu Kelin, aged 57, holder of MBA and Senior Political Worker, is Chairman of the Supervisory Committee of the Company. Since 1985, Mr. Tu had been the Deputy Director and Director of Tools Department of Zhengzhou Textile Machinery Factory, Factory Manager and Secretary of the Party Committee of Henan Textiles Machinery Factory and Assistant to General Manager and Head of Human Resources Department of China Textile Machinery (Group) Company Limited. From September 2001, he has been the Deputy Secretary of the Party Committee and Secretary of Disciplinary Committee of China Textile Machinery (Group) Company Limited, and Deputy Secretary of Disciplinary Committee of China Hengtian Group Company since December 2005. He has been the Supervisor of the Company since August 2001 and Chairman of the Supervisory Committee since 15th August 2007.

Ms. Peng Zeqing, aged 55, university graduate and Senior Political Worker, is Vice-chairman of Supervisory Committee of the Company. Since 1990, Ms. Peng had been the Deputy Factory Manager , Deputy Secretary and Secretary of the Party Committee of Yichang Textile Machinery Factory and Chairman and Deputy Secretary of the Party Committee of Yichang Textiles Machinery Co., Ltd. Ms. Peng has been Secretary of Disciplinary Committee since July 2002, Chairman of the Labour Union of the Company since July 2004, Deputy Secretary of the Party Committee of the Company since April 2005 and Vice-Chairman of the Supervisory Committee of the Company since June 2005.

Mr. Liu Jiebo, aged 44, a postgraduate and Senior Economist, is Supervisor of the Company. Since 1997, Mr. Liu had been Director of Finance Department, Deputy Factory Manager, Factory Manager, Deputy Secretary of the Party Committee of Handan Textile Machinery Factory, Chairman of hte Board and General Manager, Deptuy Secretary of the Party Committee, Secretary of the Party Committee of Handan Textile Machinery Co., Ltd. He has been Director of Human Resources Department of China Hengtain Group Company and China Textile Machinery (Group) Company Limited, since 2007 and a Supervisor of the Company since 15 August 2007.

Ms. Zhang Xiaoli, aged 43, a postgraduate, Senior Accountant and Certified Public accountant, is Supervisor of the Company. Since 1997, Ms. Zhang had been Deputy Director of Finance Department Senior Accountant and Certified Public Accountant of China Jinlongsonxiang Group Company, and Deputy Director of the Finance Department of China Hengtian Group Company. Since 2005, she has been Director of the Audit Supervision Department of China Hengtian Group Company and China Textile Machinery (Group) Company Limited. She has been a Supervisor of the Company since 15 August 2007.

Mr. Dong Min, aged 51, post-graduate and Mechanical Engineer is Supervisor of the Company. From June 1991 to September 1997, Mr. Dong was Deputy Supervisor and Supervisor of the Preparatory Workshop and Director of Marketing Department. He had been Deputy Factory Manager of Xianyang Textile Machinery Factory since May 1997 and General Manager and Secretary of the Party Committee of Xianyang Textile Machinery Manufacturing Co. Ltd since November 2000. Since April 2002, he had been Assistant to General Manager of the Company and has been General Manager and secretary of the party committee of Textile Engineering Department of the Company since January 2003. He has been a Supervisor of the Company since June 2005 and Chairman of Xianyang Jingwei Woven Machinery Co., Ltd. since March 2007.

Section I Directors, supervisors and senior management (continued)

1. The following is a list of all current directors, supervisors and senior management and their biographical information: (continued)

Supervisors (continued)

Mr. Lian Jianhua, aged 48, post-graduate and Senior Accountant is Supervisor of the Company. Mr. Lian is also currently, Director of the Company's subsidiary Xian Yang Jingwei Textile Machinery Co., Ltd. Shanghai Weixin Electrical & Machinery Co., Ltd. , Jinzhong Steel Collar Manufacture Co., Ltd and Kunshan Kaiyi Textile Machinery Co., Ltd, and Chairman of the Supervisory Committee of Beijing Jingwei New Technology Co., Ltd., etc. From September 1992 to December 1996, Mr. Lian was Deputy Director of Supervisory and Auditing Department, Supervisor of the Auditing Office, Supervisor of the Supervisory and Auditing Department of Jingwei Textile Machinery Plant. He was Chief Accountant of Shanxi Textile Machinery Plant from December 1996 to March 2003. Since June 2001, he has been Head of the Property Development Department and Head of the Strategic Development Department of the Company. He is currently Head of Strategic Management Department of the Company. He has been a Supervisor of the Company since August 2004.

Mr. Li Xisheng, aged 50, post-graduate and Senior Political Worker, is Supervisor of the Company. Mr. Li was Deputy Head and Head of the Promotion Department of Jingwei Textile Machinery Plant from January 1994 to August 1997, Deputy Secretary of the Party Committee and Secretary of the Disciplinary Committee of Xianyang Textile Machinery Plant from August 1997 to July 1998, Supervisor of Auditing Office of Jingwei Machinery (Group) Co., Ltd. from July 1998 to October 2000 and Chairman of the Labour Union of Jingwei Machinery (Group) Co., Ltd. from October 2000. He has been the Chairman of the Labour Union of the Yuci Branch of the Company since July 2005 and a Supervisor of the Company since 15th August 2007.

Mr. Wang Tiankai, aged 61, university graduate and Senior Engineer, was Chairman of the Supervisory Committee of the Company from August 2004 to 15 August 2007 and has retired from such office. Since 1985, Mr. Wang had been Deputy General Manager and a member of Party Committee of Shanxi Textile Industrial Corporation, Deputy General Director and a member of the Party Committee of Shanxi Economics and Trades Committee, Deputy-General and Director-General of Technology Development Department of Ministry of Textile Industry, Director of Planning and Development Department of China Textile Federation, Director of China Textile Constructions and Planning Institute, Deputy Director and a member of the Party Committee of State Administration of Textile Industry, and Chairman (at Vice-Ministerial grade) of Supervisory Committee on State's Key and Major Enterprises, General Manager and Secretary of the Party Committee of China Hengtian Group Company and Chairman of China Textile Machinery (Group) Company Limited. Since September 2006, he became the Chairman, Deputy Secretary of the Party Committee of China Hengtian Group Company.

Mr. Bao Weiguo, aged 57, university graduate and Political Worker was Supervisor of the Company from August 2001 to 15th August 2007 and has retired from such office. From October 1988, Mr. Bao had held various positions such as the Party Official of the Security Department of Jingwei Textile Machinery Plant, Party Secretary of the Second Sub-Plant, Cooling & Forging Factory and Secretary of the Party Committee of Heli Company, Vice-Secretary of the Disciplinary Committee of Jingwei Machinery (Group) Co., Ltd. and the Company, Director of the Supervisory Department of Jingwei Machinery (Group) Co., Ltd. as well as Leader of Preparatory Team and Deputy Secretary of Disciplinary Committee of the Labour Union of the Branch of the Company.

1. **The following is a list of all current directors, supervisors and senior management and their biographical information: (continued)**

Deputy General Managers

Mr. Wang Weizhi, aged 51, university graduate and Senior Political Worker, is Deputy General Manager and Deputy Secretary of the party committee of the Company. Mr. Wang is currently Director of the Company's subsidiaries Beijing Jingwei Textile Machinery New Technology Co., Ltd., Shangxi Jingwei Heli Machinery Manufacture Company Limited and Shanghai Weixin Machinery Co., Ltd. Mr. Wang was consecutively Deputy Secretary of Group Committee, Secretary of Group Committee and Secretary of Party Branch of Branch Plant, Deputy Head of Organisation Department of Party Committee and Secretary of Party Branch of Chemical Fibre Machinery Department of Jingwei Textile Machinery Plant from January 1983 to July 1995, Deputy Secretary of Party Committee and Secretary of Disciplinary Committee and Deputy General Manager of Jingwei Textile Machinery Plant from August 1995 to May 1999, Deputy Secretary of Party Committee and Secretary of Disciplinary Committee of Jingwei Textile Machinery (Group) Co., Ltd. from July 1997 to August 2000, General Manager, Deputy Secretary of Party Committee and Secretary of Party Committee of Jingwei Machinery (Group) Co., Ltd. from June 1999 to May 2002, Chairman of the Board of Directors, Secretary of Party Committee of Jingwei Textile Machinery (Group) Co., Ltd., Secretary of Party Committee of Yuci Branch and Director of the Company from June 2002 to August 2003. He has been Deputy Secretary of Party Committee and a Deputy General Manager since June 2002.

Mr. Lin Jianwang, aged 52, post-graduate and Senior Engineer is Deputy General Manager of the Company. He is currently Director of the Company's subsidiaries, namely, Qingdao Hongda Textile Machinery Co., Ltd., Shenyang Hongda Textile Machinery Co., Ltd., Tianjin Hongda Textile Machinery Co., Ltd. Tianjin Jingjin Jingwei New Textile Machinery Co., Ltd., Wuxi Jingwei Textile Technology Testing Co., Ltd. , Changde Textile Machinery Co., Ltd., Xianyang Jingwei Woven Machinery Co., Ltd;, Shanxi Jingwei Heli Machinery Manufacture Ltd., Beijing Jingwei Textile Machinery New Technology Co., Ltd., Shanghai Weixin Electrical & Mechanical Co., Ltd., and Shanghai Jingwei Dongxing Blowing Carding Machinery Co., Ltd., Deputy General Manager of the Company's equity holding company Hongda Research Institute Co., Ltd., Director of Zhengzhou Hongda Non-woven Fabric Engineering and Technological Co., Ltd. and Anhui Huamao Jingwei New Textile Co., Ltd. Since September 1993, Mr. Lin has been Chief Engineer of Qingdao Textile Machinery Factory. From March 2000, he has been Director and General Manager of Beijing Jingwei Textile Machinery New Technology Co., Ltd. Since August 2000, he has been a Deputy General Manager of the Company.

Mr. Shi Jianping, aged 45, university graduate and Senior Engineer, is Deputy General Manager of the Company. He is currently Vice-Chairman of the Board of Directors of Qingdao Hongda Textile Machinery Co., Ltd., Supervisor of Wuxi Jingwei Textile Technology Testing Co., Ltd. and the Company's equity holding company China Texmatech Co., Ltd. Mr. Shi was Deputy Factory Manager of Qingdao Textile Machinery Cooling Branch Factory, General Manager of Precision Factory from February 1995 to August 1999, General Manager of Qingdao Hongda Textile Machinery Co., Ltd. from August 1999 to April 2001, Factory Manager and Secretary of Party Committee of Qingdao Textile Machinery Plant, Vice-Chairman and Secretary of Party Committee of Qingdao Hongda Textile Machinery Co., Ltd. from April 2001 to October 2003 and Assistant to General Manager and Deputy Manager of Blowing Machinery Business Department of the Company from October 2003 to June 2005. He was Supervisor of the Company from August 2004 to June 2005. He has been a Deputy General Manager of the Company since June 2005.

Mr. Liu Xianming, aged 45, post-graduate and Senior Engineer is Deputy General Manager of the Company. He is Director the Company's subsidiary Shenyang Hongda Textile Machinery Co., Ltd. and Supervisor of the equity holding company Hongda Research Institute Co. Mr. Liu was Deputy Supervisor of Technology Renovation Office of Shenyang Textile Machinery Plant from May 1995 to May 1996, Deputy Factory Manager, Factory Manager of Shenyang Textile Machinery Plant and Secretary of Party Committee of Shenyang Textile Machinery Plant, Director and Secretary of Party Committee of Shenyang Hongda Textile Machinery Co., Ltd. from May 1996 to May 2003, Director of the Company from November 1999 to May 2003 and Vice-Chairman of the Supervisory Committee and Assistant to General Manager of the Company from May 2003 to June 2005. He has been a Deputy General Manager of the Company since June 2005.

Mr. Mao Faqing, aged 38, university graduate and studying for a doctorate degree, senior accountant, PRC registered accountant, PRC registered tax controller, is the Financial Controller and Head of Finance Department of the Company. He is Director of the subsidiaries of the Company Beijing Jingwei Textile Machinery New Technology Co., Ltd. and Beijing Jingpang Investment Management Co., Ltd., Supervisor of Hongda Investment Company Limited and Financial Controller of Beijing Jingwei Textile New Technology Co., Ltd. Mr. Mao had been accountant of the Finance Department and Deputy Supervisor of Finance Office from September 1995 to August 2000, Head of the Finance Department since September 2000 and Deputy Financial Controller of the Company since March 2008. He has been Financial Controller of the Company since April 2008.

Company Secretary

Mr. Ye Xuehua, aged 43, post-graduate and Senior Engineer is Secretary of the Board of Directors of the Company. In July 1990, Mr. Ye joined Jingwei Textile Machinery Plant. He has been Secretary to the Board since March 2000 and he had been Director of General Manager Office of the Company during the period from September 2000 to August 2002.

Section I Directors, supervisors and senior management (continued)

2. Term of office, interest in share capital and remuneration of Directors, Supervisors and senior management

Name	Position	Gender	Age	Beginning and ending date of term of office	Number of shares held at beginning of the year (share)	Number of shares held at the end of the year (share)	Reasons for change	Total remuneration received from the Company during the reporting period (RMB'000)	Incentive share options granted during the reporting period: Number of share options available for exercising	Number of share options exercised	Exercising price	Market value of equity at the end of the reporting period	Whether salary received from the shareholder or other associated unit
Liu Haitao	Chairman	Male	43	30/12/2005–15/8/2010	–	–	–	–					Yes
Ye Maoxin	General Vice Chairman Vice Chairman General Manager	Male	45	15/8/2007–15/8/2010 30/12/2005–15/8/2007 14/8/2000–15/8/2007	11,440	8,580	Reduction in shares held by senior management after lock-out	461					No
Fan Xinmin	Vice-Chairman	Male	58	15/8/2004–15/8/2010	–	–		–					Yes
Yan Fuquan	Director	Male	44	13/4/2006–15/8/2010	–	–		–					Yes
Liu Hong	Director	Male	49	15/8/2004–15/8/2010	–	–		–					Yes
Shi Tinghong	Director	Male	45	9/6/2005–15/8/2010	–	–		–					Yes
Yao Yuming	Director Standing Deputy General Manager Financial Controller General Manager	Male	47	15/8/2004–15/8/2010 14/8/2000–15/8/2007 15/8/1995–22/4/2008 15/8/2007	10,304	10,304		410					No
Zhang Jianguo	Director	Male	55	15/8/2004–15/8/2010	–	–		573					No
Gao Yong	Independent Non-executive Director	Male	54	15/8/2004–15/8/2010	–	–		35					No
Zhao Xizi	Independent Non-executive Director	Male	63	29/2/2008-15/8/2010				0					No
Chen Zhong	Independent Non-executive Director	Male	51	15/8/2004–15/8/2010	–	–		35					No
Li Hui	Independent Non-executive Director	Female		15/8/2007–15/8/2010				0					No
Yu Shiquan	Independent Non-executive Director	Male	41	15/8/2004–15/8/2010	–	–		35					No
Wang Zengjing	Independent Non-executive Director	Male	74	15/8/2004–15/8/2007	–	–		40					No
Kon Hiu King, Kenneth	Independent Non-executive Director	Male	45	15/8/2004–15/8/2007	–	–		50					No
Tu Kelin	Chairman of Supervisory committee	Male	57	15/8/2007–15/8/2010	–	–		–					Yes
Peng Zeqing	Vice-chairman of Supervisory Committee	Female	55	9/6/2005–15/8/2010	–	–		365					No
Liu Jiebo	Supervisor	Male	44	15/8/2007–15/8/2010				–					Yes
Zhang Xiaoli	Supervisor	Female	43	15/8/2007–15/8/2010				–					Yes
Dong Min	Supervisor	Male	51	9/6/2005–15/8/2010	–	–		325					No
Lian Jinhua	Supervisor	Male	48	15/8/2004–15/8/2010	–	–		183					No
Li Xisheng	Supervisor	Male	50	15/8/2007–15/8/2010	–	–		130					No
Wang Tiankai	Chairman of Supervisory Committee	Male	61	15/8/2004–15/8/2007	–	–		–					Yes
Bao Weiguo	Supervisor	Male	57	15/8/2004–15/8/2007	–	–		98					No
Wang Weizhi	Deputy General Manager	Male	50	5/6/2002–	–	–		360					No
Lin Jianwang	Deputy General Manager	Male	52	14/8/2000–	–	–		375					No
Shi Jianping	Deputy General Manager	Male	45	9/6/2005–	–	–		363					No
Liu Xianming	Deputy General Manager	Male	45	9/6/2005–	3,360	2,520	Reduction in shares held by senior management after lock-out	363					No
Mao Faqing	Financial Controller	Male	38	22/4/2008–	–	–		–					No
Ye Xuehua	Company Secretary	Male	43	15/8/2004–15/8/2010	–	–		186					No
Total:					25,104	21,404	–	4,387				–	–

Note: Please see explanatory notes after Section 1 "Changes in the number of shares during the year" of Chapter III for reasons of changes in shareholding.

Section I Directors, supervisors and senior management (continued)

2. Term of office, interest in share capital and remuneration of Directors, Supervisors and senior management (continued)

Save as disclosed above, as at 31st December 2007, none of the Directors, Supervisors, senior management and their respective spouses or children under the age of 18 had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (as defined in Part XV of the Securities and Futures Ordinance), nor had any of them been granted any rights or short positions to subscribe for any interest in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance) which was required to be recorded in the register established and maintained in accordance with section 352 of the Securities and Futures Ordinance or required to be notified to the Company and The Stock Exchange of Hong Kong Limited in accordance with Model Code for Securities Transactions by Directors of the Listed Issuers. During the reporting period, none of the Directors, Supervisors or senior management had any material interests in the contacts executed by the Company or its subsidiaries.

3. Mechanism for determining remuneration of the Directors, Supervisors and senior management

On 16th June 2004, the general meeting of the Company approved the establishment of the Personnel Nomination and Remuneration Committee of the Board of Directors of the Company as well as the adoption of the "Implementation Rules and Regulations of the Personnel Nomination and Remuneration Committee of the Board of Directors". Accordingly, the Personnel Nomination and Remuneration Committee of the Board of Directors of the Company determined remuneration package of the Directors, Supervisors and senior management based on the major scope of work, job duty, importance of the respective positions and salary level of relevant positions compared with similar positions in other relevant enterprises.

4. Resignation and election of Directors, Supervisors and senior management

1) Resignation of Directors, Supervisors and senior management

Name	Original Position	Reason for the resignation
Wang Zengjing	Director	Expiry of term of office
Kon Hiu King, Kenneth	Director	Expiry of term of office
Wang Tiankai	Supervisor	Expiry of term of office
Bao Weiguo	Supervisor	Expiry of term of office
Yao Yuming	Financial Controller	Change in position

2) Election of Directors, Supervisors and senior management

Name	Position
Li Hui	Director
Zhao Xizi	Director
Liu Jiebo	Supervisor
Zhang Xiao Li	Supervisor
Li Xisheng	Supervisor
Mao Faqing	Financial Controller

Note: 1 The Company convened an Extraordinary General Meeting on 29th February 2008, at which the resolution to elect Mr. Zhao Xizi as an Independent Non-executive Director of the Company was considered and passed. For further details, please refer to the announcement of the First Extraordinary General Meeting 2008 and other related public announcements of the Company.

2. The Company convened a Board meeting on 22nd April 2008, at which the resignation from the post of Financial Controller by Mr. Yao Yuming was considered and passed, and Mr. Mao Faqing was appointed as the Financial Controller of the Company following the nomination from General Manager.

Section II Staff

As at 31st December 2007, the total number of staff of the Group was 12,014, among which 414 and 935 and 774 were at the senior, middle and junior levels respectively, and 2,322 received tertiary education or above. Amongst the staff in the Group, 1,515 were engaged in technical, scientific research and development, 626 in sales and marketing, 1,659 in operations and management, 7,180 in production and 1,034 in others. In addition, the number of retired staff of the Group was 4,813 for the year ended 31st December 2007.

Chapter V Structure of Corporate Governance

Section I Structure of Corporate Governance Disclosed Pursuant to Requirement by China Securities Regulatory Commission (“CSRC”)

I. Current Structure of Corporate Governance

Since its establishment, the Company has committed to perfecting its corporate governance structure and continued to improve its corporate system in strict compliance with the “Company Law”, “Securities Law”, “Code of Corporate Governance for Listed Companies” and the relevant law and regulations and related requirements of the rules set out by the CSRC and Shenzhen Stock Exchange so as to further established a healthy and complete internal control and management system of the Company.

During the reporting period, the Company intensively launched special activities on corporate governance in accordance with the requirements set out in a series of documents such as Notice on Performance of the Special Activities regarding Enhancement of Corporate Governance of Listed Companies (《關於開展加強上市公司治理專項活動有關事項的通知》) issued by CSRC and Notice on How to Successfully Perform and Enhance the Special Activities regarding Corporate Governance of Listed Companies (《關於做好上市公司治理專項活動有關工作的通知》) issued by the Shenzhen Stock Exchange. Under the guidance of regulatory authorities, extensive self-examination on corporate governance was conducted and concrete reform was made to resolve problems identified during the self-examination and inspection by regulatory authorities. As a result, the internal control system of the Company was further improved and refined. The actual status of corporate governance was in compliance with the requirements set out by CSRC in the regulatory documents regarding corporate governance of listed companies. The Company will continue to refine its structure of corporate governance and enhance the level of corporate governance so as to ensure shareholders, in particular the medium and minority shareholders, to have equal rights.

Section I Structure of Corporate Governance Disclosed Pursuant to Requirement by the CSRC (continued)

II. Performance of independent non-executive Directors

The independent non-executive Directors have conscientiously performed their duties in accordance with relevant laws, rules and regulations and the Articles of Association. They have participated in the work of the Board and in the discussions in respect of significant matters. They also gave advice on regulating the operation and business activities of the Company based on their professional knowledge and experience and they had no objection to such subject matters in the Company. The independent non-executive Directors offered their independent opinion as to whether certain connected transactions were fair and equitable. They also participated in the work of Audit Committee to review the financial statements of Company. The independent non-executive Directors protected the overall interests of the Company as well as the legal interests of the shareholders as a whole and made positive contribution to the development of the Company.

The attendance at board meetings by the independent non-executive directors during the year is as follows:

Name of independent non-executive Directors	Number of board meetings held during the year	Attendance in Person (number)	Attendance by alternate (number)	Absence (number)
Gao Yong	15	14	0	1
Chen Zhong	15	15	0	0
Li Hui	7	5	2	0
Yu Shiquan	15	15	0	0
Wang Zengjing	8	8	0	0
Kon Hiu King, Kenneth	8	3	1	4

III. Independent Operation of the Company

The controlling shareholder exercises its equity holder's right strictly in accordance with the relevant laws, without any infringement against the General Meeting or intervene directly or indirectly operations of the Company. In respect of personnel, finance, organization, business (excluding the connected transactions disclosed in the annual report) and assets, the controlling shareholder and the Company are independent from each other with separate financial systems, risks and obligations, thus the Company has a complete business and independent operation capacity. The election, appointment and dismissals of Directors, Supervisors and senior management are in strict adherence to procedures set forth in the relevant laws, administrative rules and regulations and Article of Association.

IV. Establishment and Completeness of the Internal Control System of the Company

The Company has attached prime importance to the setup of internal control system since its establishment and continues to refine and improve the system. A comparatively complete and effective internal control system has now been established and runs throughout every level and step of the operating and management activities of the Company to ensure all operations of the Company are conducted based on the set prescribed principles.

In respect of production and operating control, the Board and the Management are able to perform their duties seriously in accordance with the Articles of Associations and other relevant regulations, carry into effect strictly resolutions passed at shareholders' meetings and Board meetings and implement effective control on every step of production and operation. The Board reports to the general meeting of shareholders on a regular basis while the Management regularly reports to the Board and the Supervisory Committee about the operation of the Company. The performance of the Board and the Management in fulfilling their duties is supervised by the Supervisory Committee and Independent Directors.

In respect of financial management control, the Company has set up an effective financial control and management mechanism in accordance with relevant laws, rules and regulations which plays a significant role in effective prevention and reduction in the operational risk exposure of the Company.

In respect of information disclosure, the Company has set up systems and mechanisms such as the information disclosure management system, investor relationship management system and material information internal reporting system in accordance with the Shenzhen Stock Exchange Share Listing Rules and the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited and other relevant regulations set out in legal provisions so as to fulfil the responsibility regarding information disclosure to ensure the truthfulness, accuracy and completeness in all material respects of every significant aspect of information disclosure.

Section I Structure of Corporate Governance Disclosed Pursuant to Requirement by the CSRC (continued)

During the year, the Company launched special activities to strengthen corporate governance of listed companies. After having identified the problems during the process of self-examination and regulatory inspection, the Company made serious reform and analysis, and compiled documents such as "Report on Self-examination of Corporate Governance and Reform Proposal" and "Conclusion Report on the Special Activities and Reform on Corporate Governance" where were published on the Company's designated information disclosure media after consideration and approval by the Board of Directors.

During the year, the Company also amended regulatory systems such as "Articles of Association", "Code of Practice of Audit Committee of the Board of Directors", "Investors Relationship Management System", "Information Disclosure System" and "Significant Information Internal Reporting System" in accordance with the requirements set out in the relevant laws, rules and regulatory documents.

Currently, the setup and established systems of relevant organisations of the Company are reasonable and the internal control system is complete and effective, which are in compliance with the requirements of relevant laws of the State, the administrative rules and regulations and departmental measures as well as the needs for corporate development. The internal control system is comprehensive, reasonable and effective and poses positive functions on regulating the daily operation and management of the Company.

The full text of the "Report on Self-evaluation of Internal Control System 2007" of the Company was published on the website of cninfo (http://www.cninfo.com.cn) and the website of The Stock Exchange of Hong Kong Limited (www.hkex.com.hk) for shareholders' reference. The Supervisory Committee and the Independent Non-executive Directors of the Company issued opinions regarding the self-evaluation of the Company's internal control:

1. Opinions on the "Report on Self-evaluation of Internal Control System 2007" of the Company issued by the Supervisory Committee:

   The Company has established a relatively comprehensive internal control system in accordance with the relevant rules set out by CSRC and Shenzhen Stock Exchange and in compliance with the basic principles of internal control. The internal control system covers different steps in production and operation and the workflow in business activities. The Company has set up an audit department equipped with dedicated staff to ensure effective monitoring on key control activities. The report on the self-evaluation of internal control system of the Company is truthful and reflects the actual state of the internal control of the Company comprehensively, objectively and accurately.

2. Opinions on the "Report on Self-evaluation of Internal Control System 2007" of the Company issued by the Independent Non-executive Directors:

   During the reporting period, a series of management systems related to internal control system were considered and passed by the Board of the Company so that a healthy and complete internal control system has been set up. The said internal control system is in compliance with the requirements of relevant laws, regulations and regulatory authorities. The internal control system gives attention to key control activities such as connected transactions, external guarantees and information disclosure. A specific audit department equipped with dedicated staff was set up to ensure the effective implementation of internal control and monitoring. The report on the self-evaluation of internal control system of the Company matches the actual state of the internal control of the Company, with an objective, fair and accurate self-evaluation.

V. Establishment and Implementation of Evaluation and Motivation Mechanism on Senior Management

With the direction to define and perform responsibility, be adaptive to the market and enhance efficiency, and following the principles that remuneration and risk and responsibility be commensurate and pegging with the overall operating performance of the Company, the Company implements and management and appraisal system based on different rankings, hence resulting on motivation without losing control.

Section II Report of Corporate Governance as required by the Rules ("Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange")

The Board, Supervisory Committee and Senior Management are committed for an effective implementation of corporate governance policy, to ensure all decisions are on a fair and true basis, on a transparent, equal and impartial manner, with checks and balances that keep improving the corporate governance structure. The Company operates strictly within the respective framework set forth by the Articles of Association, and provides timely, accurate, complete and reliable corporate information to all market participants and regulatory bodies. It targets to enhance corporate value, promote governance quality and meet the expectation of shareholders and concerned parties.

During the reporting period, except for the following deviations, the Company has fully complied with the code provisions of Codes on Corporate Governance in Appendix 14 to the Listing Rules of the Stock Exchange :

Code Provision A.1.1

Under Code Provision A.1.1, the Board shall convene at least 4 regular meetings per year, at approximately quarter intervals. According to the articles of association of the Company and the Rules Governing the Proceedings of the Board Meetings, the Board is required to convene to least two meetings (regular meetings) per year. Notwithstanding the above, in order to enhance the Company's corporate governance, the Board convened a total of 15 meetings during under reporting period, which has in fact fully complied with the requirements under the Code Provision A.1.1.

Code Provision A.1.3

Under Code Provision A.1.3, notice shall be given at least 14 days before convening a regular board meeting according to the articles of association of the Company and the Rules Governing the Proceedings of the Board Meetings, the Board shall serve notice 10 days before convening a Board meeting. Notwithstanding the above, in order to enhance the Company's corporate governance, the Board has managed to issue notice of not less than 14 days prior to each Board meeting. On such basis, the Directors consider that the Company was in fact fully complied with the requirements under Code Provision A.1.3.

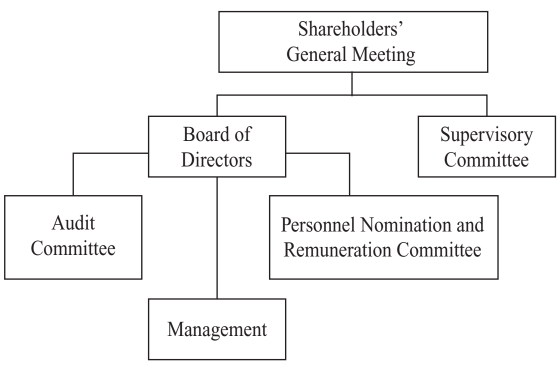
To ensure that the Company is in full compliance with the requirements of the above Code Provisions and enable it to promptly and efficiently make and implement its decision, the Company will consider making appropriate amendments to the articles of association and/or Rules Governing the Proceedings of the Board Meetings in the following financial year.

I. Corporate Governance

Since its establishment, the Company has, in strict compliance with the Company Law and Securities Law of the PRC, as well as the applicable laws and regulations of the CSRC, the Listing Rules of Shenzhen Stock Exchange and the Hong Kong Stock Exchange and Clearing Limited respectively, perfected its corporate governance structure and established modernized corporate system as well as standardized its operations in accordance with the relevant CSRC documents.

Documentations relating to its corporate governance consist of the Articles of Association, Rules Governing the Proceedings of the General Meeting, Rules Governing the Proceedings of the Board Meetings, and Rules Governing the Proceedings of Meetings of Supervisory Committee. The Board has established two special committees, the Audit Committee and Personnel Nomination and Remuneration Committee.

The Chart of Corporate Governance of the Company:



Section II Report of Corporate Governance as required by the Rules ("Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") (continued)

II. Board

The fourth Board of the Company comprises 13 Directors, of which 8 are Executive Directors and 5 are Independent Non-Executive Directors.

The Company completed the re-election of the Board on 15th August 2007. As at 31st December 2007, the Board of the Company comprised 12 Directors, of which 8 were Executive Directors and 4 were Independent Non-Executive Directors. At the Shareholders' General Meeting held by the Company on 29th February 2008, Mr. Zhao Xizi was elected as Independent Non-Executive Director of the Company after the nomination from the Board. To this end, the new session of the Board comprises 13 Directors, of which 8 are Executive Directors and 5 are Independent Non-Executive Directors. The current Board is the Fifth Board since the establishment of the Company and the term of office of all Directors is from 15th August 2007 (or, as the case may be, the date of their respective appointment) to the date of re-election of the Board.

The main duties of the Board are to exercise the management decision-making under the authorization of the shareholders at the general meeting in the aspects of corporate development strategy, management structure, investment and financing, planning and financial control.

The Directors are elected or replaced in shareholders' meeting and a polling system is adopted for the election of Directors. Shareholders representing more than 5% of issued shares and the Board are entitled to nominate Directors in writing. The term of office of Directors is three years and Directors can be re-elected upon expiry of their term. Independent non-executive Directors are independent parties not connected with the management and major shareholders of the Company.

The positions of Chairman and General Manager (Chief Executive Officer) of the Company are taken up by different persons and there is a clear division of work between the two roles. The Chairman presides the Board meeting and reviews the implementation of the Board's decisions. General Manager, supported by other senior management of the Company, is responsible for the management and coordination of the Group's business, and for making daily decisions in accordance with the strategy formulated by the Board. In Year 2007, Chairman of the Company is Mr. Liu Haitao and General Manager (Chief Executive Officer) of the Company are Mr. Ye Maoxin, (14th August 2000 to 15th August 2007) and Mr. Yao Yuming (15th August 2007 to present).

The Board is accountable to the shareholders and mainly exercises the following authorities:

(1) to convene the General Meetings and report its work to the shareholders at the General Meeting;

(2) to implement the resolutions passed at the General Meetings;

(3) to decide the operation plans and investment plans of the Company;

(4) to prepare the annual financial budget and final accounts of the Company;

(5) to prepare the profit distribution proposal and loss-covering plans of the Company;

(6) to formulate plans of increasing or reducing registered capital, or issuing bonds of the Company;

(7) to draft plans for corporate merge, sub-division and dissolution;

(8) to determine the set-ups of the Company's internal management departments;

(9) to engage or dismiss General Manager of the Company; to engage or dismiss Deputy General Manager of the Company, Chief Financial Officer and other senior management as recommended by the General Manager and determine their remuneration and payment methods;

(10) to establish the fundamental management system of the Company;

(11) to prepare the proposal for the amendments of the Articles of Association;

(12) to draft material acquisition or disposal proposals of the Company;

(13) without contribution of the relevant laws, regulations, the Articles of Associations to exercise the authorities on fund-raising and borrowing loans for the Company and to decide the pledge, lease, subcontracting or transfer of the Company's significant assets, and authorize the General Manager to exercise the said authorities within a prescribed scope;

(14) to perform other duties authorized by the General Meeting and the Articles of Association; and

(15) to consider and approve any external guarantees subject to approval by the General Meeting, and submit for approval by the General Meeting;

Section II Report of Corporate Governance as required by the Rules ("Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") (continued)

II. Board (continued)

The General Manager is accountable to the Board and mainly exercises the following authorities:

(1) to supervise the management of the production and operations of the Company, and implement the Board resolutions;

(2) to implement the operation plans and investment plans of the Company;

(3) to formulate the proposal for the set-ups of the Company's internal management departments;

(4) to formulate the fundamental management system of the Company;

(5) to establish the fundamental regulations of the Company;

(6) to propose the engagement, dismissal or job rotation of Deputy General Manager or Chief Financial Officer;

(7) to engage or dismiss any other administrative staff who are not subject to the engagement or dismissal by the Board;

(8) to chair in person (or authorise a Deputy General Manager as proxy) the regular meetings of the General Manager, which should be attended by General Manager, Deputy General Managers and other senior management staff;

(9) to determine the awards, punishment, promotion or demotion, salary increase or deduction, engagement, employment, dismissal or discharge of Company staff;

(10) to exercise the authority on the pledge, lease, subcontracting or transfer of the Company's assets under the scope as authorized by the Board; and

(11) Other authorities as granted by the Articles of Association and the Board.

The Deputy General Manager assists the work of the General Manager.

The members of the Board come from different industrial background and have expertise in corporate management, financial accounting, investment strategy and textile machinery. Their profiles are set out in Chapter IV "Directors, supervisors and senior management and staff" of this annual report.

In 2007, two Directors held management positions in the Company, accounting for more than 1/7 of the total number of Directors. This arrangement enabled the Board to review and supervise the procedure of management of the Company.

As at present, the fifth Board of Company has five independent non-executive Directors, representing more than 1/3 of the total number of Directors. Independent non-executive Directors are familiar with the duties and obligations of being the directors of listed companies and independent non-executive directors of listed companies. During the reporting period, independent non-executive Directors, with a prudent and serious attitude, fully leveraged on their experiences and expertises in perfecting the corporate governance and formulation of major decisions, and have provided objective opinions on the Company's significant events and connected transactions. Independent non-executive Directors have promoted the scientific approach in the Board's decisions and the decision-making process and safeguarded the interests of the Company and shareholders as a whole. Four independent non-executive Directors of the Company held positions in the special committees under the Board.

Section II Report of Corporate Governance as required by the Rules ("Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") (continued)

II. Board (continued)

In 2007, the Company held 15 Board meetings to discuss the Company's overall strategic and investment proposals as well as the operation and financial performance of the Company. The Board meeting achieved efficient and timely discussions and prudent decisions . Independent non-executive Directors of the Company had no objection to the Company's decisions. Attendance percentage of the meetings was 95.95% (including attendance by other Directors as alternate) and the details are as follows:

Name	Position	Attendance in meetings (Number)	Total number of meetings (Number)	Attendance Percentage	Remarks
Liu Haitao	Chairman	15	15	100%	–
Ye Maoxin	General Vice-chairman	15	15	100%	Elected as General Vice-Chairman of the Company at the first meeting of the fifth Board on 15th August 2007 and ceased to be General Manager of the Company
Fan Xinmin	Vice-chairman	15	15	100%	–
Yan Fuquan	Director	13	13	100%	–
Liu Hong	Director	15	15	100%	–
Shi Tinghong	Director	15	15	100%	–
Yao Yuming	Director, Financial Controller, General Manager	15	15	100%	Elected as General Manager of the Company at the first meeting of the fifth Board on 15th August 2007
Zhang Jianguo	Director	15	15	100%	–
Wang Zengjing	Independent Non-executive Director	8	8	100%	Resigned on 15th August 2007
Kon Hiu King, Kenneth	Independent Non-executive Director	4	8	50%	Resigned on 15th August 2007
Gao Yong	Independent Non-executive Director	14	15	93.33%	–
Chen Zhong	Independent Non-executive Director	15	15	100%	–
Yu Shiquan	Independent Non-executive Director	15	15	100%	–
Li Hui	Independent Non-executive Director	7	7	100%	Appointed on 15th August 2007

Section II Report of Corporate Governance as required by the Rules ("Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") (continued)

II. Board (continued)

All the Directors are capable of acquiring the relevant information and latest development on the legal, regulatory and other continuing obligations to be complied with by directors of listed companies from the Board Secretary and such arrangement ensures that Directors fully understand his duties and that the Board meeting will proceed smoothly and the relevant laws and regulations are complied with. Directors and the Special Board Committees are authorized, pursuant to the requirements for the exercise of duties, performance of obligations or the business requirements, to engage independent professional bodies for providing necessary services to them. Any reasonable costs arising therefrom shall be borne by the Company.

The Company is strictly in compliance with the relevant provisions in respect of securities transactions by directors as promulgated by the regulatory bodies in the Mainland and Hong Kong.

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers", in Appendix 10 to the Listing Rules as the code of practice for securities transactions by Directors. The Company has made specific enquiries to all the directors and all the Directors have confirmed that they have complied with the code for securities transactions by Directors as set forth in "Model Code for Securities Transactions by Directors of Listed Issuers" during the reporting period.

Special Board Committees

Pursuant to the resolutions of general meeting, the Board has established two special committees and each of which has defined terms of reference. Their respective scope of supervision are as follows:

Section II Report of Corporate Governance as required by the Rules ("Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") (continued)

II. Board (continued)

Audit Committee

The terms of reference of the Committee was formulated with reference to "Guidelines on Effective Operations of the Audit Committee" issued by Institute of Certified Public Accountants. Its duties include: to review the degree of completeness, accuracy and fairness of the financial reports of the Company, to receive the reports from the Company's management and Auditors, to make inquiry to the Finance Department and Auditors in respect of the Company's financial status and get reasonable explanation thereon and to review the Company's internal control and financial reporting mechanisms and to report to the Board on the matters thereon.

The members of the Audit Committee under the fourth Board of the Company are Mr. Wang Zengjing (Chairman of the Committee), Mr. Kon Hiu King, Kenneth and Mr. Yu Shiquan. All the three members are Independent Non-executive Directors and are in compliance with the relevant requirements. As at the first meeting of the fifth Board of the Company convened on 15th August 2007, Mr. Gao Yong, Ms. Li Hui and Mr. Yu Shiquan were appointed members of the Audit Committee of the fifth Board of the Company and it was approved that Mr. Gao Yong be appointed as Chairman of the Committee. All the three members are Independent Non-executive Directors and are in compliance with the relevant requirements.

Two meetings of the Audit Committee were held in 2007. All the matters passed by the Audit Committee have been properly recorded and filed according to the relevant rules. The Chairman of the Audit Committee would report to the Board on all the important matters.

The attendance of members is as follows:

Name of the committee member	Attendance in meetings (Number)	Total number of meetings (Number)	Attendance percentage
Gao Yong (Chairman of the fifth Committee)	0	0	–
Li Hui	0	0	–
Yu Shiquan	2	2	100%
Wang Zengjing (Chairman of the fourth Committee)	2	2	100%
Kon Hiu King, Kenneth	2	2	100%

The work of Audit Committee for the year include: reviewed the completeness of the 2006 Annual Report, 2007 Interim Report and the relevant accounts of the Company, and reviewed the substantial opinions on financial reporting as set out in financial statements and reports. It also reviewed the Company's internal financial reporting procedures, financial and accounting policies and practices, and conducted relevant discussions with Executive Directors, General Manager and external Auditors. The Committee examined the independence of external Auditors and considered and approved its terms of employment and remuneration. It also discussed the nature, scope and relevant reporting obligations of Auditors and provided written reports and recommendations to the Board in a timely manner.

Personnel Nomination and Remuneration Committee

The Committee has specific written terms of reference, with clearly defined duties and responsibilities. The terms of reference of the Personnel Nomination and Remuneration Committee include the specific duties and responsibilities set out in code provisions B.1.3(a) to (f), while appropriate modifications will be made as and when necessary.

The fourth Personnel Nomination and Remuneration Committee comprises three Independent non-executive Directors and one Executive Director, including Mr. Wang Zengjing, Mr. Fan Xinmin, Mr. Kon Hiu King, Kenneth and Mr. Yu Shiquan, with Mr. Wang Zengjing being the Chairman. The relevant requirements were complied with. As at the first meeting of the fifth Board of the Company convened on 15th August 2007, the new session of the Personnel Nomination and Remuneration Committee was formed via election. The Committee comprises two Independent Non-executive Directors and two Executive Directors including Mr. Liu Haitao, Mr. Ye Maoxin, Ms. Li Hui and Mr. Yu Shiquan. The relevant requirements were complied with.

The main duties of Personnel Nomination and Remuneration Committee are: to provide recommendations to the Board on the scale and composition of the Board on the basis of the Company's operations, scale of assets and shareholding structure, to study the selection criteria and procedure of Directors and Managers and provide recommendations thereon to the Board, to broadly identify qualified Directors and Managers, to review the candidates of Directors and Managers and to provide recommendations thereon, to formulate the remuneration proposal or policy on the basis of the scope, duties and importance of Directors and senior management and the remuneration of similar positions of other enterprises and the remuneration proposal or policy shall include but not limited to the criteria, procedure and mechanism of appraisal and the major proposal and system of rewards and punishments and to supervise the implementation of the Company's remuneration policy.

Section II Report of Corporate Governance as required by the Rules ("Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") (continued)

III. Mechanism of supervision

Supervisory Committee

The Supervisory Committee, established under the laws of the PRC and pursuant to the Article of Association, reviews the financial condition of the Company, and carries out supervision on whether the decisions and management of the Board and senior management are in compliance with the legal requirements for safeguarding the legal interests of shareholders, the Company and the staff. The fourth Supervisory Committee of the Company was established at the Extraordinary General Meeting held on 15th August 2004 and the term of office of the supervisors will expire on 15th August 2007. The fourth Supervisory Committee comprises seven members and the Chairman of Supervisory Committee is Mr. Wang Tiankai. The number and the qualification of members are in compliance with the legal requirements. The fifth Supervisory Committee of the Company was established at the Extraordinary General Meeting held on 15th August 2007 and the term of office of the supervisors will expire on 15th August 2010. The fifth Supervisory Committee comprises seven members and the Chairman of the Supervisory Committee is Mr. Tu Kelin. The number and the qualifications of members are in compliance with the legal requirements. The profiles of Supervisors of the fourth Supervisory Committee and fifth Supervisory Committee of the Company are set out in Chapter IV "Directors, supervisors and senior management and staff" of this annual report.

In 2007, the Supervisory Committee of the Company held 5 meetings and all the Supervisors attended the meetings and the Board meetings and have performed the duties of Supervisory Committee in diligent manner. The Supervisory Committee reviewed the financial information of the Company's 2006 annual results, 2007 interim results and the new Composite Services Agreement and the continuation of continuous connected transactions. . The Committee has monitored the management of the Board and senior management of the Company and provided recommendations thereon to the management.

The attendance of members (including attendance by other supervisors as proxy) is as follows:

Name	Position	Attendance in meetings (Number)	Total number of meetings (Number)	Attendance percentage	Remarks
Tu Kelin	Chairman of Supervisory Committee	5	5	100%	Elected as Chairman of the Supervisory Committee on 15th August 2007
Peng Zeqing	Vice-chairman of Supervisory Committee	5	5	100%	–
Liu Jiebo	Supervisor	3	3	100%	Appointed on 15th August 2007
Zhang Xiaoli	Supervisor	3	3	100%	Appointed on 15th August 2007
Dong Min	Supervisor	5	5	100%	–
Lian Jinhua	Supervisor	5	5	100%	–
Li Xisheng	Supervisor	3	3	100%	Appointed on 15th August 2007
Wang Tiankai	Chairman of Supervisor	2	2	100%	Terms of office expired on 15th August 2007 and ceased to hold such office
Bao Weiguo	Supervisor	2	2	100%	Terms of office expired on 15th August 2007 and ceased to hold such office

Section II Report of Corporate Governance as required by the Rules ("Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") (continued)

III. Mechanism of supervision (continued)

Internal Control and Internal Audit

The Board is responsible to make a balanced, clear and comprehensive assessment on the performance and prospect of the Group. The Board is also responsible for making arrangement for the preparation of accounts of the Company (including accounts for the year ended on 31st December 2007) on the going concern basis that reasonably and fairly reflect the financial conditions of the Group, as well as arranging for the announcement of price-sensitive information and financial disclosure. The management reports to the Board all relevant information and records which enables the Board to make the above evaluations and to prepare the accounts and financial disclosure.

The Board is responsible for establishing and maintaining the Company's internal control and reviewing the control procedures in relation to finance, operation and supervision, so as to safeguard the interests of shareholders and assets of the Company. The Board authorizes the management to carry out internal control mechanism, and the effectiveness of which will be reviewed by Audit Committee.

The Company has established the Internal Audit Department which regularly, or whenever necessary, reviews the possible risks and significance of the financial, operating and internal control activities of the Company's branches and subsidiaries in accordance with the internal control system of different business operations of the Company, so as to provide independent and objective evaluation and recommendations for ensuring the compliance of the Company's operations with regulations, the efficiency of operations and the effectiveness of the control mechanism of the Company.

Section II Report of Corporate Governance as required by the Rules ("Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") (continued)

III. Mechanism of supervision (continued)

Internal Control and Internal Audit (continued)

The Company has always placed a lot of emphasis to internal control and has established corresponding internal management mechanism and procedures in aspects of operations, finance and human resources. To consistently standardize corporate governance, the Board of the Company has reviewed the effectiveness of the internal control system of the Company in 2007 and the review covered its financial, operational and compliance controls and risk management functions.

Fee to External Auditors and Term of Service

The aggregate remuneration to Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu CPA Limited (as the international and PRC auditors of the Company) for the year 2007 was RMB3,480,000. In addition to audit related services, PricewaterhouseCoopers and Deloitte Touche Tohmatsu CPA Limited have not provided non-audit services during the year.

The Board of the Company agreed on the proposal to re-appoint Deloitte Touche Tohmatsu (Certified Public Accountants registered in Hong Kong) and Deloitte Touche Tohmatsu CPA Limited (Certified Public Accountants registered in the PRC) as the international auditors and PRC auditors for the Company for the year ended 31st December 2008, and submitted the proposal to 2007 Annual General Meeting for approval.

Starting from 2004, in accordance with the "Regulations on the Regular Rotation of Signatory Certified Public Accountant for Auditing Securities and Futures Transactions", the Company requires rotation of certified public accountants for signature of domestic auditor's reports. The domestic auditor's report for the PRC annual report for the year 2007 were signed by Tong Chuanjiang and Xie Jiayang, both of whom are certified public accountants registered in the PRC.

Financial Controller

Financial Controller is in charge of the Company's financial matters and is accountable to General Manager. Financial Controller is responsible for preparing the financial statements pursuant to the generally accepted accounting principles in PRC and Hong Kong Financial Reporting Standards and the relevant disclosure requirements of CSRC, Shenzhen Stock Exchange and the Stock Exchange of Hong Kong Limited. Financial Controller is also responsible for preparing the annual budget and annual accounts and supervising the implementation of the annual financial and operation plans. Financial Controller shall comply with the relevant systems of internal control as formulated by the Board and make recommendations to the Board.

Equity Interests in Shares and securities transactions by Directors, Supervisors and senior management

Please refer to: Section I, Chapter IV, Terms of office, interest in share capital and remunerations of Directors, Supervisors and senior management

Interest in shares of the Substantial Shareholders

Save as disclosed in chapter III "Movements in share capital and information on shareholders", to the best knowledge of the Directors, Supervisors and senior management of the Company, as at 31st December 2007, no person (other than the Directors, Supervisors and senior management of the Company) holds any interests or short positions in the shares or underlying shares of the Company (as appropriate) which shall be notified to the Company and the Hong Kong Stock Exchange Limited pursuant to in Divisions 2 and 3 of Part XV of Securities and Futures Ordinance or any interests or short positions recorded in the register required to be maintained pursuant to section 336 of Securities and Futures Ordinance.

Section II Report of Corporate Governance as required by the Rules ("Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") (continued)

III. Mechanism of supervision (continued)

Shareholders, investors' relationship and other stakeholders

The Company is devoted to ensuring that all the shareholders, in particular the minority shareholders, are able to enjoy equal status and sufficiently exercise their respective rights.

General Meeting

General Meeting is the highest authority of the Company and will exercise its authority and make decisions on significant events pursuant to laws and regulations. Annual General Meeting and Extraordinary General Meeting held will serve as the channel of direct communications between the Board and shareholders. Therefore, the Company places strong emphasis on General Meetings, 45-day notice will be given of the general meetings and the Company will request all the Directors, Supervisors and senior management to attend by serving a 45 days notice. The Company encourages all the shareholders to attend the meetings and welcome shareholders to voice their opinions at the meetings.

Substantial shareholder

The Company's substantial shareholder is China Textile Machinery (Group) Company Limited (holding 33.83% of shares of the issued share capital of the Company). Being the Company's substantial shareholder, it has not, directly or indirectly, intervened the decisions and operation of the Company. The Company maintains independence with respect to the staff, resources, finance, structure and business of its substantial shareholder.

Information disclosure and management of investors' relationship

The Board Secretary and the stock representative are responsible for information disclosure and reception of shareholders and investors. To optimize the management over investors' relationship, the Company formulated "Information Disclosure System" and "Management System of Investors Relationship" and their latest amendments were considered and passed at the Board meeting convened on 28th June 2007 to ensure the openness, fairness and equity of information disclosed and to enhance the transparency of the Company.

Evaluation and Incentive of Senior Management

The Personnel Nomination and Remuneration Committee is responsible for the appraisal of senior management. The details of the incentives provided are set out in Chapter IV of Directors, Supervisors and senior management and staff.

IV Summary

The Company has adopted a corporate governance mechanism that reflects its capability in management and business operation and good corporate governance is essential to the healthy development of the Company and the promotion of investors' confidence. To achieve good corporate governance, it is essential for the Company to review whether the measures on corporate governance keep abreast of the market development trend and the requirements of regulatory bodies. This is the Company's objective to establish itself as a leading, healthy and modernized corporation. The Company will continue to devote efforts in promoting the standard of corporate governance so as to ensure the stable development of the Company and to increase the shareholders' values.

Chapter VI General Meetings of Shareholders

Four general meetings of the Company were convened during the year.

Meeting	Date on which meeting was held	Announcement for which resolution was published	Date of announcement
2006 Annual General Meeting	28th June 2007	Securities Times, cninfo website and the websites of Hong Kong Exchange and Clearing Limited and the Company	29th June 2007
2006 General Meeting for Holders of A Shares	28th June 2007	Securities Times, cninfo website and the websites of Hong Kong Exchange and Clearing Limited and the Company	29th June 2007
2006 General Meeting for Holders of H Shares	28th June 2007	Securities Times, cninfo website and the websites of Hong Kong Exchange and Clearing Limited and the Company	29th June 2007
The First Extraordinary General Meeting of 2007	15th August 2007	Securities Times, cninfo website and the websites of Hong Kong Exchange and Clearing Limited and the Company	15th August 2007

Chapter VII Directors' Report

Section I Operation Review of the Company during the Reporting Period

1. Overall Operation Review of the Company during the Reporting Period

The Company is a large textile machinery manufacturer in the PRC, and the only enterprise group capable of carrying out research and development as well as manufacturing of complete set of cotton weaving equipments with integrated activities in scientific research, industrial and trading. It principally engages in the development, manufacturing and sales of textile machinery and components and parts thereof and is accredited as a high and new technology enterprise. Its predecessor is the former Jingwei Textile Machinery Factory with over 50 years of history. As the flagship in the textile machinery industry in China, the Company is dedicated to the development of China's textile industry with a full range of textile machinery to satisfy various customers' needs. The Company's major products consist of equipment for the whole process of cotton weaving including cotton-clearing machine, carding machine, clearing-carding machine, combing machine, doubling machine, roving machine, spinning machine, air-jet yarn weaving machine, automatic winding machine, common winding machine, high-speed warping machine, water-jet weaving machine, air-jet weaving machine, rapier weaving machine, warp knitting machine, circular weft knitting machine as well as components and parts for textile machinery. Its major products account for half of the market share in the textile machinery market in China and are sold in various regions in China and exported to over 40 countries and regions. The Company enjoys great reputation in the PRC textile and textile machinery industries, and has important influence in the international textile and textile machinery industries. The Company is recognized as a specialized textile machinery enterprise with excellent quality and good reputation.

In 2006, the State Council released "Certain Opinions on Speeding Up and Revitalizing the Equipment Manufacturing Industry", the textile machinery was included in as one of such industries. In 2007, with the gradual implementation of the relevant policies of the state, the pace of upgrade of the textile industry in China was further increased. The textile machinery industry has been experiencing a new phase of change from "quantity growth" to "quality and efficiency growth". During the year, the Company grasped the opportunities arising from of the government's implementation of policies such as "textile specialization" and revitalization of equipment manufacturing industries. Under the Board of Directors' right decision-making, Supervisory Board's effective protection, management's excellent leadership and dedication of all staff, the Company made full use of its strengths in terms of resources, continuously enhanced internal reform and strengthened corporate management following the business direction of "overall leadership with scientific development vision, maintaining sustainable and steady development of the company". The Company actively adjusted its product structure, strengthened new product research and development, improved the building up of corporate and company technology research and development systems, and upgraded the company's technological innovation capability. It steadily improved product quality, strived to develop domestic and overseas markets; maintained active and prudent capital operation; emphasized the creation of corporate culture, devoted efforts to promote the brand name of "Jingwei" and set up good corporate image. In 2007, we maintained the sustainable and steady development trend, with economic efficiency at record high level.

During the year 2007, the Company's technical centre successfully obtained the recognition as enterprise technical centre at state level and became the first enterprise technical centre at state level in cotton textile machinery industry in China; it handled and completed the application for and obtained state financial subsidy for the two projects "highly efficient modern cotton complete set of equipment production line" and "intelligent air-jet weaving mahince" from the National Development and Reform Commission and "technology support programme" from the Ministry of Technology of the state. During the year, it was also given awards such as "Top 100 sales revenue of machinery industry in China", "Innovation Prize and Contribution Prize of Bejing Economic Technology Park", "Media Prize of Textile Clothing Brand Influence – Most Strategically Influential Listed Company" and "Leading Enterprise of Textile Special Equipment Manufacturing Industry in China".

For the year ended 31st December 2007 and as stated in the financial report prepared in accordance with the HKFRS, the Group's revenue amounted to RMB5,370,325,000 and profit attributable to equityholders of the Group amounted to RMB162,206,000, representing a decrease of 2.78% and 14.22% from that of last year respectively. As at 31st December 2007, the Group's carrying amount of bank balances was RMB644,299,000, borrowings due within one year was RMB497,161,000 of which borrowings in US dollars amounted to US$21,563,000 (equivalent to RMB157,512,000), and the balance were borrowings in Renminbi. The interest rates were in the range of 5.508% to 6.732% per annum. The Group had long-term borrowings RMB150,000,000. The gearing ratio (long-term borrowing divided by net asset value) was 5.30%.

As at 31st December 2007, bank and cash balances of RMB6,831,000 (2006: RMB7,891,000) were pledged as collateral for the Group's short-term bank loan.

As at 31st December 2007, land use right and buildings on land of RMB192,610,000 of the Group (2006: Nil) were pledged as security for the Group's bank loans.

As at 31st December 2007, none of the short-term investments of the Group (2006: Nil) were pledged as security for the Group's bank loans.

For the year ended 31st December 2007 and as stated in the financial report prepared in accordance with the PRC Corporate Accounting Standards, operating revenue of the Group amounted to RMB5,432,662,000, representing a decrease of 2.67% from that of last year. Operating profit was RMB187,044,000, representing a decrease of 15.25% from that of last year. Net profit attributable to the parent company was RMB162,207,000, representing a decrease of 14.22% over the previous year.

Section I Operation Review of the Company during the Reporting Period (continued)

1. Overall Operation Review of the Company during the Reporting Period (continued)

Among the above items:

Operating revenue of the Company was RMB3,502,374,000, representing a decrease of 4.35% over the previous year while its operating profit was RMB57,502,000, representing an increase of 7.17% over that of the previous year. Net profit of the Group was RMB50,458,000, representing a decrease of 2.65%.

Major subsidiaries: Operating revenue of Qingdao Hongda Textile Machinery Company Limited was RMB1,528,763,000 while operating profit was RMB43,856,000.

Operating revenue of Shenyang Hongda Textile Machinery Company Limited was RMB231,366,000 while operating profit was RMB7,376,000.

Operating revenue of Tianjin Jingwei New Type Textile Machinery Company Limited was RMB328,132,000, while operating profit was RMB27,311,000.

Operating revenue of Changde Textile Machinery Company Limited was RMB415,645,000 while operating profit was RMB25,930,000.

Operating revenue of Beijing Jingwei Textile New Technology Company Limited was RMB978,207,000 while operating profit was RMB37,575,000.

Operating revenue of Shanghai Jingwei Dongxing Blowing Carding Machinery Company Limited was RMB108,723,000 while operating profit was RMB17,049,000.

Operating revenue of Wuxi Jingwei Textile Technology Testing Company Limited was RMB118,421,000 while operating profit was RMB1,997,000.

Operating revenue of Wuxi Hongda Textile Machinery and Special Parts Company Limited was RMB118,003,000, while operating profit was RMB17,518,000.

The main operating activities of the Group in 2007 were as follows:

(1) Continuous development of domestic and overseas markets, further enhancement of strength in the brand of cotton complete set of equipment

① To strengthen market development efforts. We conducted targeted market development by means of a series of measures such as holding promotion seminars, high end forum and visiting key clients, focused on advertising and promoting our full process new cotton equipment.

② Remarkable results of sale of complete set of equipments. We and various enterprises continuously increased marketing innovation, made good use of the strength of complete set of equipment in terms of textile quality indicator and digital data collection system, actively used financing methods such as commercial paper to promote sales of complete sets. There was sizeable growth and remarkable progress for sales of complete sets.

③ Rapid growth of export of products. The Company further expanded its overseas market by convening meetings with companies concerned with special subjects on substantial export contracts of cotton textile complete sets. The Company also conducted several promotion activities in the oversea markets and obtained rather good results, and fostered export of complete sets, and the overseas market share further expanded.

Section I Operation Review of the Company during the Reporting Period (continued)

1. Overall Operation Review of the Company during the Reporting Period (continued)

(2) New breakthrough in technology research and development, further upgrade of product technological level

① The Company gradually improved the core technology of Jingwei products by strengthening research on complete set cotton weaving skills. In 2007, The Company launched a series of new projects, achieved constantly enriching increasing technical contents of cotton complete sets and weaving products, strengthened its core competiveness.

② With constant improvement of corporate and enterprise technology research and development systems, a mutual fusion and advancement of two-tier research and development system yielded in good results. Jingwei Textile Machinery Technology Centre was successfully a accredited with the status enterprise technical centre at state level. Each enterprise actively explored innovative incentive mechanism, increased incentive measures for technological staff, effectively motivated the proactiveness and innovation of research and development staff.

③ The Company took active steps to obtain state policy and project support. During the year, the Company took active steps to obtain and made good use of the implementation of state special funding support projects to nurture the formation of enterprise technology innovation system, especially targeted increase in application of special machine, installation, targeted skill breakthrough and new technology, new skills and new materials, which further enhanced the technological innovation capability of the enterprise. The four projects of air-jet weaving machine, automatic winding machine, tightly knitted spinning machine and warping machine were included in the state special funding support programme, and RMB10 million special subsidy was received. With the mutual efforts of the relevant enterprises, the progress of the projects was smooth and passed the examination and inspection stages. Pursuant to the "Notice on Adjusting the Import Duties Policy of Automatic Winding Machine and Its Components" of the Ministry of Finance, the Company would enjoy the preferential policy of transferring the import tax refund to increase the state capital in 2007. Besides, the Company also handled and completed the application for state financial subsidy for the two projects "highly efficient modern cotton complete set of equipment production line" and "intelligent air-jet weaving mahince" under "new weaving machine substantial technology equipment special project" and "technology support programme" from the National Development and Reform Commission and from the Ministry of Technology of the state respectively, and obtained state financial subsidy of over RMB43 million. The Company specially arranged and held kick-off meeting of technology projects, arranged various tasks to pursure the project implementation.

④ Intellectual property right protection was strengthened. In 2007 the Company put special emphasis on patent, set up special team to manage it, engaged patent specialist and continuously increased intellectual property right protection. At the same time, our intellectual property right innovation standard was increased remarkably by constantly enhancing autonomous innovation capability. Among the 44 patents applied for in 2007, 15 were invention patent, 29 were practical new model, there was an overall increase of 10 more applications made as compared with the previous year. At present, the Company had 228 patent patents in total and completed valid registration of 103 patents.

(3) Consolidation of resources with further results in integrated operation

① New results from centralized procurement of bulk purchase of materials. In 2007, the Company as priority strengthened supply chain consolidation, continuously improved supplier performance evaluation system, set up a system of regular review of suppliers and achieved effective control over procurement costs. It further improved procurement information management module and data exchange platform and strengthened materials planning management, hence achieving the complementary functions between various enterprises and improving the accuracy and timeliness of project implementation. It implemented in strict and detailed manner the full process cost control from planning, procurement to transportation phases, and overcame the impact of price increases in a constantly changing environment.

② Gradual progress in the distribution integration. The Company made timely adjustments of management evaluation methods according to the operation of its sales and technical service centres in various regions, and defined duties and responsibilities of such centres. The Company also arranged targeted centralized advertising campaign for its enterprises, made use of "China Textile Newspaper", the most influential medium in the industry, and made full report of the enterprises under Jingwei under the column heading "Studying and learning about Jingwei", and enhanced overall corporate image. Focusing on the characteristics of sales of complete sets, the Company revised and compiled a uniform catalogue and CD so that the contents became more comprehensive and rich, and obtained good results in overall corporate promotion.

Section I Operation Review of the Company during the Reporting Period (continued)

1. **Overall Operation Review of the Company during the Reporting Period (continued)**

(4) Further strengthening of corporate management with further enhancement of integrated management level

① The Company and its subsidiaries strengthened research on corporate development strategy, and formulated "2008-2010 Rolling Plan" through in-depth research of the competition environment faced by its subsidiaries and their own strengths and weaknesses. This became the blueprint directing corporate strategy development in the forthcoming period.

② During the reporting period, there were remarkable results in corporate financial management. The Company by rational utilization or credit facilities, strengthened internal funds allocation and reduced finance costs. The Company properly allocated internal funds, strongly supported the development of various enterprises. The Company stressed on examining foreign exchange and interest rate trends, and continuously adjusted the structure and scale of foreign currency loans to achieve reduced interest rate and increased the corresponding exchange gains.

③ In 2007, the Company's capital operation had outstanding performance. The Company controlled risks strictly and made rational allocation of idle funds, actively made investments in securities in the market and obtained good gains which improved the profit from our main business and increased cashflow.

④ Monitoring of internal audit was further strengthened. In 2007 the formulation of the Company's internal audit was to regulate financial verification, strengthen internal control, and the key direction was prevention of operational risk with a view to increase corporate benefit. The Company constantly innovated auditing concepts, improved auditing methods, effectively expanded the audit domain and further increased the depth and intensity of audit. The carrying out of internal audit was positive and effective and various positive and effective management suggestions were made to play a positive role in strengthening the management and healthy internal system of our subsidiaries and branches.

⑤ The Company made much efforts on system set up, management of overdue receivables, customer credit evaluation and corporate intellectual property right protection. It strengthened the review of the Company's substantial contracts, sought legal opinion and legal support, constantly enhanced risk control capability.

⑥ During the reporting period, the Company released "Establishment and Planning of "11th Five-Year Plan" Informationization" and "Guiding Opinion on "11th Five-Year Plan" Informationization Planning" and convened informationization special meetings, and made exchange and conclusion of its subsidiaries' experience in implementing ERP upgrade project. The Company also commenced the Group's coding project, completed coding classification system, coding standard for centralized procurement suppliers and materials codes; commenced electronic filing system, completed the deployment of the system and building up of the catalogue structure; commenced the Company's human resources system, finalised the structure of the human resources system; implemented and reviewed the Company's supply management system (SRM); further improved indicator analytical system and preparation of various data, and preliminary achieved BI multi-dimensional display function. The constantly improving and strengthening of application of information system functions enabled the Group's informationizaton application standard to constantly deepen, and provided application platform and protection measures for its sophisticated and modern management.

Section I Operation Review of the Company during the Reporting Period (continued)

2. Principal activities of the Company and its operation

(1) Analysis of principal activities by product

(Unit: RMB'000)

Item	Operating revenue	Operating cost	Operating profit margin (%)	Increase/ decrease of operating revenue compared with last year (%)	Increase or decrease of operating cost compared with last year (%)	Increase or decrease of operating profit margin compared with last year (%)
Natural fibre textile machinery	3,812,618	3,306,021	13.29	9.58	12.55	(14.70)
Chemical fibre textile machinery	128,070	93,160	27.26	27.83	28.85	(2.06)
Weaving machinery	380,453	335,915	11.71	(20.65)	(14.30)	(35.85)
Accessories and special parts for weaving machinery	365,319	269,669	26.18	(3.76)	2.85	(15.34)
Others	119,580	107,206	10.35	(20.38)	(19.02)	(12.69)
Total	4,806,040	4,111,971	14.44	4.73	8.32	(16.39)

During the reporting period, the Company strengthened the research and development of natural fibre complete set textile machinery to further enhance the core technology of its products. Sales of middle and high end products increased continuously. On the basis of the rapid increase of operating revenue in recent years, a steady increase was maintained relying on complete set equipment sales and export. However, due to the inflation in cost of raw materials, increase in manpower cost, rise in financial cost and the State's austerity policy which all accounted for a drop in overall demands, the fall in the sales prices of key products was comparatively significant. The operating profit margin dropped by 14.44%.

Sales and profit-marking capacity of weaving machinery of the Company experienced significant adverse impact from imported products, thus the growth last year could not be maintained.

(2) Principal activities by region:

(Unit: RMB'000)

Region	Operating revenue		Change (%)
	2007	2006	
PRC	4,141,909	4,155,315	(0.32)
Asia	634,917	366,612	73.19
Africa	17,523	40,839	(57.09)
Others	11,691	25,997	(55.03)
Total	4,806,040	4,588,763	4.73

Sales to customers who subsequently sold the goods to overseas countries are classified as operating revenue from those overseas countries.

(3) Major suppliers and customers

For the year ended 31st December 2007, the total sales by the Group to the 5 largest customers amounted to RMB900,812,000, representing 16.58% of operating revenue for the year.

For the year ended 31st December 2007, the total purchase by the Group from the 5 largest suppliers amounted to RMB704,154,000, representing 15.94% of the total purchases for the year.

Section I Operation Review of the Company during the Reporting Period (continued)

3. Change in the assets composition during the Reporting Period

Items	2007 *(RMB'000)*	2006 *(RMB'000)*	Increase/decrease (%)	Reason for difference
Financial assets for trading	4,945	8,886	-44.35	Note (1)
Other receivables	71,219	41,355	72.21	Note (2)
Inventory	2,000,726	1,320,920	51.46	Note (3)
Entrusted loans	67,000	181,000	-62.98	Note (4)
Construction in progress	66,265	39,930	65.95	Note (5)
Taxes payable	7,135	23,603	-69.77	Note (6)
Dividends payable	26,680	19,177	39.12	Note (7)
Other current liabilities	6,470	19,065	-66.06	Note (8)
Other non-current liabilities	20,180	10,315	95.64	Note (9)
Minority interests	230,098	161,375	42.59	Note (10)
Financial expenses	22,035	5,501	300.56	Note (11)
Investment income	117,486	15,099	678.10	Note (12)
Non-operating expenses	19,541	14,644	33.44	Note (13)

Note (1): Financial assets for trading mainly calculated equity investment. The decrease as at the end of the year over last year was mainly due to the small amount outstanding equity and the lower fair value over last year end.

Note (2): Other receivables mainly calculated capital flow between connect persons, input tax subject to reduction and staff borrowing reserve. The increase as at the end of the year over last year was mainly due to the prepayment of import tax and value added tax and the increase in input tax subject to reduction.

Note (3): Inventory was mainly calculated raw materials for production, goods in process, finished goods and real estate development cost. The increase as at the end of the year over last year was mainly due to the acquisition of the subsidiary Beijing Bohong Real Estates Development Company Ltd. during the Period which led to the increase in real estate development cost.

Note (4): Entrusted loans mainly calculated entrusted loans to associated companies and jointly controlled entities. The decrease as at the end of the year over last year was mainly due to the collection of part of the entrusted loans.

Note (5): Construction in progress mainly calculated uncompleted constructions and incomplete installation of machinery and equipment. The increase as at the end of the year over last year was mainly due to the injection of outstanding amount for the construction that was needed for the expansion of the Company.

Note (6): Taxes payable mainly calculated payable and prepaid value-added tax, operating tax, income tax, etc. The decrease as at the end of the year over last year was mainly due to the increase in inventory for the year over last year, the corresponding increase in input tax and the decrease in the tax due at the end of the period.

Note (7): Dividends payable mainly calculated the dividends payable to the shareholders at the end of the period. The increase as at the end of the year over last year was mainly due to the acquisition of Beijing Bohong Real Estate Development Co., Ltd. and the dividends to be paid to minority shareholders.

Note (8): Other current liabilities mainly calculated provisions for various expenses. The decrease as at the end of the year over last year was mainly due to the small amount of recognition of the relevant expenses.

Note (9): Other non-current liabilities mainly calculated deferred income. The increase as at the end of the year over last year was mainly due to the obtaining of textile special project funds of which the benefiting period is not accounted to the period as well as other local subsidies.

Note (10): Minority interest mainly calculated the net asset appropriation of the Company entitled to minority shareholders. The increase as at the end of the year over last year was mainly due to the acquisition of the subsidiary Beijing Bohong Real Estate Development Co., Ltd., thus recognising the interest of its minority shareholders.

Note (11): Financial expenses mainly calculated interest income and expenses, discounted interest of bills, gain and loss on currency exchange and bank fees. The increase as at the end of the year over last year was mainly due to increased the discounted interest which requires more undertakings in financing bills, and the increase in interest expense as a result of upward adjustment in bank loan rates and the decrease in bank interest income as a result of decrease in deposits.

Note (12): Investment income mainly calculated investment income of associated companies and that of financial assets for trading as well as interest income from entrusted loans. The increase as at the end of the year over last year was mainly due to the increase in income from equity transactions obtained by the Company and the increase in income from equity investment.

Note (13): Non-operating income mainly calculated subsidiary income and income from disposal of assets. The increase as at the end of the year over last year was mainly due to the obtaining of textile special projects funds and local special projects funds.

Section I Operation Review of the Company during the Reporting Period (continued)

4. Composition of the Company's cash flow

Net cash flow from the Group's operating activities in 2007 were RMB122,925,000 which were decreased by RMB6,716,000 from net cash flow of RMB129,641,000 in 2006. Attributable to the appreciation of Renminbi in 07, the decrease in import tax return for textile products in the PRC and the inflation in the prices of steel raw materials and coal, electricity, oil and transportation led to the tense use of capital for various textile plants making volume of working hours not sufficient. Thus, collection of loans from the Group was inhibited and purchase capital increased, resulting in a drop in net cash flow from operating activities.

Net cash flow from operating activities was RMB4,826,000, representing an increase of RMB163,570,000 over RMB-158,744,000 of net cash flow for 2006, mainly due to the collection of loans to unconnected persons during the period and the decrease in the injection of fixed assets.

Net cash flow from financing activities was RMB-385,215,000, representing a decrease of RMB509,526,000 over RMB124,311,000 of net cash flow for 2006, mainly contributed to borrowing and the decrease in capital obtained through bank credits.

Items	**2007**	**2006**
	RMB'000	RMB'000
Net cash flows from operating activities	122,925	129,641
Net cash flows from investing activities	4,826	(158,744)
Net cash flows from financing activities	(385,215)	124,311
Effect of foreign exchange rate to cash	(777)	(2,022)
Net increase in cash and cash equivalents	(258,241)	93,187

5. Reasons and relevant effects of the accounting policy changes of the Company

Since 1st January 2007, the Group adopted the New Accounting Standards and made retroactive reconciliation on long-term equity investment, welfare for workers to be laid off and retirement welfare, income tax, trading financial assets, goodwill, assets-related government grants, appreciation in value upon valuation, gain on debt restructuring and scope of consolidation in accordance with No. 38 Standards and relevant provisions of Accounting Standards for Enterprises Interpretation No. 1:

For the above accounting policy changes, the Group has adjusted the amount at end of the year or last year's comparative data of the 2007 annual report under retroactive reconciliation method and restated comparative financial statements.

The major effects of the above accounting policy changes on assets and liabilities were:

Assets: Total assets before reconciliation were RMB5,308,920,000. Total assets after reconciliation were RMB6,409,566,000, representing an increase of RMB1,100,646,000. Major changes in items are as follows:

(1) The corresponding effect as a result of reconciliation in shareholders' equity pursuant to the new accounting standards: Deferred tax assets increased by RMB32,682,000. Goodwill increased by RMB2,258,000.

(2) The effect of the exclusion of Anhui Huamao Jingwei New Textile Company Ltd. from scope of consolidation on prorata basis: currency capital decreased by RMB1,680,000. Accounts receivable increased by RMB21,309,000. Prepayments decreased by RMB990,000. Inventory decreased by RMB4,888,000. Fixed assets decreased by RMB101,107,000. Construction in progress decreased by RMB66,127,000. Project materials decreased by RMB2,103,000. Entrusted loan increased by RMB53,000,000. Long-term investment increased by RMB24,577,000 (effect of reconciliation of difference of equity investment included).

(3) Notes receivable increased by RMB1,138,530,000, mainly due to the adjustment on endorsed and discounted acceptance bills based on the financial statements prepared in accordance with IFRS, and the above effect of changes in scope of consolidation.

(4) Combined effects such as re-classification and scope combination: Financial assets for trading increased by RMB8,886,000. Other accounts receivable increased by RMB5,737,000. Intangible assets decreased by RMB810,000. Other assets decreased by approximately RMB8,625,000 due to combined effects.

Liabilities: Total liabilities before reconciliation were RMB2,305,941,000. Total liabilities after reconciliation were RMB3,533,805,000, representing an increase of RMB1,227,864,000 Major changes in items are as follows:

(1) The corresponding effect as a result of reconciliation of shareholders' equity pursuant to the new accounting standards: Welfare for the retired and the widowed led to the increase of RMB8,270,000 and RMB141,360,000 in non-current liabilities due within one year and long-term accounts payable and the transfer of assets-related government subsidies led to the increase of RMB10,315,000 in other non-current liabilities.

(2) The effect of the exclusion of Anhui Huamao Jingwei New Textile Company Ltd. from scope of consolidation on prorata basis: Notes payable decreased by RMB16,438,000. Accounts payable decreased by RMB4,972,000. Advances from customers increased by RMB520,000.

Section I Operation Review of the Company during the Reporting Period (continued)

5. Reasons and relevant effects of the accounting policy changes of the Company (continued)

(3) accounts payable increased by RMB850,645,000, mainly due to the adjustment on endorsed acceptance bills based on the financial statements prepared in accordance with IFRS, and the above effect of changes in scope of consolidation.

(4) Short-term borrowing was reconciled and increased by RMB240,395,000, mainly due to transfer of discounted acceptable bills from contingent liabilities and the above effect of changes in scope of consolidation.

(5) Combined effects such as re-classification and scope combination: Accrued payroll increased by RMB49,135,000. Taxes payable decreased by RMB1,779,000. Other payables reduced by RMB59,559,000. Long-term borrowing due within one year increased by RMB5,000,000. Other non-current liabilities increased by RMB19,065,000.

The effects of the above accounting policy changes on the shareholders' equity on 1st January 2006 and 31st December 2006 are as follows:

Effect on consolidated shareholders' equity on 1 January 2006

	Undistributed profit *RMB*	Surplus reserve *RMB*	Capital reserve *RMB*	Minority Shareholders' Equity *RMB*	Total *RMB*
Difference in equity investment	11,929,467.60	1,325,496.40	(7,266,904.00)	71,164.20	6,059,224.20
Welfare for the retired and widowed	(122,483,700.00)	(13,609,300.00)	–	(15,737,000.00)	(151,830,000.00)
Deferred income tax	30,001,002.74	3,333,444.75	–	–	33,334,447.49
Waiver of debt	480,406.50	53,378.50	(533,785.00)	–	–
Write-back of value increase upon valuation	806,997.60	89,666.40	(4,200,000.00)	–	(3,303,336.00)
Asset-related government grants	–	–	–	–	–
Others	(16,093.48)	(1,788.16)	(384,621.47)	(188,011.41)	(590,514.52)
Total	(79,281,919.04)	(8,809,102.11)	(12,385,310.47)	(15,853,847.21)	(116,330,178.83)

Effect on consolidated shareholders' equity on 31 December 2006

	Undistributed profit *RMB*	Surplus reserve *RMB*	Capital reserve *RMB*	Minority Shareholders' Equity *RMB*	Total *RMB*
Difference in equity investment	13,078,037.93	1,453,115.33	(12,609,265.28)	71,164.20	1,993,052.18
Welfare for the retired and widowed	(120,996,450.00)	(13,444,050.00)	–	(15,189,500.00)	(149,630,000.00)
Deferred income tax	29,413,810.32	3,268,201.15	–	–	32,682,011.47
Waiver of debt	1,599,715.80	177,746.20	(533,785.00)	–	1,243,677.00
Write-back of value increase upon valuation	901,197.00	100,133.00	(4,200,000.00)	–	(3,198,670.00)
Asset-related government grants	–	–	(3,610,272.00)	(6,704,791.00)	(10,315,063.00)
Others	1,640,312.72	182,256.97	(1,697,298.73)	(119,010.41)	6,260.55
Total	(74,363,376.23)	(8,262,597.35)	(22,650,621.01)	(21,942,137.21)	(127,218,731.80)

Effects on net profit of the Group for 2006 arising out of the above accounting policy changes are as follows:

	Amount *RMB*
Difference in equity investment	1,276,189.26
Welfare for the retired and widowed	2,200,000.00
Deferred income tax	(652,436.02)
Waiver of debt	1,243,677.00
Write-back of value increase upon valuation	104,666.00
Change in presentation of profit and loss of minority interests	17,254,278.00
Others	1,909,452.33
Total	23,335,826.57

Reconciliation of Consolidated Shareholders' Equity on 1 January 2007

In accordance with Statement of Reconciliation of Equity from Old to New PRC Accounting Standards disclosed in 2006 Annual Report ("Statement of Reconciliation"), the Group recorded consolidated shareholders' equity under the New Accounting Standards on 1 January, 2007 of RMB3,029,857,835.00. In 2007, the Group based on the further interpretation regarding the enforcement of the New Accounting Standards by the Ministry of Finance and considered the actual situation of the Group, it has made adjustment in the relevant accounting policies and important recognitions in the preparation of the Statement of Reconciliation. The consolidated shareholders' equity listed on the financial statements of 2007 on 1 January, 2007 under the new standards is RMB2,875,760,635.39.

Section I Operation Review of the Company during the Reporting Period (continued)

5. Reasons and relevant effects of the accounting policy changes of the Company (continued)

In accordance with Accounting Standards for Enterprises Interpretation No.1, the Group has prepared the following Reconciliation of Consolidated Shareholders' Equity on 1 January, 2007.

Item	Amount disclosed in 2007 Annual Report *RMB*	Amount disclosed in 2006 Annual Report *RMB*	Difference Annual Report *RMB*	Reason
31 December 2006 Shareholders' equity (based on original accounting standards)	2,819,661,936.00	2,819,661,936.00	–	
Welfare for the retired and widowed	(149,630,000.00)	–	(149,630,000.00)	Note (1)
Difference in long term equity investment	1,993,052.18	(5,803,545.00)	7,796,597.18	Note (2)
Income tax	32,682,011.47	32,682,011.00	0.47	
Asset-related government grants	(10,315,063.00)	–	(10,315,063.00)	Note (2)
Minority interests transferred to shareholders' equity	183,317,433.00	183,317,433.00	–	
Others	(1,948,734.26)	–	(1,948,734.26)	Note (2)
Equity as at 1 January 2007 (based on new accounting standards)	2,875,760,635.39	3,029,857,835.00	(154,097,199.61)	Note (3)

Note(1): In the past the Group had not made projection on the welfare of retired staff and widowed under the Group's defined retirement benefited plan. This time the Group engaged actuary to make actuarial evaluation of the statutory and constructive obligations for the welfare of retired staff and widowed and the corresponding liabilities are recognized.

Note (2): Originally the Group had to make partial retroactive adjustment on the financial statements for comparable periods in accordance with the provisions of Article 5 to Article 19 of No.38 Standards and base on it to prepare a reconciliation table on the difference of shareholders' equity between the old and new accounting standards. As the Company is a A-share and H-share listed company, it is required to provide financial statements both in accordance with domestic accounting standard and international financial report standards. Article 1 of Accounting Standards for Enterprises Interpretation No. 1 provides that for transactions or items with no differences in New Accounting Standards and international financial report, apart from retroactive reconciliation in accordance with Article 5 to Article 19 of No. 38 Standards as well as other regulations, the Group builds on the information it has obtained as well as financial statements compiled pursuant to international financial report formulation standards to conduct retroactive reconciliation on accounting policies changes due to enforcement of new accounting standards for transactions and items done in accordance with regulations of Article 5 to Article 19 of No. 38 Standards as well as comparative annual financial statements. For impact brought about by enforcement of new Accounting Standards on comparative financial statements.

Note (3): The difference between the shareholders' equity reconciled in accordance with the New Accounting Standards on 1st January 2007 and the shareholders' equity calculated in accordance with the original accounting standards was RMB154,097,199.61, which was the total of the differences described in Notes (1) and (2).

Charts:

Reconciliation of profit
(1st January to 31st December 2006)

Unit: RMB

Item	Before reconciliation	After reconciliation
Operating cost	3,869,652,586.00	4,732,393,206.73
Selling expenses	141,842,660.00	141,555,664.53
Management expenses	491,668,618.00	468,321,194.83
Gain from changes in fair value	0.00	
Investment gain	17,403,839.00	15,098,640.19
Income tax	22,921,535.00	23,573,969.91
Net profit	183,630,749.00	189,095,795.64

Reconciliation of difference in net profit

Unit: RMB

Item	Amount
Net profit as of 1st January to 31st December 2006 (original accounting standards)	183,630,749.00
Add: Total amount due to effects of retroactive reconciliation	22,719,324.64
Of which: Operating cost	862,740,620.73
Selling expenses	-286,995.47
Management expenses	-23,347,423.17
Gain from changes in fair value	0.00
Investment gain	-2,305,198.81
Income tax	652,434.91
Others	-814,734,113.55
Less: Minority interest due to effects of retroactive reconciliation	17,254,278.00
Net profit attributable to stakeholders of the parent company as of 1st January to 31st December 2006 (New Accounting Standards)	189,095,795.64

Section I Operation Review of the Company during the Reporting Period (continued)

6. Important information relating to the Company's operation

(1) Current facility utilization of the Group is generally normal. Expansion of production capacity of the Company is primarily achieved through social collaboration and functional divisions.

(2) For the year ended 31st December 2007, new sales contracts signed by the Company for the forthcoming year amounted to RMB2,900,000,000.

(3) The Group prioritizes corporate competitiveness through product development with attractive incentive schemes for technical staff. For such reasons, turnover of technical staff is relatively low.

7. Analysis of operation and results of the Company's major controlled subsidiaries and associates

As at 31st December 2007, the Group's major controlled subsidiaries were as follows:

Unit: RMB thousand

Name of enterprise	Principal activities	Registered capital	Equity interest held by the Group %	Total assets	Net assets	Net profit
Qingdao Hongda Textile Machinery Company Limited	Manufacture, sales, installation, repairing and leasing of special equipment for textile industry, textile machinery and related components	114,000	98	650,647	320,590	41,983
Shenyang Hongda Textile Machinery Company Limited	Technological development and manufacture of textile machinery and related components; electronic and electric machinery and equipment, providing technical consultation	71,000	98	201,314	129,736	5,987
Tianjin Jingwei New Type Textile Machinery Company Limited	Manufacture and process of textile machinery and special accessories and electronic equipments and economic technological consultancy	16,000	100	113,448	62,782	27,311
Changde Textile Machinery Company Limited	Manufacture and sales of textile machinery and other machinery and parts and components, powder metallurgy	42,350	95	356,970	219,440	29,779
Beijing Jingwei Textile New Technology Company Limited	Technological development and sale of textile machinery and computer hardware and software, sale of special textile equipment, agricultural machinery, instruments and meters as well as automobile components	100,000	98.40	462,658	167,172	33,556
Shanghai Jingwei Dongxing Blowing-Carding Machinery Company Limited	Manufacture and sales of blowing-carding machinery and related components	50,000	95.874	104,783	95,103	15,652
Wuxi Textile Technology Testing Company Limited	Manufacture and sales of cotton yarn; research and development in textile machinery and equipment, devices and relevant technologies	49,530	66.55	132,517	57,557	1,131
Wuxi Hongda Textile Machinery and Special Parts Company Limited	Manufacture of new style textile machinery, other textile machinery and special parts and components as well as machinery and components for general use; sales of its own products.	20,000	35	142,263	66,727	15,417

Section I Operation Review of the Company during the Reporting Period (continued)

8. Fixed assets

Details of the movements in fixed assets during the year are set out in the notes to the financial statements prepared in accordance with the PRC Corporate Accounting Standards and the notes to the financial statements prepared in accordance with the HKFRS.

9. Retirement benefit scheme

The Group did not have estimations on welfare for the retired and the widowed entitled to the retirement benefit scheme of the Group. The Group appointed actuaries to carry out actuarial calculation regarding welfare for the retired and the widowed and recognised the respective liabilities.

Details of the retirement benefit scheme of the Group are set out in the notes to the financial statements prepared in accordance with the HKFRS.

10. Donations

Donations made by the Group during the year amounted to RMB371,000 (2006: RMB403,000).

Section II Prospects for the future development of the Company

1. Development trend of the textile machinery industry and market competition faced by the Company

For 2008, there are two important orientation of state policy, namely, economic growth is to change from "fast and good" to "good and fast", and monetary policy to change from "prudent" to "tight". There will slow down investment in fixed assets in the textile industry to a large extent. After several years of rapid development of the textile industry, the market capacity has gradually become saturated, the demand for upgrading and transformation has reduced. The development of textile industry is now at a transformation stage from expansion of scale to up lifting of the industry. During this stage, the demand for ordinary cotton weaving equipment will be reduced, while the sales of high speed, highly efficient, high value added, less labour input, energy saving and environmental friendly equipment will further increase, these will further accelerate the pace of transformation progress and autonomous innovation of the textile industry.

During the "11th Five-Year Plan" period, China promugated various policies and measures for revitalizing the country's equipment manufacturing industry. In the industry development plan, the textile industry also accorded the development of advanced textile technology as a key support item. The textile high technology development direction and the development trend of constantly improving the yarn quality and intensity were advocated. There is a target of achieving 50% rollless weaving, 70% of knotless yarn and shuttleless cloth, and 30% mixed yarn by the end of the "11th Five-Year Plan" period. This provides good opportunities for textile machinery enterprises like the Company. Accordingly, the Company actively obtained several government bond subsidy projects and created niche for the sustainable development of its products.

2. Future development strategies of the Company

Facing the competition and challenges brought about by economic globalization in the 21st century, the Company would position itself to be based in China, the largest textile industry market in the world. With a clear vision of "A friend of the global textile industry and the pride of the manufacturing industry of China" and the mission of "providing customers with full-flow digital solutions", the Company will adhere closely to the business direction of "pursuing practical effect from reform and innovations and attending to details and executing effectively" and develop core competitiveness, so as to establish itself as a diversified, internationalized and modernized conglomerate.

3. The operation plan for the new financial year

(1) Focusing on products, creation of brand name, improvement of corporate core competitiveness

① The Company will continuously increase input of research and development, speed up technological advancement and autonomous innovation. It will actively implement "new weaving machine substantial technology equipment special project" and "technology support programme" that the state has been implementing to revitalize the equipment manufacturing industry, increase investment in technology. It will also arrange carefully the development of the two projects of "highly efficient modern cotton complete set of equipment production line" and "intelligent air-jet weaving machine" as well as the implementation of "new generation weaving equipment" and "fully automatic tube changing machine and modern automatic, consecutive cotton weaving model production line".

Section II Prospects for the future development of the Company (continued)

3. The operation plan for the new year (continued)

(1) Focusing on products, creation of brand name, improvement of corporate core competitiveness (continued)

② The Company will speed up the upgrading and replacement of complete sets, improve the technical standard of complete sets. The Company will increase efforts in cotton complete sets techniques, make in-depth studies on critical techniques to increase yarn intensity, increase labour productivity, energy saving and reduction of pollutant. The Company will devote efforts to improve the technical functionality of complete sets, facilitate the upgrading and replacement and development in series of every type of standalone equipment, further enhance the automatic, consecutive and digitalized standard of cotton weaving complete sets to achieve adjustment of product structure.

③ Specific product and appliance are critical items in weaving mahcnery and equipment. The Company will further increase its efforts in specific product and appliance technology, devote its attention to make every type of product to become a fine product, constantly improve core technology for weaving machinery products.

④ The Company will enhance its research in weaving techniques, facilitate the formation of Jingwei core techniques. It will expand cooperation with colleges and research institutes, make in-depth studies in system techniques such as the combing, drafting, twisting and winding, air current etc and online inspection techniques; strengthen studies and application of new materials, constantly improve product quality, reduce product costs.

⑤ The Company will take steps to research of new products, constantly extend the influence of Jingwei brand name. It will enhance Jingwei brand name with a new image of high technology, fine manufacturing, and will constantly extend the brand name effects, so as to facilitate continued market development.

⑥ The Company will strengthen the set up of technological innovation system, enhance the training and development of technological team. It will improve the set up of Jingwei two-tier technology development system, increase rewards for research and development results and incentive for research and development staff, strengthen technical training and knowledge update of research and development team, improve the overall quality of research and development staff, protect the Company's core technical talents, facilitate technological innovation and formation of new system of technological progress, enhance the Company's core competitive advantage.

(2) Focusing on the market, promotion of distribution, winning customers with high quality services

① To enhance market analysis and made proper market planning. To monitor the status of our position in the market competition from time to time. To formulate scientific market strategies and well plan product promotion campaign, adopt flexible marketing methods, and improve the rate of contract execution.

② To actively drive the sales of complete sets, speed up the regional sales point establishment for the sales of new complete sets, increase the weighting of sales of complete sets, constantly enhance the Company's operational results, increased the sales of specific accessories to satisfy market needs and foster the sale of main machine.

③ To actively launch export strategy, continue to develop overseas markets, make proper technical support, delivery coordination and after sales services of overseas complete set projects. To constantly expand the types of machines for export, increase overseas market share, increase the weighting of export products. To pay attention to and increased exploration of emerging markets.

④ To enhance distribution services, improve client satisfaction. To implement gold medal services package for VIP clients, increase the awareness of taking initiative to serve clients; actively communicate with clients, pay attention to feedback opinion. To Maintain and expand sales network, increase the number of technical services and supply of accessories in sales & technical support centres.

⑤ To facilitate the set up of marketing team, increase training of marketing staff in product techniques and marketing theories, improve the business quality of marketing staff, to train and develop marketing talents with technical background, formed technical based marketing models.

(3) Enhancing management, attending to details, with thorough implementation of various systems

① To make detailed financial management, and reduce operating costs. To make greater efforts to commence activities which would lead to energy saving, reduction in consumption, cost reduction and effectiveness improvement. To deploy assets more effectively, increase net cashflow from operating activities, strengthen the management of work in progress, improve the quality of operation of the Company. To continue to launch centralized funds management model to increase net cashflow from operating activities and improve the benefit of funds utilization. To make detailed cost management, enhance the management of forecast, control strictly the purchase of non-production assets.

Section II Prospects for the future development of the Company (continued)

3. The operation plan for the new year (continued)

(3) Enhancing management, attending to details, with thorough implementation of various systems (continued)

② To perfect a healthy internal control evaluation system, improve internal control system, increase the diagnosis capability of internal control, further enhance internal audit and special audit, continue to regulate financial review, constantly strengthen internal control, give efforts to prevent operational risk, foster the management standard and the quality of economic operation of the Company.

③ To strengthen production organization and planning control, launch detailed and effective production model, achieve balanced production. To strengthen skill and technique management, standardize the execution of skill standards, strengthen the inspection of skill discipline, make proper promotion and application of new techniques, make increased efforts to improve skills and techniques. To enhance corporate logistics management and control, strengthen management and inspection and repair of equipments, increase safety awareness, ensure safe production free from substantial events.

④ To increase quality awareness, improve the quality of products. To improve the standard of quality management, maintain the effective operation of quality system, constantly improve the product quality and service quality of complete sets and export projects, as they are important guarantee of corporate reputation.

⑤ To improve informationization set up, improve the standard of modernized management. To continue to complete the set up of the coding system as soon as possible according to the Company's requirements of "11th Five-Year Plan" Informationization Planning and the "Guiding Opinion", deepen the integrated development and use of information resources and sharing of information, accelerate the set up of the Company's decision-making system, constantly increase the intensity and extensiveness of informationized application of the Company.

⑥ To strengthen operational risk prevention, reduce corporate operational risk. To pay close attention to investment risk control and operational risk prevention.

⑦ To make good use of legal means to protect the interests of the Company. To strengthen legal review of sale contracts, facilitate the collection of overdue receivables by legal means, make full implementation of the regulation which restrict competition among staff.

(4) Stressing on reform, reforming the mechanism, constant increasing the vitality of the Company's business

① To actively drive re-creation of business workflow, optimize operational model of the Company. According to the market situation, to adjust production organization and business management structure, constantly optimize the business workflow of various phases to shorten the cycle of launching in the market through product research and development, to create synergy and rapid feeback through production and manufacturing, to satisfy client needs through distribution, to achieve product instant delivery through logistics coordinated dispatch, set up client-oriented business management system, facilitate the transition of the Company's production operation model from "large scale production" to "large scale manufacturing according to orders", facilitate the change of the Company's management model from "coarse" to "fine".

② To constantly explored new means to facilitate the consolidation of specific products resources. To make good use of the resource competitive advantage of specific products, and, at the right time, to actively explore methods like capital operation to consolidate specific product resources, achieve professional, large scale development of specific products and in the form of a series.

Section II Prospects in the future development of the Company (continued)

3. The operation plan for the new year (continued)

(4) Stressing on reform, changing the mechanism, constant increasing the vitality of the Company's business (continued)

③ To continue to push for distribution integration, with unified corporate image. To further strengthen the integration of domestic distribution network, strengthen the evaluation of unified image, sharing of resources, information exchange and team building. To constantly make innovative styles in advertising publicity, market promotion, technical exchange and group exhibition. To continue to improve and increase areas such as technical services, supply of accessories, visit of clients and customer management. To constantly improve the domestic marketing system. To accelerate and improve the set up of overseas marketing network, constantly strengthen the exploration of overseas markets.

④ To continue to drive bulk materials procurement, constantly reduce costs of purchase. To strengthen the set up of bulk materials supply platform, make proper procurement planning control and services, constantly expand the scope of centralization, strengthen strategic cooperation with suppliers, extend the supply chain management, strengthen risk procurement. To gradually set up the non-production bulk materials supply platform, constantly explore the materials business, further improve economic benefit. To continue to make good use of the competitive advantage of centralized procurement in the Company's purchase of equipments for technical transformation.

4. Capital requirement and capital application plans required for achieving future strategic development of the Company and the source of capital

Funds for the Company's day-to-day manufacturing, operations and research and development to be mainly from self-generated funds, while the outstanding portion to be resolved by bank credit facilities. Meanwhile, to actively seek new investment projects to meet its strategic development needs to form new streams of economic growth, such as acquisition of relevant external resources or import of technologies. The amount of funds needed will be determined by reference to the potential projects, while the source of funding may be adopted accordingly including self-generated funds, bank loans or financing on the capital market.

5. Inherent risks and mitigation strategies

Since 2007, the State has adopted the tight macroeconomic policy, restrained fund resources and been controlling the overheated economy and inflation. To a large extent, investment in fixed assets has been slowed down which affects the expansion of scope in textile industry. At the same time, through years of high speed development in textile industry, the market volume is saturating and the demand for restructuring has dropped. In 2008, textile industry will be under the strict macroeconomic policy of the state and encounter the more complicated international market. The principle activities of the Company are liable to the declining risk, but at present, the development of textile industry in the country is experiencing an adjustment period from the scope expansion oriented type to business upgrade oriented type. During the adjustment period, the demand for general woven equipment will be lessened while sales of high-speed, highly-efficient, high value-adding, manpower and work reducing and energy saving equipment will further increase, enhancing the progress of adjustment in textile industry and a further acceleration of autonomous innovation. Industry innovation also brings to enterprises valuable development opportunities.

At present, the Company is one of the largest and best enterprises in China's textile machinery industry in terms of scale of operation and asset quality. The Company has good business results and higher management standard in the industry. Its production lines are complete, sales channels are comprehensive, and it possess to a high quality professional team, and has its own competitive advantages, with the technical cooperation with famous world textile machine manufacturers in countries such as Germany, Japan, the USA and Italy. The technical competitiveness of its products are further strengthened. The Company will make good use of its own competitive advantage, resolve risks and continue to maintain steady growth of the Company for the creation of more wealth for shareholders.

Section III Investments of the Company

1. Use of proceeds

No proceeds from the issue of shares were utilised during the reporting period. As at the end of the reporting period, the unutilised proceeds from the issue of shares amounted to RMB752,000 which was deposited with the bank. The utilisation of accumulated proceeds from the issue of shares is set out in 2003 Annual Report.

2. Use of funds not raised through the issue of shares during the period

The Group's net long-term equity investment at the end of the reporting period was RMB158,359,000, representing a net decrease of RMB35,184,000 or 18.18% from previous year of RMB193,543,000, mainly due to the disposal of the relevant equity of Shenzhen KWC Technology Investment Company Ltd and Beijing Chenyu Taihe Property Development Company Ltd during the period.

The major equity investments during the accounting period were as follows.

During the year, the Group acquired 65% equity interest in Beijing Bohong Real Estate Development Company Limited, which was held by China High Technology Investment Development Company Limited, for a consideration of RMB100,000,000. As that company is a real estate company, the acquisition had been accounted for as acquisitions of assets rather than acquisition of business. As the real estate projects operated by that company are not qualified for sales, the net profit accounted to the Group from the date of acquisition to the period end was RMB-7,579,000.

Section IV Routine work of the Board of Directors

1. The Board meetings and the details of resolutions

15 meetings were held by the Board during the reporting period. Details are as follows:

Meeting	Summary of resolutions	Date on which meeting was held	Newspapers and media for publication of the resolutions	Date of announcement
Extraordinary Board Meeting of the Fourth Board	Approved the Company to provide guarantee of the composite credit facility for Beijing Jingpeng Investment Management Company Limited.	8th January 2007	Securities Times, Wen Wei Po and The Standard in Hong Kong	9th March 2007
Extraordinary Board Meeting of the Fourth Board	Approved the Company to provide joint liability guarantee of the composite credit facility for Tianjin Hongda Textile Machinery Company Limited.	6th March 2007	Securities Times, Wen Wei Po and The Standard in Hong Kong	7th March 2007
Extraordinary Board Meeting of the Fourth Board	1. the Company (for itself and on behalf of its subsidiaries) and the controlling shareholder of the Company China Textile Machinery (Group) Co., Ltd. (for itself and on behalf of its subsidiaries) entered into the "Supplementary Composite Services Agreement" so as to amend the upper limit of the item of the amount of the "Sales of products, raw materials and parts" for connected transactions for 2007 in the existing "Composite Services Agreement", as was submitted to the Annual General Meeting for approval; 2. with respect to the amount of the item in connected transactions for 2006 exceeding the approved upper limit in the "Composite Services Agreement" approved at the Shareholders' Meeting, to propose to the Shareholders' Meeting for consideration, ratification and approval for the related connected transactions for 2006.	12th April 2007		
The Sixteenth Meeting of the Fourth Board	Considered and approved the 2006 Annual Report of the Company and its Summary.	18th April 2007	Securities Times, Wen Wei Po and The Standard in Hong Kong	19th April 2007
The Seventeenth Meeting of the Fourth Board	Considered and approved the 2007 First Quarterly Report of the Company.	26th April 2007	Securities Times, Wen Wei Po and The Standard in Hong Kong	27th April 2007
Extraordinary Board Meeting of the Fourth Board	Resolved to convene the 2006 Annual General Meeting, Class Meeting for Holders of A Shares and Class Meeting for Holders of H Shares to be held on 28th June 2007.	10th May 2007		
Extraordinary Board Meeting of the Fourth Board	Considered and approved the "Report on Self-examination of Corporate Governance and Reform Proposal".	15th June 2007		
The Eighteenth Meeting of the Fourth Board	1.Considered and approved the resolution in respect of amendments to the Articles of Association; 2.Considered and approved the resolution in respect of election of the new session of the Board; 3.Considered and approved the resolution in respect of application for subscription of new shares; 4.Considered and approved the resolution in respect of change of auditors;	28th June 2007	Securities Times, cninfo website and the websites of Hong Kong Exchange and Clearing Limited and the Company	29th June 2007

Section IV Routine work of the Board of Directors (continued)

	5.Considered and approved the resolution to convene the first Extraordinary General Meeting of 2007 of the Company on 15th August 2007; 6.Considered and approved the resolution in respect of amendments concerning the internal control system of the Company.			
The First Meeting of the Fifth Board	Elected the Chairman, General Vice-Chairman of the fifth Board of Directors and appointed the senior management of the Company.	15th August 2007	Securities Times, cninfo website and the websites of Hong Kong Exchange and Clearing Limited and the Company	16th August 2007
The Second Meeting of the Fifth Board	Considered and approved the 2007 Interim Report of the Company and its Summary.	20th August 2007		
Extraordinary Board Meeting of the Fifth Board	Approved the Company to provide guarantee for the loan offered to Beijing Hualian Group Investment Holdings Company Limited.	10th October 2007	Securities Times, cninfo website and the websites of Hong Kong Exchange and Clearing Limited and the Company	11th October 2007
The Third Meeting of the Fifth Board	Considered and approved the 2007 Third Quarterly Report of the Company.	24th October 2007		
Extraordinary Board Meeting of the Fifth Board	Approved the Company to provide joint liability guarantee in respect of the composite credit facility for Tianjin Hongda Textile Machinery Company Limited and Tianjin New Type Textile Machinery Company Limited.	7th November 2007	Securities Times, cninfo website and the websites of Hong Kong Exchange and Clearing Limited and the Company	8th November 2007
The Fourth Meeting of the Fifth Board	1. Considered and approved the resolution in respect of addition of nominations for an Independent Non-executive Director of the fifth Board; 2. Approved the mode and contents of the Composite Services Agreement entered into between the Company and its subsidiaries and China Textile Machinery (Group) Company Limited and its subsidiaries; 3. Resolved to convene the Extraordinary General Meeting.	21st December 2007	Securities Times, cninfo website and the websites of Hong Kong Exchange and Clearing Limited and the Company	22nd December 2007
The Fifth Meeting of the Fifth Board	Considered and approved the “Report on the Results of Special Activities and Reform on Corporate Governance”.	27th December 2007		

Section IV Routine work of the Board of Directors (continued)

2. Implementation of resolutions passed at the general meetings by the Board

The Board of the Company implemented all the resolutions diligently and paid dividends to the holders of A Shares and H Shares on a timely basis in accordance with the profit distribution proposal approved at the relevant general meetings. The general mandate granted at the general meeting to the Directors to exercise powers to repurchase part of H Shares was not exercised during the reporting period.

3. Fulfilment of duties of the Audit Committee of the Board of Directors

In 2007, the Audit Committee of the Board of Directors fulfilled their duties diligently in accordance with the "Code of Practice of Audit Committee" of the Company and the relevant regulations prescribed by CSRC and Shenzhen Stock Exchange. Their principal activities are set out as follows:

(1) The Audit Committee of the Board of Directors and Deloitte Touche Tohmatsu CPA Limited ("the registered accountant for annual audit") discussed and confirmed the time schedule for the audit for the year.

(2) Before the registered accountant for annual audit commenced site audit, the Audit Committee of the Board reviewed the 2007 financial statements prepared by the Company and issued written views opinions. The Audit Committee of the Board of Directors considered that the financial statements of the Company was prepared in accordance with the PRC Corporate Accounting Standards, that the accounting policies were appropriately applied and accounting estimations were made reasonably, and that the financial statements were in compliance with the new Corporate Accounting Standards, the Corporate Accounting System and the relevant regulatory requirements required by the Ministry of Finance. The entities included for accounts consolidation and the content of the financial statements of the Company were complete and the basis of consolidation was precise. The financial statements of the Company were true, objective, accurate and complete and no material mistakes or omissions were identified. Therefore, the Audit Committee of the Board of Directors considered that the financial statements prepared by the Company could be submitted to the registered accountant for annual audit.

(3) After the registered accountant commenced site audit, the Audit Committee of the Board of Directors actively communicated and corresponded with the auditors for annual audit and reminded them about the submission of the audit report in the designated time frame.

(4) After the registered accountants for annual audit issued preliminary opinions, the Audit Committee of the Board of Directors reviewed the 2007 financial statements of the Company again and issued written views. The Audit Committee of the Board of Directors considered that the Company has handled the post-balance sheet events in accordance with the new Corporate Accounting Standards. The financial statements of the Company were prepared in accordance with the new Corporate Accounting Standards and the regulations under the relevant financial system of the Company. With respect to significant aspects, the state of affairs of the Company for the year ended 31st December 2007 and the operating results and cash flow for 2007 were fairly disclosed.

(5) The Audit Committee of the Board of Directors considered that Deloitte Touche Tohmatsu (certified public accountants in Hong Kong) and Deloitte Touche Tohmatsu CPA Limited (registered accountants in the PRC) complied with their code of practice of being independent, objective and fair in providing audit services to the Company and have performed their duties to complete the audit of the Company for 2007.

(6) On 22nd April 2008, a meeting was convened by the Audit Committee of the Board of Directors. The following matters were considered and approved at the meeting: (1) the financial report prepared by the Company in accordance with the PRC Corporate Accounting Standards and the HKFRS respectively, (2) the conclusion report for the 2007 audit of the Company carried out by the registered accountants, (3) the recommendation to reappoint the registered accountants for 2008. The Audit Committee of the Board of Directors agreed to submit the said matters to the Board of Directors.

4. Fulfilment of duties of the Personnel Nomination and Remuneration Committee

The Personnel Nomination and Remuneration Committee reviewed the remuneration of the directors, supervisors and senior management of the Company for 2007 and considered the remuneration standard and the evaluation of the said personnel who received remuneration from the Company were in compliance with the relevant regulations.

During the reporting period, the Company did not have share incentive scheme.

Section V Profit distribution proposal for the year

In 2007, the Group recorded a net profit of RMB50,457,646 under PRC Corporate Accounting Standards, 10% of which RMB5,045,764 will be appropriated to the statutory surplus reserve in accordance with the articles of association of the Company. The distributable profit accrued for the year was RMB45,411,882. In addition to the undistributed profit of RMB22,185,029 for the beginning of the year after retroactive adjustment pursuant to the PRC Corporate Accounting Standards and minus the final dividends for 2006 of RMB48,304,000 paid in 2007, the real distributable profits for shareholders was RMB19,292,911.

In view of the profit of the Company for 2007 together with full consideration of shareholders' interest and the long-term development of the Company, the recommended proposals for distribution of profit for 2007 were as follows:

(1) Distribute profits based on the distributable profits calculated pursuant to the PRC Corporate Accounting Standards.

(2) Distribute the final dividends for 2007 at RMB0.01 per share (tax inclusive), totalling RMB6,038,000. The Company's balance of the undistributed profit of RMB13,254,911 will be carried forward to the following year.

Section VI Other reporting items

1. Directors' and Supervisors' interest in contracts

No contracts of significance (except service contracts) in relation to the Group's business to which the Company, its subsidiaries or its jointly controlled entities was a party and in which a Director or Supervisor of the Company had a material interest or is substantially interested, whether directly or indirectly, subsisted at the end of the reporting period or at any time during the reporting period.

2. Directors' and Supervisors' Service Contracts

None of the Directors or Supervisors has entered into a service contract with the Company (or any of its subsidiaries) which is not determinable within one year without payment of compensation, other than statutory compensation.

3. Special disclosure and independent opinions by the independent non-executive Directors regarding external guarantees of the Company

Pursuant to the provisions of the "Notice regarding the Regulations of Certain Issues on the Movements of Funds and External Guarantees of Listed Companies"（"關於規範上市公司與關聯方資金往來及上市公司對外擔保若干問題的通知"）(CSRC [2003]56) and "Notice regarding the Regulation of Certain Issues on External Guarantees of Listed Companies" ("關於規範上市公司對外擔保行為的通知")(CSRC [2005] 120) issued by the China Securities Regulatory Committee, we, as independent non-executive Directors of the Company, have examined thoroughly the decision-making process and circumstances of external guarantees of the Company, and declared those external guarantees of the Company are compliance with provisions of laws, regulations and the Articles of Association. For the year ended on 31st December 2007, the Company had not provided any guarantees, either for the current period or on accumulative basis, to any controlling shareholder, other related parties of the Company with less than 50% shareholding, any non-legal person entities or individuals.

4. Tax Relief and Exemption

The Company is not aware of any tax relief and exemption available to shareholders for reason of their holding of the Company's securities.

5. Purchase, Sale or Redemption of Shares

For the year ended 31st December 2007, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

6. Pre-emptive Rights

There is no such provisions in the Articles of Association of the Company and the PRC Laws requiring to grant any pre-emptive rights for new shares to its existing shareholders according to their respective shareholding proportions.

7. Management Contract

There were no contracts concerning the management or administration of the whole or substantial part of the business of the Company were entered into or existed during the reporting period.

Section VI Other reporting items (continued)

8. Currency and Interest Rate Risk

As the Group's revenue and expenses are mainly denominated in Renminbi, the Group does not expect that its business operating activities will incur material currency risk.

For its financing activities, for the financial year ended 31st December 2007, the Group's short-term borrowings amounted to RMB414,161,000, of which borrowings of US$21,563,000 (equivalent to RMB157,512,000) were in U.S. dollar, while the remaining balance were in Renminbi. The interest rates were in the range from between 5.508% to 6.732% per annum. The management considers that the Group did not have any material interest rate risk.

Details of the Group's financial risks and management one set out in Note 11 to the financial statements prepared in accordance with the PRC Corporate Accounting Standards.

9. Connected transactions

Details of connected transactions are set out in Chapter IX – Significant Events of this report.

10. Subsequent events

Details of subsequent events are set out in the notes to the financial statements prepared in accordance with HKFRS.

11. Reserves

During the reporting period, significant changes in the amount of reserves of the Group and the Company and the details are set out in the notes to the financial statements prepared in accordance with HKFRS.

Chapter VIII Supervisors' Report

1. Meetings and Resolutions of the Supervisory Committee

During the reporting period, the Supervisory Committee held five meetings, the details are as follows:

Meeting	Summary of matters resolved	Date of meeting	Newspapers and media for Publication of the Resolutions	Date of announcement
The Tenth meeting of the Fourth Supervisory Committee	1. The 2006 Supervisors' Report of the Company was considered and approved; 2. The 2006 Financial Report of the Company was considered and approved; and 3. The 2006 Annual Report of the Company and its Summary were considered and approved.	18th April 2007	Securities Times, Wen Wei Po and The Standard in Hong Kong	19th April 2007
The Eleventh Meeting of the Fourth Supervisory Committee	1. Considered and approved the resolution in respect of election of the new session of the Supervisory Committee; 2. Considered and approved the resolution in respect of application for subscription of new shares;	28th June 2007	Securities Times, cninfo website and the website of Hong Kong Exchange and Clearing Limited	29th June 2007
The First Meeting of the Fifth Supervisory Committee	Elected the Chairman and Vice-Chairman of the fifth Supervisory Committee.	15th August 2007	Securities Times, cninfo website and the website of Hong Kong Exchange and Clearing Limited	16th August 2007
The Second Meeting of the Fifth Supervisory Committee	Considered and approved the 2007 Interim Report and its summary of the Company.	20th August 2007		
The Third Meeting of the Fifth Supervisory Committee	Considered the Composite Services Agreement the Company entered into and continuation of ongoing connected transactions.	21st December 2007	Securities Times, cninfo website and the website of Hong Kong Exchange and Clearing Limited	22nd December 2007

2. Opinion of the Supervisory Committee on the lawful operation of the Company

In accordance with the relevant State laws and regulations, the Supervisory Committee conducted its diligent monitoring of the procedures for convening the general meetings and the Board meetings of the Company and passing of the resolutions thereat, the implementation by the Board of the resolutions passed at the general meetings, the discharge of duties by the senior management of the Company, and the internal management system of the Company. The Supervisory Committee is of the opinion that the Board conducted itself in a regulated manner in accordance with to the Company Law, the Securities Law, the Articles of Association of the Company, and the relevant laws and regulations. The Board members worked diligently and responsibly, and made decisions in a scientific and rational manner. Every management system of the Company became more sound and was realistically operated. The Supervisors were not aware of the Directors and senior management of the Company performing their duties in contravention of the state laws and regulations or the Articles of Association of the Company or in prejudice against the interests of the Company.

3. Opinion of the Supervisory Committee on the financial status of the Company

The Supervisory Committee made a diligent review on the profit distribution proposal of the Company for 2007 to be submitted by the Board of the Company for approval at the general meeting and the relevant audit materials in respect of the auditors' report for 2007 prepared by the domestic and international auditors with unqualified opinion. The Supervisory Committee considers that the auditors' report of the Company for 2007 reflects the financial status and operating results of the Company in an objective way.

4. **Opinion of the Supervisory Committee on the use of proceeds by the Company in capital items**

No proceeds from the issue of shares were utilized by the Company during the reporting period.

5. **Opinion of the Supervisory Committee on the acquisition and disposal of assets**

The Supervisory Committee was of the opinion that the prices for the acquisition and disposal of assets by the Company were reasonable and there were not any events of insider dealings, or activities which prejudice the interests of certain shareholders or result in a loss of assets.

6. **Opinion of the Supervisory Committee on connected transactions**

During the reporting period, every connected transaction of the Company was disclosed in accordance with the relevant disclosure requirements, and the transaction prices were settled according to prevailing market prices. Nothing was found detrimental to the interests of the Company.

Chapter IX Significant Events

1. **The Company was not involved in any material litigation or arbitration during the year, and there is no material litigation or arbitration occurred during the previous period but subsisting during the reporting period.**

2. **There were no events related to bankruptcy or restructuring at the Company during the reporting period.**

3. **Acquisition, disposal of assets and capital contributions during the reporting period**

3.1 Acquisition of assets

Unit: RMB10 thousand

Transaction counterparts or ultimate controller	Assets acquired	Date of acquisition	Acquisition price	Net profit accounting to the Company from the acquisition date to the end of the year (applicable to acquisition and disposal of equity interest)	Net profit accounting to the Company during the beginning of the year to the end of the year (applicable to combination of enterprise under the same controller)	Whether it was a connected transaction (If yes, explanation should be provided for the basis of pricing)	Explanation on pricing basis	Whether the rights of the assets concerned were completely transferred	Whether all rights and obligations concerned were completely transferred
China High Technology Investment Development Company Limited	Beijing Bohong Real Estate Development Company Limited	31st March 2007	10,000	-758	0	No	–	Yes	Yes

3.2 Disposal of assets

Unit: RMB10 thousand

Transaction counterpart	Assets disposed	Date of disposal	Disposal price	Net profit accounting to the Company from the beginning of the year to the disposal date	Gain/Loss from disposal	Whether it was a connected transaction (If yes, explanation should be provided for the basis of pricing)	Explanation on pricing basis	Whether the rights of the assets concerned were completely transferred	Whether all rights and obligations concerned were completely transferred
Beijing Shidai Yangguang Joint Investment Company Limited	Beijing Chenyu Taihe Property Development Company Limited	31st October 2007	3,000	0	1,595	No	–	Yes	Yes
Zhangchun Chengcheng Investment Development Company Limited	Shenzhen KWC Technology Investment Company Limited	31st March 2007	1,500	0	0	No	–	Yes	Yes
Zhangchun Chengcheng Investment Development Company Limited	Shenzhen KWC Technology Investment Company Limited	30th June 2007	2,030	0	2.72	No	–	Yes	Yes

The scale of connection of the above acquisition and disposal of assets and the Company's business was relatively small. No material impact will be posed on the sustainability of business and stability of the management of the Company.

4. **The Company did not have any share incentive scheme during the reporting period.**

5. Connected transactions and ongoing connected transactions

(1) Connected transactions arising from the course of normal operations

On 18th August 2004, the Company (for itself and on behalf of its subsidiaries from time to time) and China Textile Machinery (Group) Company Limited ("China Textile Machinery" for itself and on behalf of its members and associates from time to time excluding the members of the Group (collectively "China Textile Machinery Group") entered into the Composite Services Agreement to regulate the mutual supply of goods and services between the Group and China Textile Machinery Group, covering the following three areas: (i) the supply of goods, parts and components and provision of processing, final processing and maintenance services; (ii) provision of public and social services; and (iii) leasing of properties. The term of the agreement commenced from 1st January 2005 and expired on 31st December 2007. Since China Textile Machinery is the controlling shareholder and promoter of the Company, the aforesaid agreement constituted connected transactions, and the transactions contemplated thereunder constituted continuing connected transactions.

On 12th April 2007, the Company (for itself and on behalf of its subsidiaries from time to time) entered into the supplementary agreement of the Composite Services Agreement to reflect the upward adjustment of the amount of connected transactions.

Besides, the following resolutions (among others) were considered and passed at the 2006 Annual General Meeting of the Company convened on 28th June 2007:

(a) approved the form and substance of the supplementary agreement dated 12th April 2007 to the Composite Services Agreement entered into between the Group and China Textile Machinery Group in respect of the provision of relevant continuing connected transactions to China Textile Machinery (Group) Company Limited by the Group for the year ended 31st December 2007;

(b) approved all continuing connected transactions intended to be conducted for the year ended 31st December 2007 in accordance with the Composite Services Agreement and the supplementary Agreement;

(c) approved the revised annual cap to RMB1,089,078,078 (equivalent to approximately HK$1,089,078,078) for the continuing connected transactions provided to China Textile Machinery Group for the year ended 31st December 2007 by the Group.

and the Directors of the Company were authorised to take actions as they consider necessary, incidental or appropriate in respect of the relevant continuing connected transactions or transactions intended to be carried out in accordance with such supplemental agreement.

All the transactions under the Composite Services Agreement and the supplementary agreement are conducted on normal commercial terms and conditions as agreed through fair negotiations, and prices payable or receivable by the Group will be based on the following:

(a) if the price of the relevant service provided is subject to the State price control, based on the price stipulated by the State;

(b) if no applicable price stipulated by the State, based on the market price or approximately 105% to 110% of the actual costs (the increasing rate per annum of which should not exceed the rate of increase in the relevant municipal households consumer price index in the preceding year), whichever is lower.

5. **Connected transactions and ongoing connected transactions (continued)**

(1) **Connected transactions arising from the course of normal operations (continued)**

Ongoing connected transactions of the Group for the year were effected in accordance with the aforesaid composite services Agreement and the supplementary agreement. Ongoing connected transactions and connected transactions incurred with associated companies, jointly controlled entities and other companies that are subject to significant impact by key management personnel of subsidiaries are summarised as follows:

Unit: RMB thousand

Connected persons	Sales of goods and provision of labour services to the related parties		Purchase of goods and acceptance of labour services from the related parties	
	Transaction Amount	Proportion to similar transaction amount	Transaction Amount	Proportion to similar transaction amount
Companies controlled by the same parent company	272,836	5.02%	671,544	14.68%
Companies controlled by the ultimate parent company	125,763	2.31%	–	–
Associated companies of the Group	496,241	9.13%	82,334	1.86%
Jointly controlled entities of the Group	37	0%	–	–
Other companies subject to significant influence by key management personnel of subsidiaries	91,607	1.69%	424,366	9.61%
Total	986,484	18.15%	1,178,244	26.15%

Of such sum, the connected transactions arising from sales of finished goods, raw material, parts and charge of processing fees from the Company to the companies controlled by the same parent company and companies controlled by the ultimate parent company amounted to RMB892,421,000 during the reporting period.

5. Connected transactions and ongoing connected transactions (continued)

(1) Connected transactions arising from the course of normal operations (continued)

The independent non-executive directors of the Company have reviewed the ongoing connected transactions undertaken by the Group for the year, and have confirmed that such transactions have been entered into:

① in the ordinary and normal course of business of the Group;

② either on normal commercial terms or terms no more favourable or less favourable than terms available to or made by independent third parties;

③ in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of all shareholders of the Company as a whole.

Such transactions were conducted in the ordinary course of the Company's operations. As the related connected person, had many years of business cooperation with the Company and had matching production and processing capacity, these transactions allowed the orderly and smooth operations of the Company. Such transactions had their necessity and continuity in the Company's operations. Such connected transactions however would not affect the Company's independence.

(2) During the Reporting Period, the Company did not have connected transactions arising from acquisition and disposal of capital assets.

(3) During the Reporting Period, the Company did not have connected transactions arising from joint external investment with connected persons.

(4) In the year, the non-operating balances of the amount due from the holding company and fellow subsidiaries as at 31st December 2007 was nil. The controlling company gave a loan guarantee in favour of the Group for a sum of RMB100,000,000, and apart from that, the Group has no other guarantees with connected parties.

The Company confirmed that the disclosure of the said connected transactions in 2007 were in compliance with the disclosure regulations as set out in Section 14A of the Listing Rules of The Stock Exchange of Hong Kong Limited.

6. Material Contracts and Execution

(1) During the reporting period, there were no significant events such as escrow, contracting and lease

(2) Except as set out below, the Company had no other significant guarantees during the reporting period:

(Unit: RMB'000)

External guarantee made by the Company (excluding guarantees to controlled subsidiaries)						
Name of guaranteed party	**Date**	**Guaranteed amount**	**Type of guarantee**	**Period of guarantee**	**Completion or not**	**Whether in favour of any related party**
Beijing Hualian Group Investment Holdings Co. Ltd.	10/10/2007	150,000	Joint and serveral liability	10/10/2007-9/10/2008	No	No
Beijing Hualian Commercial Buildings Joint Stock Co. Ltd.	27/9/2006	165,000	Joint and serveral liability	27/9/2006-26/9/2007	Yes	No
Beijing Hualian Commerce and Trade Development Co. Ltd.	27/3/2006	70,000	Joint and serveral liability	27/3/2006-27/3/2007	Yes	No
Total actual guaranteed amount during the reporting period			385,000			
Total actual guaranteed balance at the end of the reporting period			150,000			
Guarantees to subsidiaries made by the Company						
Total actual guaranteed amount to subsidiaries during the reporting period			230,000			
Total actual guaranteed balance to subsidiaries at the end of the reporting period			150,000			
Total guarantee made by the Company (including the guarantees to subsidiaries)						
Total guaranteed amount			300,000			
Proportion of total guaranteed amount to net assets of the Company			10.61%			
Of which:						
Guaranteed amount provided for shareholders, parties which have de facto control and other related parties			0			
Guaranteed amount provided directly or indirectly to parties with gearing ratio exceeding 70%			0			
Total guaranteed amount in excess of 50% of net assets value			0			
Aggregate guaranteed amount of the above three items			0			

Decision-making procedure for the guarantee: Within the scope as permitted by the Articles of Association, external guarantees of the Company are subject to approval by more than two thirds of the members of the Board.

(3) There were no entrusted arrangement of cash and assets of the Company during the reporting period.

7. **Performance of Commitments by the Company or Shareholders with more than 5% (inclusive) shareholdings.**

Special commitments by the holder of originally non-floating shares during the process of Share Segregation Reform and the implementation

Name of Shareholder	**Special Commitments**	**Performance of Commitments**
China Textile Machinery (Group) Company Limited	China Textile Machinery (Group) Company Limited undertakes not to trade or transfer its floating Shares during the three years from the date on which its non-floating Shares are granted the right to list on the Shenzhen Stock Exchange. Within 2 years after the expiry of such period, the number of originally non-floating Shares to be sold through trading on the Shenzhen Stock Exchange shall not exceed 30% of the number of Shares held by it on the date of the implementation of the Share Segregation Reform Proposal, and the sale price will be no less than RMB7.00 per Share (subject to such adjustment as may be made in connection with declaration of dividend, distribution or re-allocation of capital reserve fund to share capital).	To be implemented
	In order to stabilize the prices of secondary market of A Shares and to ensure the controlling shareholder status of China Textile Machinery (Group) Company Limited, for a period of two months after the implementation of the Share Segregation Reform Proposal, China Textile Machinery (Group) Company Limited undertakes to either use no less than RMB30 million to increase its shareholdings through the secondary market of A Shares, or to acquire no less than 10 million floating A Shares. China Textile Machinery (Group) Company Limited further undertakes not to dispose of any of such Shares acquired in such connection within a period of six months after the implementation of plan to increase its shareholdings.	As at 22 September 2006, China Textile Machinery (Group) Company Limited increased its shareholdings of the Company by acquiring an aggregate of 8,615,248 Shares, representing approximately 1.43% of the total issued share capital of the Company through centralised bidding in the secondary market. An aggregate consideration of RMB30,017,756.73 was used to increase its shareholdings.

8. Securities Investment

Unit: RMB

No.	Type of stock	Stock code	Stock name	Initial investment amount (RMB)	Quantity held	Carrying value at the end of the reporting period	As a percentage of total investment in securities at the end of the reporting period (%)	Gain/Loss during the reporting period
1	A shares	601601	China Pacific Insurance	3,000,000	100,000	4,945,000	100%	0
Other investment in securities at the end of the period				–	–	–	–	–
Gain or loss from disposal of investment in securities during the reporting period				–	–	–	–	63,377,857
Total				3,000,000	100,000	4,945,000	100%	63,377,857

As at the end of the period, the Group held 100,000 A shares of China Pacific Insurance (Group) Co., Ltd. listed on the Shanghai Stock Exchange. The fair value of the shares at the end of the period was RMB4,945,000. During the period, gain from equity investment obtained by the Group was RMB63,377,857.

9. Appointment of the Auditors by the Company during the reporting period

Deloitte Touche Tohmatsu CPA Limited, Certified Public Accountants registered in the PRC, and Deloitte Touche Tohmatsu, Certified Public Accountants registered in Hong Kong, as the PRC and international auditors respectively for the accounts of the company for the reporting period. Details were as follows:

Accounting Firm	2007 Audit fee *(RMB'000)*	Year of audit
Deloitte Touche Tohmatsu CPA Limited and Deloitte Touche Tohmatsu	3,480	1

10. The effect of the unified income tax and the changes in income tax policy

The Company was registered as a foreign investment enterprise in the Beijing Economic and Technological Development Zone. In October 2003, the Company was recognised as advanced technology enterprise (certificate no.: Jing Ke Gao Zi 0311024A0060). In accordance with the approval document KGSH (2004) No. 21 and No. 127 issued by Branch of Beijing Municipal Administration of State Taxation in Beijing Economic & Technological Development Zone, the Company is currently subject to enterprise income tax at the reduced rate at 15%. The Company is not entitled to any other tax concession. The Company expects that there will be no significant effects of changes in the state's enterprise income tax policy on the Company.

11. Impact of staff quarters on the Company's results

There was no material adverse effect on the results of the Company for provision of staff quarters. Since 2000, the Company has implemented staff quarters policy in accordance with the relevant policies of the state and local governments.

12. Reception of Research and visits of the Company

During the reporting period, the Company received the interviews and research by investors and investment institutions by the principles of openness, fairness and impartiality in strict accordance with the Disclosure Guidelines of Fair Information of the Listed Companies on the Shenzhen Stock Exchange. During the reception process, the Company did not disclose, release or divulge any undisclosed material information of the Company on any private, premature basis or selectively to any specific persons, and protect the impartiality of corporate information disclosure and legal interest of investors. Details are as follows:

Time of reception	Place of reception	Means of reception	Subject of reception	Key content of discussion and information provided
9th April 2007	Conference room of the Company	On-site research	Schroder Investment Management (Hong Kong) Limited	Content of discussion: basic conditions of the Company Information provided: regular report of the Company
10th April 2007	Conference room of the Company	On-site research	Fullgoal Fund Management Co., Ltd.	Content of discussion: basic conditions of the Company Information provided: regular report of the Company
17th April 2007	Conference room of the Company	On-site research	Bohai Securities Co., Ltd.	Content of discussion: basic conditions of the Company Information provided: regular report of the Company
18th May 2007	Conference room of the Company	On-site research	太平洋資產管理 有限公司	Content of discussion: basic conditions of the Company Information provided: regular report of the Company
18th May 2007	Conference room of the Company	On-site research	MICH Investments, LLC	Content of discussion: basic conditions of the Company Information provided: regular report of the Company
20th May 2007	Conference room of the Company	On-site research	Guotai Asset Management Co., Ltd	Content of discussion: basic conditions of the Company Information provided: regular report of the Company
27th May 2007	Conference room of the Company	On-site research	艾利士通資產 有限公司	Content of discussion: basic conditions of the Company Information provided: regular report of the Company
6th June 2007	Conference room of the Company	On-site research	Foundation Asset Management (HK) Ltd	Content of discussion: basic conditions of the Company Information provided: regular report of the Company
7th June 2007	Conference room of the Company	On-site research	Lehman Brothers International	Content of discussion: basic conditions of the Company Information provided: regular report of the Company
12th June 2007	Conference room of the Company	On-site research	Mitsubishi UFJ Securities	Content of discussion: basic conditions of the Company Information provided: regular report of the Company
19th June 2007	Conference room of the Company	On-site research	Triskele Capital Management Limited	Content of discussion: basic conditions of the Company Information provided: regular report of the Company
19th June 2007	Conference room of the Company	On-site research	Sumitomo Mitsui Asset Management Company Limited	Content of discussion: basic conditions of the Company Information provided: regular report of the Company
3rd July 2007	Conference room of the Company	On-site research	Meitai Investment Management Company	Content of discussion: basic conditions of the Company Information provided: regular report of the Company
9th July 2007	Conference room of the Company	On-site research	ICBC Credit Suisse Asset Management Co., Ltd	Content of discussion: basic conditions of the Company Information provided: regular report of the Company
17th August 2007	Conference room of the Company	On-site research	Avenue Capital Group	Content of discussion: basic conditions of the Company Information provided: regular report of the Company
28th August 2007	Conference room of the Company	On-site research	China Nationality Securities Co. Ltd.	Content of discussion: basic conditions of the Company Information provided: regular report of the Company
30th August 2007	Conference room of the Company	On-site research	Taixin Fund Management Company	Content of discussion: basic conditions of the Company Information provided: regular report of the Company
30th August 2007	Conference room of the Company	On-site research	China Merchants Securities Co., Ltd.	Content of discussion: basic conditions of the Company Information provided: regular report of the Company
3rd September 2007	Conference room of the Company	On-site research	Oaktree Capital Management, Pte. Ltd.	Content of discussion: basic conditions of the Company Information provided: regular report of the Company
12th September 2007	Conference room of the Company	On-site research	Yinhua Fund Management Co., Ltd. Nomura Asset Management Co. Ltd. Ci Ti Investment Research	Content of discussion: basic conditions of the Company Information provided: regular report of the Company
13th September 2007	Conference room of the Company	On-site research	Industrial Fund Management Co., Ltd.	Content of discussion: basic conditions of the Company Information provided: regular report of the Company
26th October 2007	Conference room of the Company	On-site research	Taixin Fund Management Co. Ltd. Heartland Capital Investment Consulting Company	Content of discussion: basic conditions of the Company Information provided: regular report of the Company
2nd November 2007	Conference room of the Company	On-site research	Boston Asset Management	Content of discussion: basic conditions of the Company Information provided: regular report of the Company
15th November 2007	Conference room of the Company	On-site research	CAZENOVE Matterhorn Investment Management Avenue Capital Group 瑞訊華識投資咨詢有限公司	Content of discussion: basic conditions of the Company Information provided: regular report of the Company
27th November 2007	Conference room of the Company	On-site research	CLSA Partner Fund Management, LP.	Content of discussion: basic conditions of the Company Information provided: regular report of the Company

13. Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the Latest Practicable Date prior to the issue of the report, there was sufficient public float of shares.

Chapter X Report of the Auditor – The PRC

No.P0610 2008 Deloitte Touche Tohmatsu Audit

To the shareholders of
JINGWEI TEXTILE MACHINERY COMPANY LIMITED:

We have audited the accompanying financial statements of Jingwei Textile Machinery Company Limited ("Jingwei Company"), which comprise the company and consolidated balance sheets as at 31st December 2007, the company and consolidated and company income statements, statements of changes in equity and cash flow statements for the year ended 31st December 2007 and notes to the financial statements.

1. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The management of Jingwei Company is responsible for preparing financial statements in accordance with Accounting Standards for Business Enterprises. This responsibility includes (1) designing, implementing and maintaining the internal control relevant to the preparation of the financial statements that are free from material misstatement whether due to fraud or error; (2) selecting and applying appropriate accounting policies; and (3) making accounting estimates that are reasonable in the circumstances.

2. AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Chinese Auditing Standards issued by the Chinese Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain a reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

3. AUDIT OPINION

In our opinion, the financial statements of Jingwei Company have been prepared in accordance with Accounting Standards for Business Enterprises and present fairly, in all material aspects, the company and consolidated financial position of Jingwei Company as at 31st December 2007 and the results of their operations and their cash flows for the year ended 31st December 2007.

Deloitte Touche Tohmatsu CPA Ltd.	CPA
Shanghai, China	**Tong Chuanjiang**
22nd April 2008	**Xie Jiayang**

Chapter XI Accounts Prepared in Accordance with the PRC Corporate Accounting Standards

Consolidated and Company Balance Sheets
as at 31st December 2007

(All amounts in RMB Yuan unless otherwise stated)

ASSETS	NOTE	CONSOLIDATED 31ST DECEMBER 2007	CONSOLIDATED 31ST DECEMBER 2006 (restated)	COMPANY 31ST DECEMBER 2007	COMPANY 31ST DECEMBER 2006 (restated)
Current Assets					
Capital asset	IX1/XVI1	644,299,072.76	903,600,165.76	346,496,831.65	567,263,964.52
Tradable financial assets	IX2/XVI2	4,945,000.00	8,885,556.39	4,945,000.00	7,004,635.00
Notes receivable	IX3/XVI3	1,229,251,866.76	1,594,212,558.85	855,372,838.89	853,696,827.03
Accounts receivable	IX4/XVI4	427,383,317.15	439,292,321.57	271,395,916.13	258,739,904.08
Prepayments	IX5/XVI5	199,851,701.79	235,614,910.16	65,732,191.90	71,356,820.03
Dividends receivable	XVI6	–	–	4,592,565.36	16,910,146.85
Other receivables	IX6/XVI7	71,219,437.33	41,354,891.02	270,125,342.69	134,474,520.63
Inventory	IX7/XVI8	2,000,725,629.58	1,320,920,035.46	582,892,617.69	506,489,233.56
Entrusted loan	1X8/XVI9	67,000,000.00	181,000,000.00	140,000,000.00	181,000,000.00
Other current assets	1X9	10,905,852.80	229,231.61	–	–
Total current assets		4,655,581,878.17	4,725,109,670.82	2,541,553,304.31	2,596,936,051.70
Non-current assets					
Long-term equity investment	IX10/XVI10	158,358,681.56	193,543,286.82	978,193,188.06	994,919,460.98
Fixed assets	IX11/XVI11	1,183,387,283.80	1,146,668,349.62	455,894,718.51	456,189,002.60
Construction in progress	IX12/XVI12	66,265,074.38	39,929,996.94	24,482,170.64	13,361,369.20
Project materials	IX13/XVI13	5,747,744.14	7,663,431.23	2,183,513.50	2,101,231.20
Intangible assets	IX14/XVI14	278,679,832.64	261,710,778.89	88,835,741.61	100,829,895.50
Goodwill		2,258,412.00	2,258,412.00	–	–
Deferred tax assets	IX15/XVI15	35,731,341.25	32,682,011.47	20,934,582.84	20,734,927.00
Other non-current assets	XVI16	–	–	77,136,576.10	77,682,683.29
Total non-current assets		1,730,428,369.77	1,684,456,266.97	1,647,660,491.26	1,665,818,569.77
TOTAL ASSETS		6,386,010,247.94	6,409,565,937.79	4,189,213,795.57	4,262,754,621.47

Consolidated and Company Balance Sheets (continued)
as at 31st December 2007

(All amounts in RMB Yuan unless otherwise stated)

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	NOTE	CONSOLIDATED 31ST DECEMBER 2007	CONSOLIDATED 31ST DECEMBER 2006 (restated)	COMPANY 31ST DECEMBER 2007	COMPANY 31ST DECEMBER 2006 (restated)
Current liabilities					
Short-term loans	IX18/XVI18	414,160,740.86	480,019,028.66	309,387,040.86	345,749,191.00
Notes payable	IX19/XVI19	275,884,343.86	338,324,537.97	150,538,550.85	158,541,790.80
Accounts payable	IX20/XVI20	1,244,290,600.73	1,509,259,632.69	866,238,934.99	896,116,712.14
Advances from customers	IX21/XVI21	559,362,234.52	435,948,052.49	231,296,764.90	270,351,719.47
Accrued payroll	IX22/XVI22	97,252,093.55	109,287,955.68	35,666,171.20	21,453,904.85
Taxes payable	IX23/XVI23	7,135,761.47	23,603,625.39	147,115.40	27,337,972.83
Dividends payable	IX24/XVI24	26,680,224.29	19,176,629.01	15,654,279.76	11,001,736.37
Other payables	IX25/XVI25	265,097,339.62	234,176,276.51	142,652,204.65	47,712,076.44
– Long term borrowings due within one year	IX27/XVI27	105,000,000.00	5,000,000.00	5,000,000.00	5,000,000.00
– Non-current liabilities due within one year	IX28/XVI28	8,680,000.00	8,270,000.00	5,720,000.00	4,580,000.00
Other current liabilities	IX26/XVI26	6,470,000.00	19,064,501.00	6,470,000.00	5,874,127.00
Total current liabilities		3,010,013,338.90	3,182,130,239.40	1,768,771,062.61	1,793,719,230.90
Non-current liabilities					
Long-term loans	IX27/XVI27	150,000,000.00	200,000,000.00	100,000,000.00	150,000,000.00
Long-term payables	IX28/XVI28	146,902,676.51	141,360,000.00	103,893,696.59	104,640,000.00
Accrued liabilities	IX29	900,000.00	–	–	–
Other non-current liabilities	IX30	20,179,820.81	10,315,063.00	–	–
Total non-current liabilities		317,982,497.32	351,675,063.00	203,893,696.59	254,640,000.00
Total Liabilities		3,327,995,836.22	3,533,805,302.40	1,972,664,759.20	2,048,359,230.90
Shareholders' Equity					
Share capital	IX31	603,800,000.00	603,800,000.00	603,800,000.00	603,800,000.00
Capital reserve	IX32/XVI29	1,249,865,032.48	1,249,865,032.48	1,239,920,114.95	1,239,920,114.95
Surplus reserve	IX33/XVI30	547,577,606.05	523,821,170.65	353,536,010.31	348,490,246.10
Undistributed profits	IX34/XVI31	429,160,582.78	339,014,504.95	19,292,911.11	22,185,029.52
Foreign currency translation differences		(2,487,256.36)	(2,115,368.48)	–	–
Total equity attributable to parent company's shareholders		2,827,915,964.95	2,714,385,339.60	2,216,549,036.37	2,214,395,390.57
Minority interests	IX35	230,098,446.77	161,375,295.79	–	–
Total Shareholders' Equity		3,058,014,411.72	2,875,760,635.39	2,216,549,036.37	2,214,395,390.57
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		6,386,010,247.94	6,409,565,937.79	4,189,213,795,57	4,262,754,621.47

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

The financial statements from page 65 to page 161 are signed by the following people in charge:

Person in charge of company	Person in charge of accounting function	Person in charge of accounting department
Yao Yuming	Mao Faqing	Mao Faqing

Consolidated and Company Income Statements
For the year ended 31st December 2007

(All amounts in RMB Yuan unless otherwise stated)

	NOTE	CONSOLIDATED 2007	CONSOLIDATED 2006 (restated)	COMPANY 2007	COMPANY 2006 (restated)
Operating income	IX36/XVI32	5,432,661,954.93	5,581,692,194.65	3,502,374,411.42	3,661,841,357.88
Less: Operating cost	IX37/XVI33	4,707,684,646.90	4,732,393,206.73	3,298,741,840.62	3,383,412,793.88
Operating tax and surcharges	IX38/XVI34	10,267,941.91	12,192,024.19	2,437,264.86	3,862,403.77
Selling expenses		147,676,251.36	141,555,664.53	69,432,541.34	73,313,557.37
Management expenses		465,054,537.17	473,821,194.83	185,478,343.72	178,692,246.77
Financial expenses	IX39/XVI35	22,035,348.18	5,500,833.97	2,382,857.55	(8,259,269.42)
Asset impairment loss	IX40/XVI36	12,330,310.14	10,629,738.70	10,309,770.33	13,365,285.69
Add: Gain from changes in fair value	IX41/XVI37	1,945,000.00	–	1,945,000.00	–
Investment gain	IX42/XVI38	117,485,653.65	15,098,640.19	121,965,397.95	36,201,286.70
Including, investment gain from associates and jointly controlled entities		21,582,278.17	(1,133,816.00)	20,825,232.17	(1,046,647.00)
Operating profit		187,043,572.92	220,698,171.89	57,502,190.95	53,655,626.52
Add: Non-operating income	IX43/XVI39	19,540,980.66	14,644,428.40	3,729,755.70	1,051,615.84
Less: Non-operating expenses	IX44/XVI40	4,464,826.36	4,802,060.86	403,286.84	1,446,591.13
Including, loss on disposal of non-current assets		2,250,016.31	2,186,076.00	385,920.92	1,406,600.33
Total profit		202,119,727.22	230,540,539.43	60,828,659.81	53,260,651.23
Less: Income tax	IX45/XVI41	26,513,374.16	23,573,969.91	10,371,014.01	1,430,909.96
Net profit		175,606,353.06	206,966,569.52	50,457,645.80	51,829,741.27
Net profit attributable to parent company's shareholders		162,206,513.23	189,095,795.64	50,457,645.80	51,829,741.27
Profits and losses of minority shareholders		13,399,839.83	17,870,773.88	–	–
Earnings per share					
Basic earnings per share	IX47	0.27	0.31	0.08	0.09
diluted earnings per share	IX47	N/A	N/A	N/A	N/A

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

Consolidated and Company cash flow statements
For the year ended 31st December 2007

(All amounts in RMB Yuan unless otherwise stated)

	NOTE	CONSOLIDATED 2007	CONSOLIDATED 2006	COMPANY 2007	COMPANY 2006
Cash flow from operating activities					
Cash received from sale of goods or rendering of services		6,770,448,886.00	7,113,584,544.00	4,218,058,896.57	4,224,379,451.00
Refund of taxes and levies		2,027,649.99	3,797,864.58	–	–
Cash received relating to other operating activities	IX51/XVI45	34,212,136.40	43,910,143.42	12,670,383.48	42,350,138.96
Sub-total of cash inflows from operating activities		6,806,688,672.39	7,161,292,552.00	4,230,729,280.05	4,266,729,589.96
Cash paid for goods and services		5,481,547,918.09	5,884,876,099.00	3,849,320,438.07	3,752,293,489.00
Cash paid to and on behalf of employees		584,138,184.11	552,108,664.60	193,858,755.50	224,266,846.60
Payments of taxes and levies		333,724,937.98	334,562,105.00	107,926,083.64	118,964,221.00
Cash paid relating to other operating activities	IX51/XVI45	284,352,729.14	260,104,682.64	89,627,260.74	86,541,906.40
Sub-total of cash outflows from operating activities		6,683,763,769.32	7,031,651,551.24	4,240,732,537.95	4,182,066,463.00
Net cash flows from operating activities		122,924,903.07	129,641,000.76	(10,003,257.90)	84,663,126.96
Cash flows from investing activities					
Cash received from investment recovery		316,444,488.77	894,070,326.00	304,155,697.41	865,156,961.00
Cash received from returns on investments		19,988,101.32	12,957,186.00	53,399,459.59	46,862,741.00
Net cash received from disposal of fixed assets, intangible assets and other long term assets		4,098,456.35	15,344,171.00	1,368,871.82	7,053,634.00
Net cash received from disposal of subsidiaries and other operating units		–	15,086,138.00	–	–
Sub-total of cash inflows from investing activities		340,531,046.44	937,457,821.00	358,924,028.82	919,073,336.00
Cash paid to acquire fixed assets, intangible assets and other long-term assets		201,041,725.17	274,109,775.00	103,726,987.50	138,094,469.00
Cash paid for investments		63,461,122.98	823,003,835.00	165,491,122.98	834,642,590.00
Net cash paid for purchase of subsidiaries and other operating units	XIV(II)(2)	71,201,900.34	(912,036.00)	–	–
Sub-total of cash outflows from investing activities		335,704,748.49	1,096,201,574.00	269,218,110.48	972,737,059.00
Net cash flows from investing activities		4,826,297.95	(158,743,753.00)	89,705,918.34	(53,663,723.00)
Cash flows from financing activities					
Cash received from borrowings		220,940,620.31	776,000,642.00	209,235,048.22	430,000,000.00
Sub-total of cash inflows from financing activities		220,940,620.31	776,000,642.00	209,235,048.22	430,000,000.00

Consolidated and Company cash flow statements (continued)
For the year ended 31st December 2007

(All amounts in RMB Yuan unless otherwise stated)

	NOTE	CONSOLIDATED 2007	CONSOLIDATED 2006	COMPANY 2007	COMPANY 2006
Cash repayments of amounts borrowed		504,548,931.35	583,619,426.55	433,598,931.35	407,351,000.00
Cash payments for interest expenses and distribution of dividends or profits		90,640,475.96	56,368,678.00	69,062,193.05	27,260,622.00
Including: cash payments to minority shareholders for distribution of dividends or profits		1,853,220.69	11,967,804.00	–	–
Cash payment relating to other financing activities	IX52	10,966,605.43	11,701,465.45	1,378,282.49	–
Sub-total of cash outflows from financing activities		606,156,012.74	651,689,570.00	504,039,406.89	434,611,622.00
Net cash flows from financing activities		(385,215,392.43)	124,311,072.00	(294,804,358.67)	(4,611,622.00)
Effect of foreign exchange rate changes on cash and cash equivalents		(776,492.31)	(2,021,775.00)	(738,876.41)	–
Net increase in cash and cash equivalents		(258,240,683.72)	93,186,544.76	(215,840,574.64)	26,387,781.96
Add: Cash and cash equivalents at beginning of the period	IX49/XVI43	895,709,011.76	802,522,467.00	561,793,451.96	535,405,670.00
Cash and cash equivalents at end of the period	IX49/XVI43	637,468,328.04	895,709,011.76	345,952,877.32	561,793,451.96

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

Company and Consolidated Statements of Changes in Shareholders' Equity

Company and Consolidated Statements of Changes in Shareholders' Equity
For the year ended 31st December 2007
(All amounts in RMB Yuan unless otherwise stated)

	Group								Company				
	Share Capital	Capital Reserve	Surplus Reserve	Undistributed Profit	Foreign Currency Translation Differences	Equity attributable to Parent Company's Shareholders'	Minority Interest	Total Shareholders' Equity	Share Capital	Capital Reserve	Surplus Reserve	Undistributed Profit	Total Shareholders' Equity
I. Balance as at 31 December 2005	603,800,000.00	1,262,250,342.95	445,913,186.00	346,107,715.75	(93,593.00)	2,657,977,651.70	175,590,465.12	2,833,568,116.82	603,800,000.00	1,262,250,342.95	337,605,809.02	454,415,092.95	2,658,071,244.92
1. Accounting policy changes	–	(12,385,310.47)	(8,809,102.11)	(79,281,919.04)	–	(100,476,331.62)	(15,853,847.21)	(116,330,178.83)	–	(22,330,228.00)	(44,298,537.22)	(398,686,830.40)	(465,315,595.62)
II. At 1 January 2006	603,800,000.00	1,249,865,032.48	437,104,083.89	266,825,796.71	(93,593.00)	2,557,501,320.08	159,736,617.91	2,717,237,937.99	603,800,000.00	1,239,920,114.95	293,307,271.80	55,728,262.55	2,192,755,649.30
III. Amount of changes during this year													
(I) Net profit	–	–	–	189,095,795.00	–	189,095,795.00	17,870,773.88	206,966,568.88	–	–	–	51,829,741.27	51,829,741.27
(II) Gains and losses directly attributable to shareholders' equity													
1. Exchange differences arising on translation of foreign operations	–	–	–	–	(2,021,775.48)	(2,021,775.48)	–	(2,021,775.48)	–	–	–	–	–
(III) Acquisition of non wholly-owned subsidiaries		–	–	–			31,705,480.00	31,705,480.00	–	–	–	–	–
(IV) Disposal of subsidiaries	–	–	–	–			(21,192,795.00)	(21,192,795.00)	–	–	–	–	–
(V) Acquisition of minority interest	–	–	–	–			(15,254,012.00)	(15,254,012.00)	–	–	–	–	–
Sub-total of (I) to (V)	–	–	–	189,095,795.00	(2,021,775.48)	187,074,019.52	13,129,446.88	200,203,466.40	–	–	–	51,829,741.27	51,829,741.27
(VI) Shareholders' contribution and capital reduction													
1. All capital injected	–	–	–	–	–	–	476,831.00	476,831.00	–	–	–	–	–
(VII) Profit distribution													
1. Provision for surplus reserve	–	–	86,717,086.76	(86,717,086.76)	–	–	–	–	–	–	55,182,974.30	(55,182,974.30)	–
2. Distribution to shareholders	–	–	–	(30,190,000.00)	–	(30,190,000.00)	(11,967,600.00)	(42,157,600.00)	–	–	–	(30,190,000.00)	(30,190,000.00)
IV. Balance as at 31 December 2006	603,800,000.00	1,249,865,032.48	523,821,170.65	339,014,504.95	(2,115,368.48)	2,714,385,339.60	161,375,295.79	2,875,760,635.39	603,800,000.00	1,239,920,114.95	348,490,246.10	22,185,029.52	2,214,395,390.57

Company and Consolidated Statements of Changes in Shareholders' Equity (continued)

For the year ended 31st December 2007
(All amounts in RMB Yuan unless otherwise stated)

	Group								Company				
	Share Capital	Capital Reserve	Surplus Reserve	Undistributed Profit	Foreign Currency Translation Differences	Equity attributable to Parent Company's Shareholders'	Minority Interest	Total Shareholders' Equity	Share Capital	Capital Reserve	Surplus Reserve	Undistributed Profit	Total Shareholders' Equity
I. Balance as at 31 December 2006	603,800,000.00	1,272,515,653.49	532,083,768.00	413,377,881.18	(2,115,368.48)	2,819,661,934.19	183,317,433.00	3,002,979,367.19	603,800,000.00	1,272,515,653.49	405,968,883.42	539,492,765.39	2,821,777,302.30
1. Accounting policy changes	–	(22,650,621.01)	(8,262,597.35)	(74,363,376.23)	–	(105,276,594.59)	(21,942,137.21)	(127,218,731.80)	–	(32,595,538.54)	(57,478,637.32)	(517,307,735.87)	(607,381,911.73)
II. Balance as at 1 January 2007	603,800,000.00	1,249,865,032.48	523,821,170.65	339,014,504.95	(2,115,368.48)	2,714,385,339.60	161,375,295.79	2,875,760,635.39	603,800,000.00	1,239,920,114.95	348,490,246.10	22,185,029.52	2,214,395,390.57
III. Amount of changes during this year													
(I) Net profit	–	–	–	162,206,513.23	–	162,206,513.23	13,399,839.83	175,606,353.06	–	–	–	50,457,645.80	50,457,645.80
(II) Acquisition of non wholly-owned subsidiaries	–	–	–	–	–	–	57,176,531.84	57,176,531.84	–	–	–	–	–
(III) Exchange differences arising on translation of foreign operations	–	–	–	–	(371,887.88)	(371,887.88)	–	(371,887.88)	–	–	–	–	–
Sub-total of (I), (II) and (III)	–	–	–	162,206,513.23	(371,887.88)	161,834,625.35	70,576,371.67	232,410,997.02	–	–	–	50,457,645.80	50,457,645.80
(IV) Profit distribution													
1. Provision for surplus reserve	–	–	23,756,435.40	(23,756,435.40)	–	–	–	–	–	–	5,045,764.21	(5,045,764.21)	–
2. Distribution to shareholders	–	–	–	(48,304,000.00)	–	(48,304,000.00)	(1,853,220.69)	(50,157,220.69)	–	–	–	(48,304,000.00)	(48,304,000.00)
IV. Balance as at 31st December 2007	603,800,000.00	1,249,865,032.48	547,577,606.05	429,160,582.78	(2,487,256.36)	2,827,915,964.95	230,098,446.77	3,058,014,411.72	603,800,000.00	1,239,920,114.95	353,536,010.31	19,292,911.11	2,216,549,036.37

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

Notes to the Financial Statements
For the year ended 31st December 2007

(Prepared in accordance with the PRC Accounting Standards and Systems)
(All amounts are stated in Rmb Yuan unless otherwise stated)

I. COMPANY PROFILE

Jingwei Textile Machinery Company Limited (the "Company") is established on 15 August 1995 with China National Textile Machinery Corporation (Group) Company Limited ("CTMC", and formerly known as China National Textile Machinery Corporation) as promoter. There were 220,000,000 shares owned by domestic legal persons when the Company was set up.

After approval of Chinese Securities Regulatory Committee ("CSRC") under the State Council in the document entitled No.2 (1996), the Company was listed on The Stock Exchange of Hong Kong Limited with the issuance of 180,800,000 H shares in February 1996. It was granted the status as a foreign invested joint stock limited company by Former Ministry of Foreign Trade and Economic Cooperation in March 1996. In November 1996, the Company, as approved by CSRC in No.347 (1996) document and No. 348(1996) document, issued 23,000,000 A shares and in May 2000, the Company issued an additional 180,000,000 A shares. Subsequent to this issuance, the total shares issued by the Company amounted to 603,800,000.

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

CTMC holds 33.83% of the Company's shares, and the remaining 66.17% stake is held by a number of other shareholders. As CTMC effectively controls the Company, so CTMC is the parent company of the Company. The Company's ultimate holding company is China Hengtian Group Company.

II. BASIS FOR PREPARATION OF FINANCIAL STATEMENTS

First time adoption of Accounting Standards for Enterprises released on 15 February 2006 ("New Accounting Standards")

The Company enforced the New Accounting Standards released on 15 February, 2006 by the Ministry of Finance on 1 January, 2007 and conducted retroactive reconciliation on comparative financial statements in accordance with regulations from Article 5 to Article 19 of Accounting Standards for Enterprises No. 38-Initial Implementation of Accounting Standards for Enterprises ("No.38 Standards") and Accounting Standards for Enterprises Interpretation No.1, of No.14 Accounting (2007) by the Ministry of Finance.

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As the Company is a A-share and H-share listed company, it is required to provide financial statements both in accordance with domestic accounting standard and international financial report standards. Article 1 of Accounting Standards for Enterprises Interpretation No.1 provides that for transactions or items with no differences in New Accounting Standards and international financial report, apart from retroactive reconciliation in accordance with Article 5 to Article 19 of No.38 Standards as well as other regulations, the Group builds on the information it has obtained as well as financial statements compiled pursuant to international financial report formulation standards to conduct retroactive reconciliation on accounting policies changes due to enforcement of new accounting standards for transactions and items done in accordance with regulations of Article 5 to Article 19 of No.38 Standards as well as comparative annual financial statements. For impact brought about by enforcement of New Accounting Standards on comparative financial statements, please refer to Note VI.

Changes in the means of presentations such as category and name of items in financial statements as well as comparative financial statements have been restated in accordance with the New Accounting Standards.

III. DECLARATION ON THE COMPLIANCE WITH THE ACCOUNTING STANDARDS FOR ENTERPRISES

The financial statements formulated by the Company in accordance with the New Accounting Standards are an true and complete reflection of consolidated financial conditions of the Company as at 31st December 2007 as well as consolidated and company operating results and cash flow for the year 2007.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The following significant accounting policies and accounting estimates are determined in accordance with the New Accounting Standards.

Accounting year

Accounting year of the Group refers to calendar year which starts on 1 January and ends on 31 December each year.

Recording currency

Given the fact that RMB is the main currency of the place where the Group is mainly operated, the Group takes RMB as its recording currency.

Accounting basis and pricing principle

The Group adopts the accounting method on Accrual basis. Apart from some financial instruments measured at fair value, the financial statements are measured at historical cost. Where assets are impaired, provision for impairment shall be accrued in accordance with relevant regulations.

Cash Equivalents

Cash equivalents refer to investments held by the Group with short maturity, strong liquidity, easily convertible into known cash and limited risk in value changes.

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Foreign currency translation

Foreign currency transactions are translated into RMB at the exchange rates at the transaction dates in initial recognition.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into RMB at the spot exchange rates at the balance sheet date. Translation differences between spot exchange rate at the date and that in initial recognition or between the spot exchange rate and that in the previous balance sheet date shall be recorded into profits and losses for the current period.

Non-monetary foreign currency transactions recognized under historical cost are calculated in the recording currency translated at the spot exchange rate at the transaction date.

Financial Instruments

When the Group becomes one party of financial instruments-related agreement, corresponding financial assets or liabilities shall be recognized. Initial recognition of financial assets and financial liabilities is measured at fair value. For trading purpose financial assets, relevant transaction cost shall be directly taken into profits and losses for the current period. For other categories of financial assets or liabilities, relevant transaction cost shall be recorded into the amount of initial recognition.

Classification and measurement of financial assets

Depending on the nature and the purpose of holding, financial assets are classified at initial recognition. The Group's financial assets are mainly trading purpose financial assets and loans and accounts receivable.

Trading financial assets

Trading financial assets refer to financial assets that meet one of the following conditions. (1) the financial assets are obtained mainly to be sold or repurchased in the near term; (2) the financial assets is part of recognizable financial portfolio subject to centralized management, and objective evidence indicates that the Group will manage the portfolio in a short-term profit method. (3) the financial assets are derivatives, except derivatives that are designated as effective hedge, as part of financial hedging contract; that are not quoted in active market and whose fair value is not linked with reliably measured equity tools and subject to settlement by delivering the equity instrument.

Trading financial assets are subsequently measured at fair value, and gains or losses produced on changes in fair value and dividends and interest income related to these financial assets are accounted for as profits and losses for the current period.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

Classification and measurement of financial assets (continued)

Loans and accounts receivable

They refer to non-derivative financial assets not being quoted in active market, fixed or determined recovery and include various kinds of accounts receivable and entrusted loans.

Loans and accounts receivables are subsequently measured under effective interest method and in line of amortized cost, and gains or losses produced in the process of final recognition, impairment or recognition shall be written down as profits and losses for the current period.

Impairment of loans and accounts receivable

At each balance sheet date, the Group reviews the carrying amounts of loans and accounts receivable. If there is objective evidence that the financial asset has suffered impairment, impairment provision shall be charged.

The carrying value of loans and accounts receivable is then reduced to the present value discounted from its projected future cash flow. The reduced amount is recognized as impairment loss to be recorded as profit or loss for the period. Upon recognition of the impairment loss, if there is objective evidence showing recovery in value of the amount so impaired and which is related to any event occurring after such recognition of loss objectively, the impairment loss originally recognized shall be reversed to the extent that the carrying value of the asset upon reversal will not exceed the amortized cost as at the reversal date assuming there is no provision for impairment.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

Derecognition of Financial Asset

In case any of the following conditions is satisfied, the financial asset shall be derecognized: (1) The contract right to recover the cash flow of the financial asset has terminated; (2) The financial asset has been transferred, along with substantially all the risk and return arising from the ownership of the financial asset, to the transferee; (3) The financial asset has been transferred, without assigning or maintaining substantially all the risk and return arising from the ownership of the financial asset, to the transferee, however the control on the same financial asset has been given up.

Inventories

Inventories include raw materials, work in progress or underdevelopment, finished product, completed work, etc. Initial measurement of the inventories are made according to the cost. Inventories include purchasing cost, processing cost and other expenses that help deliver the inventories to the current location and situation. Inventories mainly include raw materials, products, work in progress, real estate development, finished products, etc. Real estate development cost includes land use right transfer payment, infrastructure facility expenses, engineering installment expenses, cost of borrowings before project completion and other related expenses during product development.

Upon delivery of the inventories, the actual cost of inventories shall be determined using weighted average.

The inventory taking system shall use permanent inventory system.

Provision for Inventory Impairment

On the balance sheet date, inventories were calculated at lower of cost and net realizable value. Provision for inventory impairment is made when the net realizable value is lower than the cost. For inventories with large amount and relatively low unit price, provision for inventory impairment shall be recorded as according to the types of inventories. For inventories related to production and sales of products in a certain area with the same or similar final use or purpose, and are difficult to be separated from other items, the provision for inventory impairment shall be consolidated. For other inventories, the provision for inventory impairment shall be made according to the amount by which the cost of a single item exceeds its net realizable value.

After making the provision for inventory impairment, in case the factors causing inventory impairment no longer exists, and the net realizable value of an inventory is higher than its book-value, the original provision for inventory impairment shall be transferred back and incorporated into the profits and losses for the current period.

Net realizable value refers to the amount of the estimated price of inventories less the estimated cost occurring, estimated sales expenses and other amount after tax and levies. in daily operation, The realizable value of inventories shall be determined on the basis of definite evidence, purpose of holding the inventories and effect of after-balance-sheet-date events.

Long-term equity investment

For long-term investment formed by merger of entities, if the long-term equity investment is obtained by companies under the same controlling company, on the date of merger the initial investment cost shall be calculated as book value of the equity of the acquired party. The long-term equity investment obtained through acquiring a company not under common control, the initial capital cost shall be the cost of merger. For equity investment other than that arising from merger of entities, the initial measurement shall be made at cost.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

Long-term equity investment (continued)

If the investing company does not have control, joint control of major impact on the invested company, and there is no quote price in the active market and the fair value can not be reliably measured, the long-term investment is measured at cost. If the investing company has joint control or major impact over the invested company, the long-term investment is recorded under equity method. If the invested company has not control, joint control or major impact and the fair value can be reliably measured, the long-term investment is recorded as available-for-sale financial asset.

Besides, the long-term equity investment in the invested entity, on which the Company can exert control and in the parent company's financial statement only, shall be calculated with the cost method in the financial statements of the Company.

Long-term equity investment recognized under cost method

When calculating with the cost method, the long-term equity investment shall be calculated according to initial investment cost. The current period investment return is limited to the distribution amount of accumulated net profit generated after the invested company receiving such investment, and the received profit distribution by the invested companies or the amount of which the dividends in cash exceeds the aforesaid amount, shall be withdrawn as initial investment cost to set off investment book value.

Long-term equity investment recognized under equity method

When using equity method, where the initial cost of long-term equity investment exceeds the recognizable net asset's fair value of the invested company, no adjustment shall be made to the initial cost of long-term investment; where the initial investment cost of long-term equity investment is below the recognizable net asset's fair value of the invested company, the difference shall be accounted in the profits and losses for the current period, and adjustment shall be made to the long-term investment cost.

When using the equity method, the investment profit and loss for the current period shall be the amount of net profit and loss realized in current year by the invested company that should be owned or shared by the investing company. Recognition of such amount of net profit and loss realized by the invested company is based on fair value of various recognizable asset of the invested company after adjustment according to the accounting policy and accounting period of the Group. Changes in owner's equity other than net profit and loss of the invested company is recorded into owner's equity after adjusting the long-term investment equity's book value accordingly.

Recognition the net losses of invested company that shall be undertaken shall be up to the extend that the book value of long-term investment in invested company and other long-term equity investment in substance in the invested company are written off to zero. Moreover, if the Group has extra loss liability to the invested company, the accrued liabilities are recognized according to the liabilities planned to be undertaken and be recorded into profits and losses for the current period. If the invested company realize profit in later period, the Group shall, after the profit sharing amount has make up the loss sharing amount, resume to recognize profit sharing amount.

The debit balance related to the long-term equity investment to the jointly owned and cooperative companies owned before the first implementation date, if any, is recorded into profit and loss for the current period through straight-line amortization within the remaining period.

Disposal of long-term equity investment

When disposing long-term equity investment, the difference between book value and received payment is recorded in profits and losses for the current period. Long-term equity investment is accounted by equity method. Upon disposition, the part originally recorded in owner's equity is withdrawn and recorded as profit and loss for the current period proportionally.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

Fixed assets and depreciation

Fixed asset refers to tangible asset with useful life exceeding one accounting year held for the purpose of goods production, service provision, leasing or operation and management.

Fixed asset is initially measured at cost, with consideration on the impact of disposition cost. Starting from the second month after the fixed asset have reached usable condition, the annual average depreciation method is used. The useful life, estimated residual value and annual depreciation rate are as follows:

Category	Useful life	Estimated residual value rate	Annual depreciation rate
Buildings	9 to 50 year	5%	1.9% to 10.56%
Machinery and equipment	7 to 22 year	5%	4.32% to 13.57%
Transportation equipment	9 to 14 year	5%	6.79% to 10.56%

The estimated residual value refers to the payment gained by the Group from disposition of such fixed asset after deducting estimated disposition cost, assuming that the useful life of such fixed asset has expires and the asset is at the end of such useful life.

Subsequent expenses related to the fixed asset, if the economic interest related to such fixed asset may flow in and the cost is measurable, are accounted as fixed asset cost, and recognition of book value of the replaced part shall be terminated. Other subsequent expenses are accounted as profits and losses for the current period when incurred.

The Group shall review the useful life, estimated net residual and depreciation method of fixed assets at least at year end. Changes in accounting estimates will be made in case of any change.

Disposition income generated form sale, assignment, scrap or damage, less the asset's book value and relevant tax and levies, is recorded into profits and losses for the current period.

Construction in progress

Cost of construction in progress is determined according to actual project expenses, including various project expenses during construction, cost of borrowings for capitalization before the project reaches usable condition, and other related fees. Construction in progress becomes fixed asset after reaching usable condition.

Intangible assets

Intangible assets refer to recognizable non-monetary assets without material form owned or controlled by the Group.

Intangible assets are initially measured at cost. Expenses related to intangible assets is accounted as intangible asset cost provided that related economic interest may flow into the Group and the cost can be properly measured. Other intangible asset cost is accounted as profits and losses for the current period upon occurrence

Acquired land use right is typically recorded as intangible asset. For workshops and other self-constructed buildings, the related and use right and buildings are treated separately. The payment for acquisition of land use right and buildings from outside is allocated between the land use right and buildings, and is treated entirely as fixed asset when it is difficult to be allocated.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

Intangible asset (continued)

Intangible asset with limited useful life is amortized through straight-line amortization within the estimated useful life, and is not amortized if the useful life can not be clearly defined.

At the end of the period, the useful life and amortization method of intangible asset with limited useful life are reviewed, with estimates changes treatment in case of any changes.

R&D Expenditure

The internal R&D expenditure of the Group is divided into research period expenses and development period expenses.

Research period expenses are recorded into profits and losses for the current period upon occurrence.

The development period expenses are recognized as intangible asset if the following conditions are satisfied. Other development period expenses are recorded into profits and losses for the current period:

(1) There is possibility, in term of technology, for such intangible asset to be completed for use and sale;
(2) There is the intent to complete such intangible asset for use and sale;
(3) The way in which such intangible asset generates economic interest, including the evidence showing market existence for utilization of such intangible asset or for the intangible asset itself, or the usefulness of such intangible asset if it is intended for internal use;
(4) There is adequate technology, financial resources and other support to complete development of such intangible asset as well as the capability to use and sell such intangible asset;
(5) Expenses belonging to such development period expenses can be reliably measured.

Where it is difficult to divide the research period expenses and development period expenses, all the R&D expenditure is recorded into profits and losses for the current period.

Non-financial assets impairment

On each balance sheet date, the Group would review its long-term equity investment, fixed asset, construction in progress, intangible asset, and examine whether there is any sign for assets impairment. In case of such signs showing assets impairment, the Group estimates the recoverable amount on a single item basis. In case such estimate is difficult to be made, the recoverable amount is determined on a portfolio basis. In case the recoverable amount is lower than the asset's carrying value, provision shall be made according to the difference and be recorded into profits and losses for the current period.

Whether there is sign of impairment or not, impairment test will be made each year for goodwill. During the impairment test, the present value of projected future cash flow of the underlying assets or portfolio of assets incorporating such goodwill will be calculated, and projection of the future cash flow of those assets or portfolio of assets will be made, and a pre-tax interest rate shall be determined which can properly reflect the prevailing time value of currency in the market as well as the specific risks concerning such assets.

The recoverable amount refers to the higher of the asset's fair value less disposition cost and the current value of asset's estimated future cash flow. The fair value is determined by an fair sales agreement. In case there is sales agreement but there is active market for the asset, the fair value is determined by the buyer's bid price. In case there is no active market for the asset, the fair value is determined by the best information available. The disposition cost includes legal fees, tax payment, transportation fees and direct cost to make the asset available for use and sale.

Upon recognition, the above assets impairment loss will not be reversed in subsequent accounting periods.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

Payroll

During the accounting period for the employment, the accrued payroll is recognized as liabilities.

According to relevant regulations, the Group participates in social security system established by the government, including basic old age insurance, medical insurance, public housing fund and other social security items. The corresponding expenses are recorded as cost of related asset or profits and losses for the current period upon occurrence.

Termination of employment with employees before the Labor Contract expires or put forward compensation suggestion to encourage employees to retire voluntarily. To the extent that the Group has designed an official plan to remove labor relations or has put forward a downsizing proposal which is to be soon carried out and at the same time the Group has no right make either of the above move, expected liabilities arising out of compensation for removing labor relations shall be recorded into profits and losses for the current period.

Internal retirement plan adopts the same treatment with the welfare of the laid-off workers. The Group will recognize the salary payment and social insurance premiums to early retired personnel as payroll (welfare for laid off workers) for the current period payable starting from the date when the employee stops to provide service.

Actuarial evaluation on the defined retirement welfare plan will be conducted on each balance sheet date to estimate the welfare cost by estimated accumulative welfare unit method. 10% of the amount by which the actuarial profit and loss exceed the higher of present value of defined welfare liabilities and planned asset fair value shall be recognized immediately as profits and losses for the current period. The cost for past service are recognized upon receipt of the welfare by employees, otherwise, such cost for past service shall be amortized with equal installments by straight-line method within the period before the employee's planned welfare become vested.

The retirement welfare cost recognized in the balance sheet is calculated as the present value of the beneficiary's obligation.

Accrued liabilities

An obligation relating to contingencies shall be recognized as accrued liabilities provided that: (1) the obligation is a current obligation of the Group; (2) performance of the obligation is likely to lead to economic interest outflow; (3) the amount of such obligation can be measured.

At the balance sheet date, considering the risks, uncertainty and currency's time value relating to contingencies, the accrued liabilities shall be measured according to the best estimates of expenses for performance of such current obligation.

If all or part of the accrued liabilities is expected to be compensated by a third party, and the receipt of compensation can be basically assured, the compensation shall be recognized as an asset, and the compensation amount shall not exceed book value of the accrued liabilities.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

Revenue recognition

Revenue from sales of goods

Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the customer, when the Company neither retains continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, when it is probable that the economic benefits associated with the transaction will flow to the enterprises and when the relevant amount of revenue and costs can be measured reliably.

Interest income

Determined by the time and real interest rate for using of the Group's capital.

Government subsidy

Government subsidy refers to the currency asset or non-current asset obtained by the Group form the government for free, not including the investment made by the government as an owner. The government subsidy is divided into government subsidy related to asset and that related to return. Government subsidy is recognized when the conditions for government subsidy are satisfied and can be received.

Government subsidy in the form of currency asset is measured according to the amount received or receivable. Government subsidy in the form of non-currency asset is measured according to fair value. Where the fair value is not available, the subsidy is measured according to the nominal amount. Government subsidy measured according to the nominal amount is recorded directly into profits and losses for the current period.

Government subsidy related to asset is recognized as deferred profit, and is presented into the profits and losses for the current period within the useful life of the corresponding asset by equal installments. Government related to profit, is recognized as deferred profit and recorded into profits and losses for the current period during corresponding recognition period if it is used to make up cost and loses in future period; and is recorded directly into the profits and losses for the current period if the subsidy is used to make up relevant fees and losses already occurred.

In case the recognized government subsidy needs to be refunded, if there is deferred profit balance, the related deferred profit balance shall be set off, and the exceeding amount is presented into profits and losses for the current period. If there is no deferred profit balance, the amount is directly recorded into profits and losses for the current period.

Borrowing costs

Borrowing cost includes interest of borrowings, amortization of discount or premium, supplementary fees, and foreign currency translation difference. Capitalization of asset acquisition or borrowing cost for production that can be capitalized shall start when such asset acquisition expenses and has already occurred, and the acquisition or production activities have already started to make the asset available for use and sale, and shall end when the asset has reached usable condition or available-for-sale condition. Other borrowing cost in the current period is recorded as fees.

Interest costs due to special borrowings shall be capitalized by the interest costs less interest income from unused borrowing loans or earnings from temporary investment. Ordinary loans can be capitalized by the weighted average of cumulative asset expenditure less assets expenditure for loans before multiplying capitalization rate of ordinary loans. Capitalization rate is determined by the weighted average interest rate of ordinary borrowings.

Assets qualified for capitalization refer to usable or available-for-sale fixed assets and inventories that have been through long-term construction or production activities.

Where such assets suffer abnormal interruption in the process of purchase or production and the interval exceeds three month, capitalization shall cease until purchase and production of assets restart.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

Taxation

Current income tax

On balance sheet date, for the current income tax liabilities (or asset) incurred in the current period or pervious periods, the calculation of such liabilities (or asset) shall be made according to the estimated income tax payable (or refundable) according to the Tax Law. The taxable income, which is the basis for calculating current period income tax, is determined after making adjustment to current year pre-tax profit according to relevant tax law provisions.

Deferred tax assets and deferred tax liabilities

For the differences between the book value and the tax base, the temporary differences arising out of differences between tax base and the book value of items not recognized as assets and liabilities but whose tax base can be determined in accordance with Taxation Law, liability method of assets liability shall be adopted to determine deferred tax assets and deferred tax liabilities.

Taxable temporary differences related to initial recognition of assets or liability arising out of transactions related to the initial recognition of goodwill but unrelated to consolidation and with no influence on accounting profit and taxable shall not be recognized as deferred tax liabilities. In addition, taxable temporary differences related to subsidiaries, consortiums and jointly held companies whose return time can be controlled by the Group and may not return in the foreseeable future are also not recognized as deferred asset liabilities. Other than the above scenarios, the Group recognizes deferred tax liabilities arising from taxable liabilities differences.

Temporary deductible differences related to initial recognition of assets or liability arising out of transactions related to the initial recognition of goodwill but unrelated to consolidation are not subject to recognition of deferred tax assets. In addition, deductible differences related to subsidiaries, consortiums and jointly held companies that will not likely return in the foreseeable future or obtain taxable amount to offset temporary deductible differences shall not be subject to recognition of deferred tax assets either. Other than that, the Group can take taxable amount used to offset temporary deductible differences as a ceiling to recognize deferred tax assets arising out of deductible temporary differences.

Deductible losses and tax deferral that can be carried forward in future years are taken to the extent that it is probable future taxable amount can be used to offset deductible losses and tax deferrals to identify corresponding deferred tax assets.

At balance sheet date, deferred tax asset and deferred tax liabilities shall be measured at tax rate during the period that relevant assets are expected to be recovered and relevant liabilities are expected to be liquidated.

At balance sheet date, verify the book value of deferred tax assets; and when it is unlikely to obtain sufficient tax to offset interest of deferred assets, then the book value of deferred tax assets shall be written down. When it is likely to secure sufficient tax, then return the written-down amount shall be reversed.

Income tax expenses

Income tax expenses includes current income tax and deferred income tax.

Other than current period income tax and deferred income tax related to transactions and events directly included in owner's equity that are record as owner's equity, and deferred income tax adjustment and adjustment of goodwill's book value arising from company consolidation, the other current period income tax and deferred income tax or benefit shall be record as profits and losses for the current period.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

Business combination

Business combination refers the transaction or event to combine two or more independent entities into one reporting subject. Business combination is classified into business combination under common control and not under common control.

The Group shall recognize asset, liabilities obtained arising from business combination recognized on the date of merger or date of acquisition. The date of merger or acquisition date mean the date on which the controlling right of the entity being merged or the acquiree is obtained. That is the date on which the controlling right on net asset or production and management decision is assigned to the Group.

Business combination and goodwill not under the same control

Where companies participating in the merger is not subject to final control of the same one or multiple parties either before or after the merger, such combination is business combination not under the same control. For business combination not under the same control, the buyer refers to the party obtaining controlling right of other parties participating in the merger, such other parties are acquired parties.

For business combination not under the same control, the cost of merger refers to the asset, liabilities occurred or undertaken and fair value of equity instruments issued in order to acquire controlling right over the acquired party, and all directly related cost for the purpose of company consolidation. If the company consolidation is realized through more than one transaction, the consolidation cost means total cost of each single transaction. If there is provision in the the merger agreement that may impact future issues, and it is estimated that future event may occur and have measurable impact on the consolidation cost, the future events are also recorded into cost of merger on the purchase day.

The recognizable asset, liability, contingent liabilities obtained on the merger date and recognized as satisfying the reorganization conditions by the acquired party shall be accounted according to fair value on the acquisition day.

The difference by which the consolidation cost exceeds the recognizable net asset fair value obtained from merger and recognized by the acquired party is recognized as goodwill. If the cost of merger is lower than the recognizable net asset fair value obtained from the merger and recognized by the acquired party, firstly the recognizable net asset, liabilities or contingent liabilities and consolidation cost are fair value obtained shall be reviewed. If after review the consolidation cost is still lower than the fair value amount recognized by the acquired party, the difference is recorded into profits and losses for the current period if the business combination is not under the same control.

Leasing

Lease of assets where all the risk and rewards incident to ownership of the assets are in substance transferred to the leases are classified as finance leases, either the ownership is finally transferred or not. All others leases are operating leases.

Operating lease business with the Group recorded as lessee

Rental payment for operating lease are recognized as related asset cost or profits and losses for the current period using the straight–line method over the lease term. The initial direct cost is accounted into profits and losses for the current period. Contingent rent is accounted into profits and losses for the current period upon occurrence.

Operating lease business with the Group recorded as lessor

Rentals collected from operating lease are recognized as leasing income using the straight–line method over the lease term. The initial direct cost where the amount is larger is capitalized when incurred, and accounted for as profits and losses for the current period on the same basis as recognition of rental income over the entire lease period. The initial direct cost in lesser amount is accounted for as profits and losses for the current period when incurred. Contingent rental is accounted for as profits and losses for the current period upon actual incurrence.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

Methods in the formulation of consolidated financial statements

The consolidation scope shall be determined based on control. Control refers to the Group's right to decide on financial and operating policies of another company and obtain profit from operating earnings of such company.

The date of purchase and disposition shall be the day on which the Group obtains or loses the controlling right over its subsidiaries. For the subsidiary company being disposed, the operating result and cash flow before such disposition have already been included in the consolidated income statement and consolidated cash flow statement. Companies that are disposed in the current period do not require any adjustment in the beginning balance. For subsidiaries established after consolidation of companies not under the same controlling entity, the operating result and cash flow after the consolidation date have been properly included in the consolidated income statement and cash flow statement, and will not adjust the beginning balance and comparative figure. For the subsidiaries established after consolidation of companies under the same controlling company, the operating result and cash flow have after the consolidation date have been properly included in the consolidated income statement and cash flow statement, and the comparative figure in consolidated financial statements will be adjusted at the same time.

The major accounting policy and accounting periods adopted by subsidiaries shall be determined according to unified accounting policies and accounting periods set by the Company.

All the major accounts and transactions between the Company and its subsidiaries or between subsidiaries shall be set-off upon consolidation.

The shares of equity not owned by the parent company in the subsidiaries shall be accounted as minority shareholders' equity, and be presented as "minority shareholders' equity" under owner's equity in the consolidated balance sheet. The amount of which the current net profit and loss belonging to minority shareholders' equity shall be presented as "minority shareholders' profits and losses" under net profit in the consolidated income statement. Where the minority shareholders' participation in subsidiaries' losses exceeds the amount deserved by minority shareholders in the subsidiary's owner's equity at beginning of the period, if the minority shareholders are obliged to make up as provided in the Company's articles of association or agreement, and are capable to do so, such exceeding amount is set-off in minority shareholders' equity, or otherwise set-off as owner's equity of the parent company. Profit realized subsequently by the subsidiary, before recovering such losses of minority shareholders but undertaken by the parent company, is entirely owned by the owner's equity of the parent company.

Translation of financial statements denominated in foreign currency

Financial statements denominated in foreign currency are translated into RMB in the following methods: all assets and liabilities are translated into RMB at the exchange rates stipulated by the People' Bank of China at the balance sheet date. All items in the shareholders' equity account, with the exception of retained earnings, are translated at the transaction dates. All items in the income statement and items reflecting profit distribution are translated at the exchange rate at the transaction dates. The retained earnings at the beginning of a year shall be the retained earnings at the end of the last year after translation. The retained earnings at year end shall be listed with sub-items of distributed earnings. The difference between the total asset and total liability and owner's equity shall be presented separately as foreign currency translation difference under the owner's equity.

In disposition of foreign operation, the foreign currency translation difference related to such foreign operation under the owner's equity are transferred, entirely or in proportion of such foreign operation, into the profits and losses for the current period.

Cash flow denominated in foreign currency and are that of overseas subsidiaries are translated at the exchange rate at the cash flow occurrence date. The impact on the cash flow caused by the fluctuation of exchange rate is separately represented in the cash flow statement as "impact on cash and cash equivalents caused by the fluctuation of exchange rate".

The figure at the beginning of the year and actual figure of the prior year are presented according to translated figures of the prior year's financial statements.

Related Parties

Where one party have control, joint control, or major impact on the other party, or where the two parties are or will be under control of the same party, the two parties shall constitute related parties.

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V. CRITICAL ASSUMPTIONS USED FOR KEY JUDGMENTS AND ACCOUNTING ESTIMATES IN THE APPLICATION OF ACCOUNTING POLICIES AND UNCERTAINTIES

When using the Accounting Policy described in Note IV by the Group, due to uncertainty of operating activities, the Group needs to make judgment, estimation and assumption on the book value of reporting items could not be calculated accurately. These judgments, estimation and assumptions are based on past experience of the Group's management while considering other related factors. The actual result may differ from the Group's estimation.

The Group regularly reviews the aforesaid judgment, estimation and assumption on the basis of continuous operation. Where the changes in accounting estimation only impact the current period, the impact shall be recognized during the current period; where such changes impact both the current and future period, the impact shall be confirmed during the current or future period when such changes occur.

Provision for bad debt

The Group recognizes provision for bad debts according to the recoverability of receivables. When there is sign showing that a receivable item can not be collected, provision for bad debts needs to be recognized. Recognition of bad debts shall use judgment and estimation. If the result of new estimation differs form current estimation, such difference will impact the book value of receivables for the corresponding period.

Provision for inventory impairment

Provision for inventory impairment is recognized according to net realizable value of the inventory. Provision for inventory impairment needs to be recognized when there is sign showing that the net realizable value is lower than cost. Recognition of net realizable value involves judgment and estimation. If the result of new estimation differs form current estimation, such difference will impact the book value of inventory impairment for the corresponding period.

Useful life of fixed assets and estimated net residual value

The Group determines the useful life of fixed assets and estimated net residual value of fixed asset on a reasonable basis. Such estimates are based on experience on actual useful life and residual of fixed asset of similar nature and function, and may have major change due to technology revolution and competitors' response to the severe business environment. As described in Note IV to the financial statements, the Group will review the useful life, estimated net residual value of fixed assets at least at every year end. When the new estimated useful life and net residual value is less than the previous estimates, the Group will raise depreciation rate and set off or write off the obsolete fixed assets.

Recognition of deferred income tax asset

As at 31st December 2007, the Group recognized deferred income tax asset at RMB 35,731,341.25. The realization of deferred income tax asset is mainly determined by future actual earnings and actual tax rate in future utilization year of temporary difference. If the actual future earnings is less than estimates, or the actual tax rate is lower than estimates, the recognized deferred income tax asset shall be written back, and be presented as profits and losses for the current period. Moreover, as at 31st December 2007, because it is not possible to identify whether the related deductible tax liability can be written back in the foreseeable future, the Group has not recognized the deductible tax liability of RMB68,242,542.08 as deferred income tax asset. If in the future the actual earnings accrued is more than estimates, or the actual tax rate is higher than estimates, such deferred income tax asset shall be recognized, and record the adjustment into profits and losses for the current period. At the same time, when calculating the deferred income tax asset, the Group needs to estimate applicable tax rate during the process of repossession of relevant assets or repayment of relevant liabilities. Where such estimated tax rate differs from actual rate, such difference will impact the income tax cost and deferred income tax asset during the period when such judgment was made.

Actuarial Evaluation on Employees' Retirement Welfare

The Group made actuarial evaluation on the liabilities and expenses arising from welfares plan provided by the Group as follows:

(1) Supplementary pension benefit for retired and resigned personnel and families of the deceased;
(2) Reimbursement for medical treatment or welfare from commercial insurance for retired personnel after retirement;
(3) The off-post payroll of early retired personnel during the early retirement period.

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V. CRITICAL ASSUMPTIONS USED FOR KEY JUDGMENTS AND ACCOUNTING ESTIMATES IN THE APPLICATION OF ACCOUNTING POLICIES AND UNCERTAINTIES (CONTINUED)

Actuarial Evaluation on Employees' Retirement Welfare (continued)

Such welfare and liability amount shall be calculated according to various assumptions, including discount rate, expenses increase rate and other factors during the retirement period. The difference between actual result and assumptions shall be treated according to the above-mentioned accounting policy of the current year. Although the management believes such assumptions are true, changes in actual experience and assumptions will impact related fees and liability balance of employees' retirement welfare expenses of the Group.

Goodwill impairment

When conducting goodwill impairment test, the present value of projected future cash flow of the underlying assets or portfolio of assets incorporating such goodwill will be calculated, and projection of the future cash flow of those assets or portfolio of assets will be made, and a pre-tax interest rate shall be determined which can properly reflect the prevailing time value of currency in the market as well as the specific risks concerning such assets. Due to impact from factors such as market interest rate, inflation, foreign exchange reserve and macro economic control, in case such estimated interest rate differs form the actual interest rate, such difference will impact the goodwill impairment during the period when such judgment is made.

VI. CHANGES OF ACCOUNTING POLICY

The Group adopted the New Accounting Standards since 1 January 2007. The significant accounting policies implemented after adoption of the New Accounting Standards are set out in Note IV. As shown in Note II, the Group made retroactive reconciliation on the following items in accordance to No.38 Standards and relevant provisions of Accounting Standards for Enterprises Interpretation No.1:

Long-term equity investment

Before implementing the New Accounting Standards, when calculating long-term equity investment using equity method, the amount by which the initial investment cost exceeds owner's equity in the invested company shall be calculated as debit balance, and be included into profit and loss according to amortization within a certain period. The amount by which the initial investment cost is lower than the owner's equity in invested enterprise, shall be calculated as equity investment credit balance and be included in profit and loss as amortization within a certain period if it occurred before the issuance of Document [2003] No. 10, and those shall be included in capital reserve if it occurred after the issuance of Document [2003] No. 10.

Before implementing the New Accounting Standards, the long-term equity investment of the Company in subsidiaries was calculated using equity method.

The accounting policy relating to long-term equity investment after implementing the New Accounting Standards is set out in Note IV Long-term Equity Investment". The Group has retroactively adjusted the difference in long-term equity investment of subsidiaries and residual cost after amortization for the prior year as well as retained profit.

After implementing the New Accounting Standards, the long-term equity investment in subsidiaries shall apply the cost method. According to *Accounting Standards for Enterprises Interpretation*, to the long-term equity investment in subsidiaries is adjusted on the first implementation date as if the subsidiary adopted cost method from the initial period.

Welfare for workers to be laid off and retirement welfare

Before implementing the New Accounting Standards, welfare for workers to be laid off and retirement welfare are accounted into profits and losses for the current period.

After implementing the New Accounting Standards, as for accounting policy on welfare for workers to be laid off and retirement welfare, please refer to Note IV "Payroll" and "Retirement Welfare Cost".

Income tax

Before implementing the New Accounting Standards, treatment to income tax shall be taxes payable method.

After implementing the New Accounting Standards, the relevant policy on income tax please refer to Note IV "Income Tax".

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VI. CHANGES OF ACCOUNTING POLICY (CONTINUED)

Trading financial assets

Before implementing the New Accounting Standards, short-term investment is accounted according its initial acquisition cost; the interest obtained during the holding period shall set off investment cost, and be calculated at the lower of cost and market price at the end of the period.

After implementing the New Accounting Standards, the aforesaid investment is classified as trading financial assets. For details of the accounting policy for trading financial assets, please refer to Note IV "Financial Assets".

Consolidated financial statements

Before implementing the New Accounting Standards, the financial statements of jointly controlled entities were included in the consolidated financial statements by the Group using proportional consideration method.

After implementing the New Accounting Standards, the Company will determine the consolidation scope of financial statements according to the method provided in Note IV "Method for Preparation of Consolidated Financial Statements ". For investments in jointly controlled entities, equity accounting is adopted instead of incorporating in the consolidated financial statements. Such change in accounting policy has no effect on the Group's net profits and shareholders' equity.

Before implementing the New Accounting Standards, the minority shareholders' equity shall be separately presented between the liabilities and owner's equity. The minority shareholders' losses and profit shall be reflected as deductible items above net profit.

After implementing the New Accounting Standards, the minority shareholders' equity shall be separately presented as owner's equity; the minority shareholder's losses and profit shall be presented as a separate item under net profit.

Impairment of non-financial assets

On each balance sheet date, the Group will review its long-term equity investment in subsidiaries, associates and jointly controlled entities, its fixed assets, construction in progress and intangible assets of which useful lives are determined whether there are signs of impairment. If signs of impairment exist for those assets, estimate their recoverable amount, and if the recoverable amount of the assets is lower than their carrying value, the difference is provided as impairment loss to be accounted into the profits and losses of the current period.

Upon recognition of the asset impairment loss of long-term equity investments in subsidiaries, associates and jointly controlled entities, fixed assets, construction in progress, intangible assets and goodwill as mentioned above, no reversal will be made in subsequent accounting periods.

Goodwill

Before implementing the New Accounting Standards, the Goodwill arising form merger shall be amortized with equal installments within a certain time limit.

After implementing the New Accounting Standards, the difference between the consideration paid to acquire equity and the fair value of recognizable net asset in the subsidiary on the transaction date owned in proportion to the newly obtained equity shall be presented as goodwill in the consolidated balance sheet. The same treatment as adopted in the Group's financial statements made according to International Financial Reporting Standards, and the goodwill shall not be amortized. On the first implementation date, Retroactive Reconciliation shall be made to set off the original amortization.

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VI. CHANGES OF ACCOUNTING POLICY (CONTINUED)

Assets-related government grants

Before implementation of the New Accounting Standards, asset-related government grants received by the Group are accounted for as special accounts payable, and upon completion of the project using such grants, for those assets forming fixed assets or products and to be retained by the Group according to the terms of grant, the special accounts payable will be treated as capital reserve; those grants not forming assets shall be eliminated and those forming assets but shall be returned to the State will be offset with related assets upon approval.

After implementation of the New Accounting Standards, the Group adopts the accounting policy as mentioned in Note IV for the accounting of assets-related government grants, using the same treatment adopted by the Group in accordance with International Financial Reporting Standards ("IFRS") for retroactive adjustment on the first implementation date.

Appreciation in value upon valuation

Before implementation of the New Accounting Standards, investment in kind on establishment of subsidiaries was accounted for in the amount upon valuation in accordance with the relevant provisions at the time of business transaction. After implementation of the new standards, no recognition is made on valuation adjustment of investment in kind in subsidiaries, and retroactive adjustment is made in the same treatment of the Group in adopting IFRS in the preparation of its financial statements.

Gain on debt restructuring

Before implementation of the New Accounting Standards, where the debtor uses cash in the amount less than the carrying amount of the debt for settlement, the difference between the cash payment and the carrying value of the debt is recognized as capital reserve; and where non-cash asset is used for settlement, the difference between the carrying value of the restructured debt and the sum of the carrying value of non-cash asset and relevant tax and charges is recognized by the debtor as capital reserve or loss for the current period. After implementation of the new standards, the gain on debt restructuring shall be accounted for as profits and losses for the current period as incurred, and retroactive adjustment is made in the same treatment of the Group in adopting IFRS in the preparation of its financial statements.

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VI. CHANGES OF ACCOUNTING POLICY (CONTINUED)

For the above accounting policy changes, the Group, pursuant to Accounting Standard for Business Enterprises No. 38 and the regulation in the Accounting Standards for Enterprises Interpretation No.1 has adjusted the amount at end of the year or last year's comparative data using retroactive reconciliation method and restated comparative financial statements. The above accounting policy changes listed the effects on the shareholders' equity on 1 January 2006 and 31 December 2006 as follows:

	Effect on consolidated shareholders' equity on 1 January 2006					Effect on consolidated shareholders' equity on 31 December 2006				
	Undistributed profit *RMB*	Surplus reserve *RMB*	Capital reserve *RMB*	Minority Shareholders' Equity *RMB*	Total *RMB*	Undistributed profit *RMB*	Surplus reserve *RMB*	Capital reserve *RMB*	Minority Shareholders' Equity *RMB*	Total *RMB*
Difference in equity investment	11,929,467.60	1,325,496.40	(7,266,904.00)	71,164.20	6,059,224.20	13,078,037.93	1,453,115.33	(12,609,265.28)	71,164.20	1,993,052.18
Welfare for the retired and widowed	(122,483,700.00)	(13,609,300.00)	–	(15,737,000.00)	(151,830,000.00)	(120,996,450.00)	(13,444,050.00)	–	(15,189,500.00)	(149,630,000.00)
Deferred income tax	30,001,002.74	3,333,444.75	–	–	33,334,447.49	29,413,810.32	3,268,201.15	–	–	32,682,011.47
Waiver of debt	480,406.50	53,378.50	(533,785.00)	–	–	1,599,715.80	177,746.20	(533,785.00)	–	1,243,677.00
Write-back of value increase upon valuation	806,997.60	89,666.40	(4,200,000.00)	–	(3,303,336.00)	901,197.00	100,133.00	(4,200,000.00)	–	(3,198,670.00)
Asset-related government grants	–	–	–	–	–	–	–	(3,610,272.00)	(6,704,791.00)	(10,315,063.00)
Others	(16,093.48)	(1,788.16)	(384,621.47)	(188,011.41)	(590,514.52)	1,640,312.72	182,256.97	(1,697,298.73)	(119,010.41)	6,260.55
Total	(79,281,919.04)	(8,809,102.11)	(12,385,310.47)	(15,853,847.21)	(116,330,178.83)	(74,363,376.23)	(8,262,597.35)	(22,650,621.01)	(21,942,137.21)	(127,218,731.80)

	Effect on shareholders' equity of parent company on 1 January 2006					Effect on shareholders' equity of parent company on 31 December 2006				
	Undistributed profit RMB	Surplus reserve RMB	Capital reserve RMB	Minority Shareholders' Equity RMB	Total RMB	Undistributed profit RMB	Surplus reserve RMB	Capital reserve RMB	Minority Shareholders' Equity RMB	Total RMB
Welfare for the retired and widowed	(98,964,000.00)	(10,996,000.00)	–	–	(109,960,000.00)	(98,298,000.00)	(10,922,000.00)	–	–	(109,220,000.00)
Deferred income tax	14,881,422.89	1,653,491.43	–	–	16,534,914.32	18,661,434.30	2,073,492.70	–	–	20,734,927.00
Accounting of subsidiaries by parent company using cost method	(321,828,089.60)	(35,758,677.13)	(10,096,228.00)	–	(367,682,994.73)	(444,895,009.44)	(49,432,778.83)	(20,361,539.00)	–	(514,689,327.27)
Waiver of debt	7,230,600.00	803,400.00	(8,034,000.00)	–	–	7,230,600.00	803,400.00	(8,034,000.00)	–	–
Write-back of value increase upon valuation	–	–	(4,200,000.00)	–	(4,200,000.00)	–	–	(4,200,000.00)	–	(4,200,000.00)
Others	(6,763.69)	(751.52)	–	–	(7,515.21)	(6,760.73)	(751.19)	0.46	–	(7,511.46)
Total	(398,686,830.40)	(44,298,537.22)	(22,330,228.00)	–	(465,315,595.62)	(517,307,735.87)	(57,478,637.32)	(32,595,538.54)	–	(607,381,911.73)

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VI. CHANGES OF ACCOUNTING POLICY (CONTINUED)

Effects on net profit of the Group for 2006 arising out of the above accounting policy changes are as follows:

	Amount *RMB*
Difference in equity investment	1,276,189.26
Welfare for the retired and widowed	2,200,000.00
Deferred income tax	(652,436.02)
Waiver of debt	1,243,677.00
Write-back of value increase upon valuation	104,666.00
Change in presentation of profit and loss of minority interests	17,254,278.00
Others	1,909,452.33
Total	23,335,826.57

Effects on net profit of the Company for 2006 arising from the above accounting policy changes are as follows:

	Amount *RMB*
Welfare for the retired and widowed	740,000.00
Deferred income tax	4,200,012.68
Accounting of subsidiaries by parent company using cost method	(136,741,021.54)
Others	3.29
Total	(131,801,005.57)

Reconciliation of Consolidated Shareholders' Equity on 1 January 2007

In accordance with Statement of Reconciliation of Equity from Old to New PRC Accounting Standards disclosed in 2006 Annual Report ("Statement of Reconciliation"), the Group recorded consolidated shareholders' equity under the New Accounting Standards on 1 January, 2007 of RMB3,029,857,835.00. In 2007, the Group based on the further interpretation regarding the enforcement of the New Accounting Standards by the Ministry of Finance and considered the actual situation of the Group, it has made adjustment in the relevant accounting policies and important recognitions in the preperation of the Statement of Reconciliation. The consolidated shareholders' equity listed on the financial statements of 2007 on 1 January, 2007 is RMB2,875,760,635.39.

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VI. CHANGES OF ACCOUNTING POLICY (CONTINUED)

In accordance with Accounting Standards for Enterprises Interpretation No.1, the Group has prepared the following Reconciliation of Consolidated Shareholders' Equity on 1 January, 2007.

Item	Amount disclosed in 2007 Annual Report *RMB*	Amount disclosed in 2006 Annual Report *RMB*	Difference *RMB*	Reason
31 December 2006 Shareholders' equity (based on original accounting standards)	2,819,661,936.00	2,819,661,936.00	–	
Welfare for the retired and widowed	(149,630,000.00)	–	(149,630,000.00)	Note (1)
Difference in long-term equity investment	1,993,052.18	(5,803,545.00)	7,796,597.18	Note (2)
Income tax	32,682,011.47	32,682,011.00	0.47	
Asset-related government grants	(10,315,063.00)	–	(10,315,063.00)	Note (2)
Minority interests transferred to shareholders' equity	183,317,433.00	183,317,433.00	–	
Others	(1,948,734.26)	–	(1,948,734.26)	Note (2)
Equity as at 1 January 2007 (based on New Accounting Standards)	2,875,760,635.39	3,029,857,835.00	(154,097,199.61)	

Note(1): In the past the Group had not made projection on the welfare of retired staff and widowed under the Group's defined retirement benefited plan. This time the Group engaged actuary to make actuarial evaluation of the statutory and constructive obligations for the welfare of retired staff and widowed and the corresponding liabilities are recognized.

Note (2): Originally the Group had to make partial retroactive adjustment on the financial statements for comparable periods in accordance with the provisions of Article 5 to Article 19 of No.38 Standards and base on it to prepare a reconciliation table on the difference of shareholders' equity between the old and new accounting standards. As the Company is a A-share and H-share listed company, it is required to provide financial statements both in accordance with domestic accounting standard and international financial report standards. Article 1 of Accounting Standards for Enterprises Interpretation No. 1 provides that for transactions or items with no differences in New Accounting Standards and international financial report, apart from retroactive reconciliation in accordance with Article 5 to Article 19 of No. 38 Standards as well as other regulations, the Group builds on the information it has obtained as well as financial statements compiled pursuant to international financial report formulation standards to conduct retroactive reconciliation on accounting policies changes due to enforcement of new accounting standards for transactions and items done in accordance with regulations of Article 5 to Article 19 of No. 38 Standards as well as comparative annual financial statements.

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VII. TAXATION

Value Added Tax

Value added tax payable is the amount of output VAT less input VAT. Output VAT shall be calculated as 17% of sales amount pursuant to taxation law.

Income tax

Pursuant to the approval document [2004] No.21 issued by Beijing Municipal Administration of State Taxation on 19 January 2004, the Company has enjoyed a preferential income tax rate of 15% from 1 January 2003, whilst the branches are subjected to 33% income tax rate.

Pursuant to the approval document Jingkegaozi No. 0611024A00392 issued by Beijing Municipal Bureau of Science and Technology, Beijing Jingwei Textile Machinery New Technology Company Limited ("Beijing New Technology"), a subsidiary of Beijing Jingwei Textile Machinary Company is designated as a new and hi-tech enterprise and enjoys a preferential income tax rate of 15% in 2006 and 2007 according to the preferential tax policy.

Pursuant to the approval document No. 0592101A0033 issued by Liaoning Science and Technology Administration on 6 January, 2006, Shenyang Hongda Textile Machinery Company Limited is designated as a new and hi-tech enterprise and enjoys a preferential income tax rate of 15% in 2006 and 2007 according to the preferential tax policy.

Shenyang Hongda Huaming Textile Machinery Co. Ltd. qualifies as a foreign investment production enterprise established in a Science and Technology Development zone, and is entitled to preferential tax rate of 15%. In accordance with the approval of State Taxation Bureau of Shenyang Municipal Economic and Technological Development Zone, Shenyang Hongda Textile Machinery Company Limited enjoys two years exemption from income taxes since 2006. In 2007, the company is exempt from income tax.

Pursuant to the approval document No. 0712004A0233 issued by Tianjin New Technology Industry Zone Management Committee on 25 May 2007, Tianjin Hongda Textile Machinery Company Limited, a subsidiary of the Company, is designated as a new and hi-tech enterprise and enjoys the preferential income tax rate of 15% for 2006 and 2007 according to the preferential tax policy.

Tianjin Jingwei New Type Textile Machinery Company Limited, a subsidiary of the Company, is qualified as a foreign investment production enterprise, and is entitled to two years exemption from income taxes followed by three years of a 50% tax reduction commencing from 2006. In 2007, the company is exempt from income tax.

Pursuant to the approval document No. 0537112AO165 issued by Qingdao Science and Technology Committee on 30 December, 2005, Qingdao Hongda Textile Machinery Company Limited, a subsidiary of the Company, is designated as a new and hi-tech enterprise and enjoys the preferential income tax rate of 15% for new technology enterprises in 2006 and 2007.

Pursuant to the approval document No. 9614001A0434 issued by Taiyuan Municipal Bureau of Science and Technology on 28 December, 2006, Taiyuan Jingwei Textile Electrical Company Limited, a subsidiary of the Company, is designated as a new and hi-tech enterprise and enjoys enjoys the preferential tax rate of 15% for new technology enterprises in 2006 and 2007.

Wuxi Hongda Textile Machinery And Special Parts Company Limited ("Wuxi Zhuanjian"), a subsidiary of the Company, is qualified as a foreign investment production enterprise, and is entitled to two years exemption from income taxes followed by three years of a 50% tax reduction starting from 2005. In 2007, the company is exempt from 50% income tax.

Shanghai Chuangan Trade Company Limited, a subsidiary of the Company, is an enterprise registered in Shanghai Pudong New Zone, and enjoys the preferential income tax rate of 15%.

Pursuant to the approval document No. 0531044A5015 issued by Shanghai Municipal Bureau of Science and Technology on 30 June 2005,Shanghai Jingwei Dongxing Blooming–Carding Machinery Company Limited, a subsidiary of the Company, enjoys the preferential income tax rate of 15% for high technology enterprises in 2006 and 2007.

Changde Textile Machinery Company Limited, a subsidiary of the Company, is qualified as a foreign investment production enterprise, and is entitled to two years exemption from income taxes followed by three years of a 50% tax reduction starting from 2004. In 2007, the company enjoys the preferential income tax rate of 15%.

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VII. TAXATION (CONTINUED)

Income tax (continued)

Shanghai WSP Mould and Injection Plastic Limited, a subsidiary of the Company, is qualified as a foreign investment production enterprise, which is entitled to two years exemption from income taxes followed by three years of a 50% tax reduction, for the period from 2005 to 2010. Furthermore the Company is located in Shanghai Pudong New Zone, where the income tax rate is 15%. In 2007, the company enjoyed a preferential 50% reduction in tax rate to 7.5%.

Beijing Ximen Information Technology Company Limited, a subsidiary of the Company, is qualified as self-development software research company in 2001, and pursuant to Notice of the State Council on Releasing Relevant Polices to Encourage the Development of Software Industry and IC Industry (State Document No.18[2000]), it is entitled to three years exemption from income taxes from 2001 to 2003, followed by three years of a 50% tax reduction from 2004 to 2006. Furthermore the company is located in Beijing Zhongguancun Science Park, and is qualified as a New and High Technology Company, which can enjoy the preferential income tax rate of 15%. In 2007, the company's income tax rate was 7.5%.

Kunshan Jingwei Textile Machinery Company Limited, a subsidiary of the Company, is located in Kunshan Economic & Technical Development Zone, as a production enterprise, Kunshan Jingwei enjoys the preferential income tax rate of 15%.

Hong Kong Huaming Company Limited ("Hongkong Huaming"), a subsidiary of the Company, is registered in Hong Kong which is subject to 17.5% income tax rate.

All other subsidiaries are subjected to 33% income tax rate.

On 16 March 2007, the PRC promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Enterprise Income Tax Law") by Order No.63 of the President, which will be effective from 1 January 2008. By then the Company and its subsidiaries will be subject to enterprise income tax calculated in accordance with the New Enterprise Income Tax Law and other relevant provisions including its implementation rules.

Other taxation

Except the Company and its subsidiaries, namely Tianjin Jingwei New Type Textile Machinery Company Limited, Changde Textile Machinery Company Limited, Shenyang Hongda Huaming Textile Machinery Company Limited, Yichang Jingwei Textile Machinery Company Limited and Shanghai WSP Mould and Injection Plastic Limited, which are designated as foreign investment enterprises and enjoy preferential treatment of exemption from city maintenance and construction tax and educational surcharge, other taxation is as follows:

Business tax is charged at 5%.

City maintenance and construction tax is charged at 7%.

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VIII. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

Name	Place of registration	Business nature	Scope of operation	Registered capital RMB	Actual investment made by the Group at end year/investment made prior to acquisition or disposal RMB	Total shareholding of the Group/shareholding prior to acquisition or disposal %	Total percentage of voting rights held by the Group/voting rights held by the Group prior to acquisition or disposal %
Subsidiaries owned by the Group at the end of 2006 and beginning of 2007							
Subsidiaries acquired through merger under the same control							
Qingdao Hongda Textile Machinery Company Limited	China	Production & Sales (P&S)	Textile & Machinery (T&M)	114,000,000	111,720,000	98	98
Tianjin HongdaTextile Machinery Company Limited	China	P&S	T&M	78,500,000	76,930,000	98	98
Zhengzhou Hongda New Type Textile Machinery Company Limited	China	P&S	T&M	74,500,000	73,010,000	98	98
Shenyang HongdaTextile Machinery Company Limited	China	P&S	T&M	71,000,000	69,580,000	98	98
Changde Textile Machinery Company Limited	China	P&S	T&M	42,349,900	40,232,400	95	95
Wuxi Jingwei Textile Technology Testing Company Limited	China	Tech R&D	T&M	49,530,000	32,960,000	66.55	66.55
Shanxi Jingwei Heli Machinery Company Limited *(Note-1)*	China	P&S	T&M	100,000,000	30,000,000	30	71.43
Wuxi Textile Machinery Testing Company Limited	China	P&S	Carding products	1,000,000	1,000,000	100	100
Subsidiaries acquired through merger not under same control							
Xianyang Jingwei Textile Machinery Company Limited	China	P&S	T&M	75,079,600	74,579,600	99.334	99.334
Wuxi HongdaTextile MachineryParts Company Limited *(Note-2)*	China	P&S	T&M	20,000,000	20,000,000	35	80
Tai Yuan Jingwei Electric Appliance Company Limited	China	P&S	T&M	5,000,000	5,000,000	100	100
Investing in newly established subsidiaries							
Tianjin Jingwei New Type Textile Machinery Company Limited	China	P&S	T&M	16,000,000	16,000,000	100	100
Hong Kong Huaming Company Limited	HK China	Import&Export	T&M	HK$62,400,000	HK$62,400,000	100	100
Beijing Jingpeng Investment Management Export Company Limited	China	Investment Management	Sales/ Consultation	100,000,000	100,000,000	100	100
Beijing JingweiTextile New Technology Company Limited	China	P&S	T&M	100,000,000	98,400,000	98.4	98.4
Shanghai Weixin Mechatronics Limited	China	P&S	T&M	16,000,000	16,000,000	100	100
Shanghai Chuangan Commerce & Trade Management Consulting Company Limited	China	Sales	T&M	2,000,000	1,800,000	90	90
Yichang Jingwei Textile Company Limited	China	P&S	T&M	20,000,000	20,000,000	100	100
Jinzhong Jingwei Ring Manufacturing Company Limited	China	P&S	T&M	500,000	500,000	100	100
Shenyang Hongda HuamingTextile Machinery Company Limited	China	P&S	T&M	40,000,000	40,000,000	100	100
Shanghai Jingwei Dongxing Bloming–Carding Machinery Company Limited	China	P&S	T&M	50,000,000	41,937,000	93.874	95.874
Beijing Ximen Information Technology Company Limited	China	Development & Sales (D&S)	Software	12,000,000	7,569,600	63.08	63.08
Kunshan Jingwei Textile Machinery Company Limited	China	P&S	T&M	3,208,260	3,208,260	100	100
Jingwei TextileMachinery Yuci Materials Company Limited	China	Sales	T&M	5,000,000	5,000,000	100	100
Newly acquired subsidiaries under combination of enterprises during the year							
Shanghai WSP Mould and Injection Plastic Limited*(Note-3)*	China	P&S	T&M	5,256,800	2,628,410.50	50	100
Beijing Hongbo Property Development Machinery Company Limited*(Note-4)*	China	D&S	Property	100,000,000	65,000,000	65	65

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VIII. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1: The shareholding that the Group has in Jingwei Heli Machinery Manufacturing Company Limited directly or via its subsidiaries is less than 50%. But since the Group has most of the seats of this company's Board of Directors and hence has actual control over the Board, it is included into the consolidated financial statement.

Note 2: The shareholding that the Group has in Wuxi Hongda Textile Machinery Parts Company Limited is less than 50%. But the Company has obtained the voting trust of two shareholders, with a term commencing from 1 January 2006 to 30 May 2009, the Company has actual control over this company. Therefore, the company is incorporated into the consolidated financial statements.

Note 3: The shareholding that the Group has in Shanghai WSP Mould and Injection Plastic Limited directly or via its subsidiaries is less than 50%. In year 2007, the Company has obtained the voting trust of two directors of the joint venture, with a term commencing from 1 January 2007 to 31 December 2011. Upon authorization, the Company exercises full control over the voting rights in the BOD of Shanghai WSP Mould and Injection Plastic Limited and subsequently has the actual control over the company. Therefore, the company is incorporated into the consolidated financial statements. Please refer to note XIV(2) for details of the financial conditions of the company on the date of merger and acquisition (i.e. 1 January 2007) and the operating results and cash flow from the date of merger and acquisition to the year end.

Note 4: The Group secures another subsidiary Beijing Hongbo Property Development Company Limited due to its acquisition of property assets in 2007. Please refer to note XIV(1) for details of the financial conditions of the company on the date of merger and acquisition (i.e. 31 March 2007) and the operating results and cash flow from the date of merger and acquisition to the year end.

Note 5: The Group incorporated Anhui Huamao Jingwei New Type Textile Company Limited in a relevant proportion. Pursuant to Accounting Standard for Business Enterprises No. 33 – Consolidated financial statements, the Group verified its long-term equity investment in the company recognized under equity method, ceased consolidating its financial statements recognized under proportionate consolidation method, adjusted last year's comparative consolidated financial statement and excluded this company out of last year's consolidated financial statements.

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IX. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Currency capital

	31st December 2007			31 December 2006		
	Foreign Currencies	Exchange Rate	RMB Equivalent	Foreign Currencies	Exchange Rate	RMB Equivalent
Cash						
RMB			797,301.26			927,250.71
HKD	16,680.00	0.9364	15,619.15	5,513.12	1.0047	5,539.03
USD	3,407.84	7.3046	24,892.91	3,929.27	7.8087	30,682.48
EURO	24,370.50	10.6669	259,957.69	2,318.31	10.2665	23,800.96
Pound	1,050.00	14.5807	15,309.74	987.06	15.3232	15,124.96
Others	50.00	3.9306	196.53	50.00	3.9306	196.53
Bank Deposit						
RMB			616,730,718.83			820,712,527.48
HKD	14,290,228.67	0.9364	13,381,370.13	58,854,982.00	1.0047	59,131,600.42
USD	351,656.57	7.3046	2,568,710.58	467,222.03	7.8087	3,648,396.68
EURO	19,869.51	10.6669	211,946.10	995.73	10.2665	10,222.71
Swiss Franc	533,853.23	6.4855	3,462,305.12	553,106.92	6.4103	3,545,581.30
Other currency Capital						
RMB			6,830,744.72			13,241,907.91
HKD	–	–	–	98,944.90	1.0047	99,409.94
Swiss Franc	–	–	–	344,433.90	6.4103	2,207,924.65
Total			644,299,072.76			903,600,165.76

As at 31st December 2007, other currency capital included bank draft deposit of RMB6,830,744.72 (2006: RMB7,891,154.00).

2. Trading financial assets

	Fair value at end of year	Fair value at beginning of year
Trading financial assets	4,945,000.00	8,885,556.39

The abovementioned Trading financial assets are publicly traded securities that were successfully subscribed by the Company during application to subscribe for new shares, there are no major restrictions on the realization of these Trading financial assets.

3. Notes receivable

	31st December 2007	31 December 2006
Bank's acceptance bill	1,167,611,382.58	1,399,237,961.53
Commercial acceptance bill	61,640,484.18	194,974,597.32
Total	1,229,251,866.76	1,594,212,558.85

As at 31st December 2007, the Group has mortgaged RMB34,687,000.00 notes receivable.

On 31st December 2007, the Group discounted unexpired acceptance bills with the right of recourse of RMB134,648,700.00 (2006:RMB283,162,692.66). Please refer to note IX.18 for details. Unexpired acceptance bills with the right of recourse that have been endorsed amounted to RMB552,001,382.58 (2006: RMB855,616,941.20).

Notes receivable as of 31 December 2007 did not include shareholders holding 5% and above shares.

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IX. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Accounts receivable

The ageing of accounts receivable is provided as follows:

	31st December 2007				31 December 2006			
	Amount	%	Provision for bad debt	Book value	Amount	%	Provision for bad debt	Book value
Within 1 year	343,058,221.14	58	–	343,058,221.14	384,677,237.17	60	–	384,677,237.17
Within 1 to 2 years	79,147,172.76	13	(9,081,991.87)	70,065,180.89	43,630,659.00	7	(11,532,324.60)	32,098,334.40
Within 2 to 3 years	20,258,919.76	4	(12,173,623.79)	8,085,295.97	33,837,731.00	5	(15,354,001.00)	18,483,730.00
Over 3 years	149,370,730.95	25	(143,196,111.80)	6,174,619.15	174,531,395.00	28	(170,498,375.00)	4,033,020.00
Total	591,835,044.61	100	(164,451,727.46)	427,383,317.15	636,677,022.17	100	(197,384,700.60)	439,292,321.57

The ageing of accounts receivable is presented as follows by customer category:

	31st December 2007				31 December 2006			
	Amount	%	Provision for bad debt	Book value	Amount	%	Provision for bad debt	Book value
Items with single significant amount	145,506,930.85	25	(149,148.00)	145,357,782.85	98,851,515.39	16	(149,148.00)	98,702,367.39
Other insignificant items	303,132,001.96	51	(21,106,467.66)	282,025,534.30	367,327,131.78	57	(26,737,177.60)	340,589,954.18
Items with no significant single amount but carrying great risks when rearranged with the characteristics of credit risk	143,196,111.80	24	(143,196,111.80)	–	170,498,375.00	27	(170,498,375.00)	–
Total	591,835,044.61	100	(164,451,727.46)	427,383,317.15	636,677,022.17	100	(197,384,700.60)	439,292,321.57

Changes in provision for bad debt of accounts receivable is provided as follows:

	2007	2006
Amount at beginning of year	197,384,700.60	195,886,299.00
Accrual amount of the year	5,194,655.02	10,270,651.60
Write-back amount of the year	(18,943,876.12)	–
Write-off amount of the year	(19,183,752.04)	(8,772,250.00)
Amount at end of year	164,451,727.46	197,384,700.60

As of 31st December 2007, top 5 debt amounts are as follows:

Top 5 debt amounts	Ageing	% of accounts receivable
104,414,447.91	1 to 3 years	18

Receivables from shareholders holding 5% and above equity interest are as follows :

Shareholder's Name	31st December 2007	31 December 2006
China Hengtian Group Company	63,998.00	–
CTMC	726,667.00	1,025,794.00

Please refer to note XI for details of accounts receivable in foreign currencies, which forms part of the accounts receivable.

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IX. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. Advances to suppliers

The ageing of advances to suppliers is provided as follows:

	31st December 2007 Amount	%	31 December 2006 Amount	%
Within 1 year	197,399,657.03	98	232,940,907.16	99
Within 1 to 2 years	1,239,851.29	1	767,030.00	–
Within 2 to 3 years	185,411.00	–	377,820.00	–
Over 3 years	1,026,782.47	1	1,529,153.00	1
Total	199,851,701.79	100	235,614,910.16	100

Advances to suppliers are disclosed as follows by category of suppliers:

	31st December 2007	31 December 2006
Items with single significant amount	60,867,519.60	69,515,915.00
Other insignificant items	138,984,182.19	166,098,995.16
Total	199,851,701.79	235,614,910.16

Advances to suppliers do not include advances to shareholders holding 5% and above equity interest of the Company.

6. Other receivables

The ageing of other receivables is as follows:

	31st December 2007				31 December 2006			
	Amount	%	Provision for bad debt	Book value	Amount	%	Provision for bad debt	Book value
Within 1 year	53,227,859.74	61	(2,000,000.00)	51,227,859.74	32,196,448.02	59	–	32,196,448.02
Within 1 to 2 years	13,264,389.74	15	(21,866.62)	13,242,523.12	3,048,951.00	6	(23,208.00)	3,025,743.00
Within 2 to 3 years	2,128,986.71	3	(1,017,825.80)	1,111,160.91	10,271,687.00	19	(7,000,000.00)	3,271,687.00
Over 3 years	18,639,535.18	21	(13,001,641.62)	5,637,893.56	8,690,299.00	16	(5,829,286.00)	2,861,013.00
Total	87,260,771.37	100	(16,041,334.04)	71,219,437.33	54,207,385.02	100	(12,852,494.00)	41,354,891.02

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IX. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Other receivables (Continued)

Other receivables are presented as follows by category:

	31st December 2007				31 December 2006			
	Amount	%	Provision for bad debt	Book value	Amount	%	Provision for bad debt	Book value
Items with single significant amount	35,680,117.15	41	–	35,680,117.15	–	–	–	–
Other insignificant items	44,579,012.60	58	(9,039,692.42)	35,538,320.18	48,378,099.02	89	(7,023,280.00)	41,354,891.02
Items with no significant single amount but carrying great risks when rearranged with the characteristics of credit risk	7,001,641.62	1	(7,001,641.62)	–	5,829,286.00	11	(5,829,286.00)	–
Total	87,260,771.37	100	(16,041,334.04)	71,219,437.33	54,207,385.02	100	(12,852,494.00)	41,354,891.02

Changes in provision for bad debt of other receivables is provided as follows:

	31st December 2007	31 December 2006
Amount at beginning of the year	12,852,494.00	18,312,680.00
Accrual amount of the year	4,761,123.07	8,355,428.00
Write-back amount of the year	(713,777.43)	–
Write-off amount of the year	(858,505.60)	(13,815,614.00)
Amount at end of the year	16,041,334.04	12,852,494.00

Top 5 debt amounts are as follows:

Total amount of top 5 debt amounts	Ageing	% of total other receivables
30,797,898.84	Within 1 to 3 years	35.29

Other receivables do not include receivables from shareholders holding 5% and above equity interest.

7. Inventories

	31st December 2007	31 December 2006
Raw materials	386,117,115.94	359,209,254.66
Unfinished products	413,931,260.78	366,063,192.67
Finished products	785,428,594.97	639,927,599.16
Property development cost	479,604,788.03	–
	2,065,081,759.72	1,365,200,046.49
Less: Provision for impairment	(64,356,130.14)	(44,280,011.03)
Total	2,000,725,629.58	1,320,920,035.46

Property development costs are as follows:

Project name	Commencement date	Expected completion time	Total investment	31 December 2006	31st December 2007
Huayuanguanjuncheng	2004	Completed in stages from 2005 to 2009	1,100,000,000.00	–	479,604,788.03

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IX. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Inventories (Continued)

RMB equivalent for borrowing costs in the category of ending inventory at end of the year is RMB 9,839,183.66 (2006: nil), compared with Those amounts are capitalized borrowing costs for the year and the capitalization rate used to determine the capitalized amount of borrowing costs is 6.82%. Of the inventory balance at the end of the period, RMB192,610,000.00 was used to act as the collateral for the long-term bank borrowing of RMB100,000,000.00 (2006: nil). As for the details, please refer to note IX.17.

Changes of provision for obsolete stocks are as follows:

	31 December 2006	Accrual of the year	Write-back amount of the year	Write-off amount of the year	31st December 2007
Provision for obsolete stocks:					
Raw materials	9,931,493.00	13,732.67	(1,914,138.67)	–	8,031,087.00
Unfinished products	12,635,041.00	15,149,614.20	–	–	27,784,655.20
Finished products	21,713,477.03	8,782,977.40	–	(1,956,066.49)	28,540,387.94
Total	44,280,011.03	23,946,324.27	(1,914,138.67)	(1,956,066.49)	64,356,130.14

8. Entrusted loan

	31st December 2007 Book value	31 December 2006 Book value
To jointly controlled entities	67,000,000.00	53,000,000.00
To associates	–	28,000,000.00
To non-related parties	–	100,000,000.00
	67,000,000.00	181,000,000.00

Details for the entrusted loans are as follows:

Borrowers	Interest rate p.a.	Due date	Current interest	Cumulative interests receivable or received	Balance at year end
Anhui Huamao Jingwei New Textile Tech Company Ltd	Interest rate for bank loans decreased by 10% during the same period	1 September 2008	989,606.25	989,606.25	25,000,000.00
Anhui Huamao Jingwei New Textile Tech Company Ltd	5.913%	31 December 2008	210,360.50	210,360.50	14,000,000.00
Anhui Huamao Jingwei New Textile Tech Company Ltd	Interest rate for bank loans decreased by 10% during the same period	13 February 2008	1,731,177.00	1,731,177.00	28,000,000.00
Total			2,931,143.75	2,931,143.75	67,000,000.00

9. Other current assets

Pre-paid business tax	9,442,424.17	229,231.61
Pre-paid urban construction tax	85,075.35	–
Pre-paid land value-added tax	1,378,353.28	–
Total	10,905,852.80	229,231.61

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IX. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Long-term equity investment

(1) Long-term equity investment is stated as follows:

Name of Investee	Initial Investment	Year-beginning cost	Current period new investment	Current period Equity adjustment	Current period cash dividends	Current period Disposal	Current period other releases (note)	31st December 2007
Equity Method								
China Texma Tech Company Ltd	30,000,000.00	32,472,545.45	–	16,174,276.87	(2,278,713.80)	–	–	46,368,108.52
Hongda Research Institute Company Ltd	20,000,000.00	24,067,114.30	–	1,264,129.20	–	–	–	25,331,243.50
Anhui Huamao Jingwei New Textile Tech Company Ltd	25,000,000.00	23,506,519.64	–	1,937,695.07	–	–	–	25,444,214.71
Beijing Chenyutaihe Property Development Company Ltd	49,451,901.00	21,002,032.09	–	–	–	(14,048,840.67)	(6,953,191.42)	–
Zhengzhou Hongda Non-woven company Ltd	17,000,000.00	11,032,818.93	–	2,409,866.03	–	–	–	13,442,684.96
ShenzhenJinghuachi S&T Investment Company	35,000,000.00	35,272,791.29	–	–	–	(35,272,791.29)	–	–
Shenyang Jingxing Textile Machinery Manufacturing Company Ltd	1,000,000.00	987,827.00	–	(203,689.00)	–	–	–	784,138.00
Qingdao Jinyi Pressing Company Ltd	300,000.00	1,057,000.00	–	–	–	–	–	1,057,000.00
Qingdao Ranlifeng Company Ltd	1,000,000.00	1,000,000.00	–	–	–	(1,000,000.00)	–	–
Qingdao Shancheng Hotel Company Ltd	200,000.00	200,000.00	–	–	–	(200,000.00)	–	–
Shanghai WSP Mould and Injection Plastic Limited	2,603,000.00	3,333,579.00	–	–	–	–	(3,333,579.00)	–
	181,554,901.00	153,932,227.70	–	21,582,278.17	(2,278,713.80)	(50,521,631.96)	(10,286,770.42)	112,427,389.69
Cost Method								
BeijingChenyutaihe Property Development Company Ltd	6,953,191.42	–	6,953,191.42	–	–	–	–	6,953,191.42
Hongda Investment Company Ltd	24,866,602.17	24,866,602.17	–	–	–	–	–	24,866,602.17
Qingdao Textile Machinery Manufacturing Company Ltd	8,000,000.00	8,000,000.00	–	–	–	–	–	8,000,000.00
Qingdao Qingfeng Forging Company (Note 2)	5,000,000.00	5,000,000.00	–	–	–	–	–	5,000,000.00
Shenyang Textile Machinery Manufacturing Company Ltd	1,200,000.00	1,200,000.00	–	–	–	–	–	1,200,000.00
Jingbao Integrated Factory (Note 3)	1,898,550.55	1,898,550.55	–	–	–	–	–	1,898,550.55
BSI Management Systems Certification Co., Ltd. (Note 4)	1,450,293.56	1,450,293.56	–	–	–	–	–	1,450,293.56
Jiangsu Hongyuan Textile Machinery Company Ltd	1,422,652.84	1,422,652.84	–	–	–	–	–	1,422,652.84
Others	2,096,215.00	2,096,215.00	–	–	–	(632,958.67)	–	1,463,256.33
	52,887,505.54	45,934,314.12	6,953,191.42	–	–	(632,958.67)	–	52,254,546.87
Total	234,442,406.54	199,866,541.82	6,953,191.42	21,582,278.17	(2,278,713.80)	(51,154,590.63)	(10,286,770.42)	164,681,936.56
Less:Provision for impairment		(6,323,255.00)						(6,323,255.00)
Net long-term equity investment		193,543,286.82						158,358,681.56

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IX. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Long-term equity investment (Continued)

(1) Long-term equity investment is stated as follows: (Continued)

Note 1: Amount released during the period included long-term investment of RMB6,953,191.42 in Beijing Chenyutaihe Property Development Company Ltd on which a different accounting method (i.e. cost method) had been adopted as a result of the decrease in its shareholding, and long-term investment of RMB3,333,579.00 in Shanghai WSP Mould and Injection Plastic Limited as a result of the control over that company had correspondingly been included into the scope of consolidation.

Note 2: Qingdao Hongda Textile Machinery Company Limited ("Qingdao Hongda") holds 25% equity interest of Qingdao Qingfeng Forging Company. As there was dispute over the progress and quality of plant construction of Qingdao Qingfeng Forging Company and consensus could not be reached after several negotiations, the agreement entered into between Qingdao Hongda and Qingdao Qingfeng Forging Company failed to be performed. As such, the investment is exposed to greater risk and is therefore accounted for by cost method with provision for long-term investment fully made.

Note 3: Shanxi Jingwei Heli Machinery Manufacture Co. ("Jingwei Heli") holds 63% equity interest of Jingbao Integrated Factory. However, as the investment was converted from debt to investment in 1993 and the investee company was a rural enterprise, Jingwei Heli does not have actual control over the investee company due to a number of reasons, therefore, the investment in Jingbao Integrated Factory has always been accounted for by cost method.

Note 4: Beijing Jingwei Textile Machinery New Technology Co., Ltd. ("Beijing New Technology") holds 25% equity interest of BSI Management Systems Certification Co., Ltd. As the cooperation agreement entered into between Beijing New Technology and BSI Management Systems Certification Co., Ltd. expressively stipulated that Beijing New Technology was not entitled to decision-making power, and hence it did not participate in the normal operation and management of the investee company, therefore, the investment in BSI Management Systems Certification Co., Ltd. has always been accounted for by cost method.

Changes in provision for long-term equity investment impairment:

Name of Investee	Year-beginning and Year-end
Qingdao Qingfeng Forging Company	5,000,000.00
Others	1,323,255.00
Total	6,323,255.00

(2) List of jointly controlled entity and associated companies and their major financial information

Name of investee	Place of registration	Business Nature	Registered Capital	% of investee's registered capital	% of voting rights in investee	Year-end total assets of investee	Year-end total liabilities of investee	Total operating income of the year
Jointly controlled entity								
Anhui Huamao Jingwei New Type Textile Company Limited	Anhui	Production & sales (P&S) Textile	50,000,000.00	50	50	410,473,686.74	359,554,311.97	241,133,138.78
Associated company								
Shenyang Jingxing Textile Machinery Manufacturing Company Limited	Laoning	Production and sales of textile machinery	3,200,000.00	31.25	31.25	19,176,495.87	16,688,801.99	24,086,400.82
Hongda Research Institute Company Limited	Beijing	Production and sales of textile	50,000,000.00	40	40	115,071,305.02	51,865,826.30	52,216,324.66
Zhengzhou Hongda Non-woven Company Limited	Henan	Production and sales of textile	40,000,000.00	23.74	23.74	70,239,365.14	13,617,815.53	79,448,343.71
China Textile Machinery and Technology Import and Export Company Limited	Beijing	Import and export of textile machinery	120,000,000.00	25	25	659,931,327.44	464,432,363.35	1,576,023,573.99
Qingdao Jinyi Pressing Company Ltd	Shandong	Production and sales of components of textile machinery	2,330,000.00	27	27	17,364,883.68	9,942,686.55	52,063,590.85

(3) There is no restriction on the ability of the investee from where the long-term equity investment held by the company on 31st December 2007 to transfer capital to the Group.

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IX. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Fixed Assets

Changes in fixed assets during the year are as follows:

	Buildings	Machinery and equipment	Transportation equipment	Total
Original value				
Amount at beginning of the year	696,402,168.99	1,639,675,245.70	101,233,687.32	2,437,311,102.01
Increase due to mergers and acquisitions of subsidiaries	–	2,529,453.50	375,587.32	2,905,040.82
Purchase of the year	7,493,096.08	50,411,252.68	9,473,591.68	67,377,940.44
Construction in progress transfer in of the year	36,054,533.96	37,622,528.90	–	73,677,062.86
Decrease of the year	(1,220,798.36)	(21,840,344.99)	(6,738,514.44)	(29,799,657.79)
Amount at end of the year	738,729,000.67	1,708,398,135.79	104,344,351.88	2,551,471,488.34
Accumulated depreciation				
Amount at beginning of year	(236,778,784.90)	(973,901,083.99)	(41,626,948.59)	(1,252,306,817.48)
Increase due to mergers and acquisitions of subsidiaries	–	(416,114.18)	(108,236.09)	(524,350.27)
Accrual amount of the year	(18,155,454.27)	(71,136,423.25)	(10,870,633.29)	(100,162,510.81)
Decrease of the year	1,043,588.73	17,813,914.33	4,249,404.37	23,106,907.43
Amount at end of year	(253,890,650.44)	(1,027,639,707.09)	(48,356,413.60)	(1,329,886,771.13)
Provision for impairment				
Amount at beginning of the year	(1,329,009.80)	(37,006,925.11)	–	(38,335,934.91)
Write-off amount of the year	91,091.36	47,410.14	–	138,501.50
Amount at end of year	(1,237,918.44)	(36,959,514.97)	–	(38,197,433.41)
Net amount				
Amount at beginning of year	458,294,374.29	628,767,236.60	59,606,738.73	1,146,668,349.62
Amount at end of year	483,600,431.79	643,798,913.73	55,987,938.28	1,183,387,283.80
Including:				
Net assets arising out of operating lease:				
Amount at beginning of year	–	42,934,564.72	4,005,095.38	46,939,660.10
Amount at end of year	–	37,023,870.04	3,456,558.77	40,480,428.81
Net amount of temporarily idle fixed assets:				
Amount at beginning of year	2,243,384.00	502,842.00	158,429.00	2,904,655.00
Amount at end of year	2,162,948.24	570,490.62	125,273.12	2,858,711.98

As at 31st December 2007, buildings in the net value of RMB 33,201,819.83 had not been given property title certificate.

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IX. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Construction in progress

Project name	Amount at beginning of year	Increase in 2007	Fixed assets transfer in after completion in 2007	Other transfer in 2007	Amount at Year-end	Capital source	Budget	Proportion of capital injected for project to budget %
Changde new general workshop construction project	8,580,451.00	6,998,199.00	(15,578,650.00)	–	–	Proprietary fund	11,668,881	100.00
Yuci assembly workshop project	–	12,406,053.80	–	–	12,406,053.80	Proprietary fund	16,000,000	77.50
Qingdao Laoshan winding machine industrial park project	–	33,190,000.00	–	–	33,190,000.00	Proprietary fund	65,000,000	51.10
Shenyang Hongda Huaming plant project	2,719,140.21	10,430,879.97	(11,982,697.18)	(1,167,323.00)	–	Proprietary fund	13,000,000	100.00
Machinery to be installed	19,256,977.99	27,183,788.90	(31,616,268.62)	(2,370,328.27)	12,454,170.00	Proprietary fund	60,000,000	77.40
Others	9,373,427.74	13,340,869.90	(14,499,447.06)	–	8,214,850.58	Proprietary fund		
	39,929,996.94	103,549,791.57	(73,677,062.86)	(3,537,651.27)	66,265,074.38			
Including: capitalization of loan expenses	–	–	–	–	–			
Less:Provision for impairment	–				–			
Net value of construction in progress	39,929,996.94				66,265,074.38			

13. Construction materials

	31st December 2007	31 December 2006
Equipment specialized for construction	5,747,744.14	7,663,431.23

14. Intangible Assets

	Land use right	Patent rights	Software	Total
Original value				
At beginning of year	268,886,343.87	21,407,237.93	12,127,090.74	302,420,672.54
Increase of the year	35,598,939.83	46,390.00	1,100,766.67	36,746,096.50
Decrease of the year	–	–	(753,504.28)	(753,504.28)
Amount at end of the year	304,485,283.70	21,453,627.93	12,474,353.13	338,413,264.76
Cumulative amortization				
At beginning of year	(29,434,304.46)	(5,300,883.43)	(5,974,705.76)	(40,709,893.65)
Accrual amount of the year	(6,558,035.47)	(10,723,371.18)	(2,005,995.06)	(19,287,401.71)
Decrease of the year	–	–	263,863.24	263,863.24
At end of year	(35,992,339.93)	(16,024,254.61)	(7,716,837.58)	(59,733,432.12)
Net amount				
At beginning of year	239,452,039.41	16,106,354.50	6,152,384.98	261,710,778.89
At end of year	268,492,943.77	5,429,373.32	4,757,515.55	278,679,832.64
Remaining amortization life	37.6-49.3 years	5.5-7.3years	0.9-4.3years	

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IX. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14. Intangible Assets (Continued)

Research and development expenses

As the Group could not accurately separate the expenses incurred during research and development phases, all the research and development expenses incurred are included in current profit and loss.

	Cumulative amount for the year *RMB*	Cumulative amount for previous year *RMB*
Research and development expenses (including salary)	69,848,049.45	61,116,926.00

15. Deferred income tax assets

	Deductible (taxable) temporary differences and deductible losses		Deferred income tax assets (liabilities)	
	31st December 2007 *RMB*	31 December 2006 *RMB*	31st December 2007 *RMB*	31 December 2006 *RMB*
Drawdown of provision for impairment of assets	181,314,066.09	198,894,838.24	28,621,017.26	32,397,378.42
Retirement benefits	3,759,127.48	–	1,112,836.56	–
Deductible losses	12,078,140.00	10,146,666.67	1,811,721.00	1,522,000.00
Offset of unrealized internal profits of inventory	12,310,799.86	–	2,320,383.38	–
Provision for incentives	18,700,000.00	–	2,805,000.00	–
Accrued expense	3,930,000.00	–	589,500.00	–
Trading financial assets change in fair value	(1,945,000.00)	–	(291,750.00)	–
Period differences of accumulated depreciation	(2,906,800.00)	(2,906,800.00)	(436,020.00)	(436,020.00)
Others	(5,342,317.40)	(5,342,317.40)	(801,346.95)	(801,346.95)
Total	221,898,016.03	200,792,387.51	35,731,341.25	32,682,011.47

The Company will recognize relevant deferred income tax assets to the extent of the receivables subject to taxation that will probably be obtained for offsetting deductible temporary differences and deductible losses in the future.

Deductible temporary differences and deductible losses which have not recognised any deferred income tax assets are as follows:

	31st December 2007 *RMB*	31 December 2006 *RMB*
Deductible losses	68,242,542.08	41,261,780.51
Deductible temporary differences	27,211,257.59	18,109,504.46
Total	95,453,799.67	59,371,284.97

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IX. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. Provision for assets impairment

	31 December 2006	Accrual in 2007	Decrease in 2007 Write-back amount	Decrease in 2007 Write-off amount	31 December 2007
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Provision for bad debt	210,237,194.60	9,955,778.09	(19,657,653.55)	(20,042,257.64)	180,493,061.50
Provision for obsolete stocks	44,280,011.03	23,946,324.27	(1,914,138.67)	(1,956,066.49)	64,356,130.14
Provision for long-term equity investment impairment	6,323,255.00	–	–	–	6,323,255.00
Provision for fixed assets impairment	38,335,934.91	–	–	(138,501.50)	38,197,433.41
Total	299,176,395.54	33,902,102.36	(21,571,792.22)	(22,136,825.63)	289,369,880.05

17. Assets with restricted ownership

	31 December 2006	Increase in 2007	Decrease in 2007	31st December 2007
	RMB	*RMB*	*RMB*	*RMB*
Property development costs used as mortgage for long-term loans	–	192,610,000.00	–	192,610,000.00

Beijing Bohong Property Development Company Limited, a subsidiary of the Company, has obtained a long-term loan of RMB 100 million with the mortgage being No. 1 and No. 2 land use right and buildings in No. 36 courtyard, Datun Road, Chaoyang District, Beijing.

18. Short-term loans

Category	31st December 2007	31 December 2006
	RMB	*RMB*
Credit loans		
– Bank borrowings	257,512,040.86	196,856,336.00
including: USD-denominated loans	157,512,040.86	156,174,000.00
– Other loans	22,000,000.00	–
Notes financing	134,648,700.00	283,162,692.66
Total	414,160,740.86	480,019,028.66

There are no overdue loans in the short-term loans in the Group as of 31st December 2007.

As of 31st December 2007, the balance of the short-term borrowings of the Group included non-interesting bearing term borrowings RMB22,000,000 borrowed by the Group from China Hengtian Group Company Limited, the Group's ultimate parent company on 16 March 2007.

As of 31st December 2007, the balance of the bank borrowings of the Group included US dollar borrowings of US$21,563,404.00 (2006: US$20,000,000.00) at an exchange rate of 7.3046 (2006: 7.8087), which is equivalent to RMB157,512,040.86 (2006: RMB156,174,000.00).

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IX. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19. Notes payable

Category	31st December 2007 *RMB*	31 December 2006 *RMB*
Bank's Acceptance Bill	261,856,859.85	321,239,049.08
Commercial Acceptance Bill	14,027,484.01	17,085,488.89
Total	275,884,343.86	338,324,537.97

There are no payables for shareholders holding 5% and above equity interest in notes payable as of 31st December 2007.

As of 31st December 2007, the balance of notes payable included bills payable of RMB89,750,000 issued to related companies Qingdao Textile Machinery and Lida Electric Company by Qingdao Hongda Textile Machinery Company Ltd, a subsidiary of the Company. The bills were endorsed by Qingdao Textile Machinery and Lida Electric Company in order to pay the trade amounts due to the providers by the Company's subsidiary Qingdao Hongda Textile Machinery Company Ltd.

As at 31st December 2007, the Company's subsidiary Qingdao Hongda Textile Machinery Company Ltd issued bills payable of RMB7,750,000 to related companies Qingdao Textile Machinery and Lida Electric Company and the bills still have not been exercised.

20. Accounts payable

Payables to shareholders holding 5% and above equity interest are as follows :

Shareholder's Name	31st December 2007 *RMB*	31 December 2006 *RMB*
CTMC	6,301,379.63	6,301,379.63

21. Advances from customers

Advances from shareholders holding 5% and above equity interest are as follows:

Shareholder' name	31st December 2007 *RMB*	31 December 2006 *RMB*
CTMC	9,284,345.62	10,284,345.62

The ageing of accounts receivable for subsidiaries engaged in property development within this Group is as follows:

	31st December 2007		31 December 2006	
	RMB	*%*	*RMB*	*%*
Within 1 year	210,773,266.00	100	–	–

The abovementioned advance receipts are from advance receipts related to old buildings from Huayuanguanjuncheng. The project is expected to be completed by stages from 2005 to the end of 2009. The pre-sale proportion is 52%.

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IX. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22. Payroll-related payables

	31 December 2006	Accrual in 2007	Payment in 2007	31st December 2007
	RMB	*RMB*	*RMB*	*RMB*
Wage, bonus, allowance and subsidy	32,456,630.03	419,272,665.34	(404,008,131.05)	47,721,164.32
Employee welfare	46,557,440.77	12,311,994.14	(54,726,664.24)	4,142,770.67
Social insurance	8,282,648.24	99,650,926.54	(96,691,647.22)	11,241,927.56
Including: medical insurance	1,567,084.24	23,594,896.83	(23,034,788.73)	2,127,192.34
basic endowment insurance	6,067,063.88	65,154,565.96	(63,390,444.01)	7,831,185.83
unemployment insurance	638,287.05	6,439,019.71	(6,034,169.48)	1,043,137.28
injury insurance	3,807.58	2,332,554.86	(2,123,667.05)	212,695.39
childbirth insurance	6,405.49	2,129,889.18	(2,108,577.95)	27,716.72
Housing fund	2,741,775.66	21,145,923.95	(17,905,997.86)	5,981,701.75
Labor union fund & vocational training fund	13,490,491.77	15,577,211.18	(8,891,788.71)	20,175,914.24
Compensation for the cancellation of labor relations	5,622,043.80	–	(54,000.00)	5,568,043.80
Others	136,925.41	4,143,600.83	(1,859,955.03)	2,420,571.21
Total	109,287,955.68	572,102,321.98	(584,138,184.11)	97,252,093.55

23. Taxation payable

Categories of taxes	31st December 2007	31 December 2006
	RMB	*RMB*
Value-added tax payable	(1,806,940.34)	18,011,747.29
Urban construction tax payable	–	1,264,897.39
Enterprise income tax payable	7,687,357.82	2,764,143.24
Land value-added tax	–	377,126.12
Others	1,255,343.99	1,185,711.35
Total	7,135,761.47	23,603,625.39

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IX. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24. Dividend payable

Investor's name	31st December 2007 *RMB*	31 December 2006 *RMB*
CTMC	15,651,200.00	11,000,000.00
Wuxi parts natural person shareholder	5,493,642.79	8,174,892.64
Beijing Huayuan Jingdu Property Development Company	2,510,605.07	–
Beijing Huayuan Yatai High-tech Co., Ltd	2,781,429.08	–
Others	243,347.35	1,736.37
	26,680,224.29	19,176,629.01

25. Other payables

As at 31st December 2007, payables to shareholders holding 5% and above equity interest are as follows:

Shareholder's name	31st December 2007 *RMB*	31 December 2006 *RMB*
CTMC	25,312,172.00	2,820,649.68

26. Other current liabilities

	31st December 2007 *RMB*	31 December 2006 *RMB*
Accrued expenses	6,470,000.00	19,064,501.00
Total	6,470,000.00	19,064,501.00

27. Long-term loans

Categories	31st December 2007 *RMB*	31 December, 2006 *RMB*
Credit loan	55,000,000.00	5,000,000.00
Mortgage loan	100,000,000.00	–
Guaranteed loan	100,000,000.00	200,000,000.00
Total	255,000,000.00	205,000,000.00
Less: Long-term loans with maturity within one year		
Including	105,000,000.00	5,000,000.00
Mortgage loan	100,000,000.00	–
Long-term loans with maturity over one year	150,000,000.00	200,000,000.00

The interest rates for the above loans range from 5.67% to 6.732%.

Credit loans include the borrowing of RMB5,000,000.00 (2006: RMB5,000,000.00) from the original China Textile General Association that has already past due. As the China Textile General Association has performed reorganization and the restructured organization has not urged the Group to repay the loan, therefore, the Group has not repaid such borrowing.

For the categories of mortgaged assets for mortgage loan and the amount, please refer to Appendix IX.17.

Guaranteed loans refer to loans that are secured when CTMC guarantees with joint responsibility for repayment.

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IX. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

28. Long-term payables

	31st December 2007 *RMB*	31 December, 2006 *RMB*
Welfare for early retired staff	8,972,676.51	–
Retired persons' welfare	146,610,000.00	149,630,000.00
Total	155,582,676.51	149,630,000.00
Less: Long-term payables with maturity within one year	8,680,000.00	8,270,000.00
Long-term payables with maturity over one year	146,902,676.51	141,360,000.00

29. Accrued liabilities

Category	31 December 2006 *RMB*	Increase in 2007 *RMB*	31st December 2007 *RMB*
New product quality assurance	–	900,000.00	900,000.00

30. Other non-current liabilities

Deferred gains

	31st December 2007 *RMB*	31 December, 2006 *RMB*
Assets-related government subsidy		
– Return of land purchase money	10,315,063.00	10,315,063.00
– Support fund	8,520,000.00	–
Earnings-related government subsidy		
– Textile special fund from the Ministry of Finance	1,344,757.81	–
Total	20,179,820.81	10,315,063.00

Please refer to note IX.45 for details of the abovementioned deferred gains.

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IX. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31. Share capital

Changes of the Company's share capital are as follows:

2007

	31 December 2006/ 31st December 2007 *(Number of shares)*
1. Restricted shares	
Other domestic shares held	
Including: Shares held by domestic legal persons	204,255,248
Total number of restricted shares	204,255,248
2. Non-restricted shares	
1. RMB-denominated ordinary shares	218,744,752
2. Foreign shares listed overseas	180,800,000
Total number of non-restricted shares	399,544,752
3. Total number of shares	603,800,000

The par value of the abovementioned shares is RMB1 per share.

2006

	31 December 2006 *(Number of shares)*	**Share Segregation Reform** *Note (1)*	**Increase/decrease of number of shares during the year Others** *note (2)*	**Sub-total**	**31 December 2007** *(Number of shares)*
1. Outstanding shares to be listed					
1. Promoter's shares	220,000,000	(220,000,000)	–	(220,000,000)	–
– Shares held by domestic legal persons	220,000,000	(220,000,000)	–	(220,000,000)	–
Total number of outstanding shares to be listed	220,000,000	(220,000,000)	–	(220,000,000)	–
2. Restricted shares					
1. Other domestic shares held					
Including: Shares held by domestic legal persons		195,640,000	8,615,248	204,255,248	204,255,248
Total number of restricted shares		195,640,000	8,615,248	204,255,248	204,255,248
3. Non-restricted shares					
1. RMB-denominated ordinary shares	203,000,000	24,360,000	(8,615,248)	15,744,752	218,744,752
2. Foreign shares listed overseas	180,800,000	–			180,800,000
Total number of non-restricted shares	383,800,000	24,360,000	(8,615,248)	15,744,752	399,544,752
4. Total number of shares	603,800,000	–	–	–	603,800,000

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IX. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31. Share capital (Continued)

Note (1): In August 2006, on the basis of the original 203,000,000 outstanding A Shares of the Company, the Company implemented and completed the Share Segregation Reform, pursuant to which the holder of the Company's non-outstanding shares, China Textile Machinery Group arranged A share certificates and cash as consideration for all the holders of A shares whose names appeared on the register of members of the Company at the close of business of the Shenzhen Stock Exchange on 8 August, 2006 on basis of 1.2 A shares and RMB2.5 cash consideration for every 10 A Shares held by such holders of A Shares. The total consideration of such Share Segregation Reform was RMB50,750,000. Financial indicators, such as assets, liabilities, equity attributable to shareholders, total capital, net profit of the Company did not experience any changes upon implementation of Share Segregation Reform. Upon completion of the Share Segregation Reform, the non-outstanding shares of the Company originally held by holders of non-outstanding shares of the Company were entitled to be traded in the A-share market.

Note(2): Pursuant to the undertaking of the Company in the Share Segregation Reform, China Textile Machinery Group, the Company's controlling shareholder increased its shareholding by 8,615,248 shares of the Company through centralised bidding in the secondary market. As of 31 December, 2006, China Textile Machinery Group holds 204,255,248 shares of the Company, representing 33.83% of the total capital of the Company.

32. Capital reserve

2007 and 2006

	31 December 2006 and 31st December 2007 *RMB*
Investors' injected capital premium	1,244,363,180.48
Difference resulting from consolidation under the same control	5,501,852.00
Total	1,249,865,032.48

33. Surplus reserve

	Statutory surplus reserve *RMB*	**Free surplus reserve** *RMB*	**Total** *RMB*
2006			
Balance at beginning of the year	309,341,037.73	127,763,046.16	437,104,083.89
Accrual of the year	36,717,086.76	50,000,000.00	86,717,086.76
Balance at end of the year	346,058,124.49	177,763,046.16	523,821,170.65
2007			
Balance at beginning of the year	346,058,124.49	177,763,046.16	523,821,170.65
Accrual of the year	23,756,435.40	–	23,756,435.40
Balance at end of the year	369,814,559.89	177,763,046.16	547,577,606.05

Statutory reserves are used to cover the Company's losses, expand production and operation or convert capital.

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IX. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

34. Undistributed Profit

		2007 *RMB*	2006 *RMB*
Undistributed profit at beginning of the year (see Note VI for the post-adjustment undistributed profit)		339,014,504.95	266,825,796.71
Add: Net profit of the year		162,206,513.23	189,095,795.00
Less: Accrual of statutory surplus reserve	(1)	(23,756,435.40)	(36,717,086.76)
Profit available for distribution		477,464,582.78	419,204,504.95
Less: Accrual of free surplus reserve		–	(50,000,000.00)
Dividends payable – last year's/previous year's cash dividends approved on the general shareholders' meeting	(2)	(48,304,000.00)	(30,190,000.00)
Undistributed profit at end of the year		429,160,582.78	339,014,504.95
Including: Cash dividend decided to be distributed after the balance sheet date	(3)	6,038,000.00	48,304,000.00

(1) Accrual of statutory surplus reserve

As stated in the Articles of Association, statutory surplus reserve shall be accrued at 10% of net profit.

(2) Cash dividends approved at the Annual General Meeting

On the basis of 603,800,000 shares (RMB1 per share) in issue in 2006, a cash dividend of RMB0.8 (with tax) for every 10 shares was distributed to all shareholders and the total amount of dividends paid was RMB48,304,000.00.

(3) Cash dividends resolved to be distributed after the balance sheet date

Pursuant to the resolution approved by the Board on 22 April 2008, on the basis of 603,800,000 shares in issue, a cash dividend of RMB0.1 (with tax) for every 10 shares was proposed to all shareholders for the year 2007 and the total amount of dividends paid would be RMB6,038,000.00. The above dividend distribution proposal is still pending for shareholders' approval.

35. Minority Shareholders' Equity

	31st December 2007 *RMB*	31 December 2006 *RMB*
Changde Texma Company Ltd	11,041,007.10	9,285,555.05
Wuxi Hongda Texma Parts Company Ltd	36,667,558.92	26,646,307.51
Wuxi Jingwei Textile S&T Test Company Ltd	20,074,016.86	18,320,220.78
Shanxi Jingwei Heli Machinery Manufacturing Company	81,957,127.04	81,632,320.58
Beijing Hongbo Property Development Company Limited	52,742,654.21	–
Others (RMB10 million and below)	27,616,082.64	25,490,891.87
Total	230,098,446.77	161,375,295.79

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IX. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36. Operating income

	Current year cumulative amount *RMB*	Previous year cumulative amount *RMB*
Main operations	4,806,039,577.76	4,588,763,126.65
Other operations	626,622,377.17	992,929,068.00
Operating leases	9,999,268.61	10,027,477.00
Sales of raw materials and accessories	564,285,804.29	935,181,741.00
Others	52,337,304.27	47,719,850.00
Total	5,432,661,954.93	5,581,692,194.65

Total revenues of top five clients stand at RMB900,811,708.63 (compared with RMB 797,074,856.00 last year) which accounts for 16% of the total operating income, compared with 14% of last year.

37. Operating cost

	Current year cumulative amount *RMB*	Previous year cumulative amount *RMB*
Main operations	4,111,971,306.74	3,796,173,161.73
Other operations	595,713,340.16	936,220,045.00
Operating leases	7,302,990.27	8,528,688.00
Sales of raw materials and accessories	553,896,818.06	890,012,386.00
Others	34,513,531.83	37,678,971.00
	4,707,684,646.90	4,732,393,206.73

38. Operating tax and surcharges

Taxes	Current year cumulative amount *RMB*	Previous year cumulative amount *RMB*
Operating tax	764,551.89	23,073.24
Urban Construction and maintenance fee	6,638,040.78	9,115,741.99
Extra education fee	2,435,870.11	2,741,737.49
Others	429,479.13	311,471.47
Total	10,267,941.91	12,192,024.19

39. Financial expenses

	Current year cumulative amount *RMB*	Previous year cumulative amount *RMB*
Interest rate expense	53,633,519.34	34,804,892.99
Less: Capitalized interest expenses	(9,839,183.66)	–
Less: interest income	(13,808,808.29)	(24,890,043.11)
Exchange differences	(10,107,655.24)	(5,419,193.82)
Less: Capitalized exchange differences	–	–
Others	2,157,476.03	1,005,177.91
Total	22,035,348.18	5,500,833.97

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IX. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

40. Assets impairment loss

	Current year cumulative amount *RMB*	Previous year cumulative amount *RMB*
Loss from bad debt	(9,701,875.46)	7,635,884.07
Loss from impairment of inventories	22,032,185.60	2,993,854.63
Total	12,330,310.14	10,629,738.70

41. Gain from changes in fair value

	Current year cumulative amount *RMB*	Previous year cumulative amount *RMB*
Trading financial assets	1,945,000.00	–

42. Investment gain

	Current year cumulative amount *RMB*	Previous year cumulative amount *RMB*
Gain from long-term equity investment	44,644,241.23	(4,280,368.00)
Including: Profit announced by investee to be distributed under cost method	7,210,250.73	–
Gain (losses) recognized under equity method	21,582,278.17	(1,133,816.00)
Gain (losses) from disposal of long-term equity investment	15,851,712.33	(3,146,552.00)
Interest income from entrusted loans	9,535,514.30	4,230,589.00
Gain from investments in trading financial assets	63,377,856.97	18,420,583.00
Gain from other investments	(71,958.85)	(3,272,163.81)
Total	117,485,653.65	15,098,640.19

There are no major restrictions on the remittance of investment earnings.

43. Non-operating income

	Current year cumulative amount *RMB*	Previous year cumulative amount *RMB*
Income from disposal of fixed assets	2,439,246.07	3,301,393.82
Amercement income	139,042.01	19,187.00
Government grant	11,875,298.18	4,197,331.23
Negative goodwill generated from acquisitions and consolidations of enterprises	–	2,136,048.00
Liabilities not needed to be paid	1,151,500.33	1,119,309.30
Others	3,935,894.07	3,871,159.05
Total	19,540,980.66	14,644,428.40

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IX. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

44. Non-operating income

	Current year cumulative amount *RMB*	Previous year cumulative amount *RMB*
Loss from disposal of fixed assets	2,242,087.77	2,186,076.00
Loss from disposal of intangible assets	7,928.54	–
Amercement expenses	279,308.29	93,024.82
Others	1,935,501.76	2,522,960.04
Total	4,464,826.36	4,802,060.86

45. Income tax

	Current year cumulative amount *RMB*	Previous year cumulative amount *RMB*
Current income tax expenses	29,562,703.94	22,921,533.89
Deferred income tax expenses	(3,049,329.78)	652,436.02
	26,513,374.16	23,573,969.91

Income tax expenses and accounting profit are adjusted as follows:

	Current year cumulative amount *RMB*	Previous year cumulative amount *RMB*
Accounting profit/loss	202,119,727.22	230,540,539.43
Income tax expenses calculated at 15% of tax rate (15% in 2006)	30,317,959.08	34,581,080.91
Tax effect from undeductible expenses	5,314,004.48	3,082,382.07
Tax effect from unrecognized deductible losses and deductible temporary differences	10,829,543.42	5,976,136.47
Tax effect from revenue expenses not subject to taxation	(11,016,537.21)	(8,375,406.53)
Additional deduction on research and development expenses	(1,871,968.71)	(2,952,368.33)
Additional deduction on purchase of domestically produced equipment	(6,461,392.96)	(3,529,069.20)
Changes on balance of deferred income tax assets/liabilities at the beginning of the period at a result of tax rate adjustment	280,342.96	–
Effect from inconsistency between tax rates of subsidiaries (branches) in other regions	(878,576.90)	(5,208,785.48)
Income tax expenses	26,513,374.16	23,573,969.91

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IX. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

46. Government grant

		Current year cumulative amount *RMB*	Previous year cumulative amount *RMB*
Earnings-related government grant received			
Land purchase money refund	Note(1)	–	10,315,063.00
Support fund	Note(4)	10,812,406.00	–
Earnings-related government grant received			
VAT rebate	Note(2)	2,027,649.99	3,797,864.58
textile special fund from the Ministry of Finance	Note(3)	8,900,000.00	322,280.00
Others		–	77,186.65
Total		21,740,055.99	14,512,394.23
Government grants recorded into current profits and losses		11,875,298.18	4,197,331.23
Government grants recorded into deferred profits		20,179,820.81	10,315,063.00

Note (1): Land purchase money refund represents land purchase money refund of RMB10,315,063 obtained by Wuxi Hongda Textile Machinery Parts Co., Ltd., a subsidiary of the Company in 2006.

Note (2): VAT rebate also includes VAT rebate received by subsidiaries of the Company, namely Beijing Ximen Information Technology Company Ltd and Shanxi Jingwei Heli Machinery Manufacturing Company. Pursuant to Cai Shui No. 25 [2000] "Notice of the Ministry of Finance and the State Administration of Taxation and China Customs on the Tax Policies for Further Encouraging the Development of Software and Integrated Circuit Industries", in 2007, the former received VAT rebate in the amount of RMB517,772.64. Pursuant to Guo Shui Fa No. 155 [1994] "Notice of the State Taxation Administration on Issues regarding Levying Circulation Tax Upon Civil Affairs and Welfare Enterprises", the latter received VAT rebate in the amount of RMB 1,509,877.35. Such VAT rebates were fully included in the profit and loss upon receipt that year.

Note (3) Pursuant to (2006) No.419 document entitled Notice from the MOF and NDRC on Special Fund Allocated to SOEs to Encourage the Transfer of Growth Mode in Textile Industry, in 2007, the Group received a special grant for institutional reform and change in growth mode in textile industry. The grant was specialized for technological development. In 2007, a government grant of RMB7,555,242.19 and deferred earnings of RMB1,344,757.81 was recognised based on the progress of research and development, and the amount of expenses incurred.

Note (4) Qingdao Laoshan People's Government granted support fund of RMB4,520,000.00 to the Company's subsidiary, Qingdao Hongda Textile Machinery Company Ltd during the year for the investment and construction of projects in Laoshan.

Tianjin New Technology Industrial Park Management Committee granted support fund of RMB4,000,000.00 to the Company's subsidiary, Tianjin Hongda Textile Machinery Company Ltd for exploring its potential, reconstruction and expansion for further production.

Changde Textile Machinery Manufacturing Company Ltd, a subsidiary of the Company, also received support fund of RMB2,292,406.00 granted by the Government during the year.

47. EPS

	Current year cumulative amount *RMB*	Previous year cumulative amount *RMB*
Basic EPS	0.27	0.31

The EPS was calculated based on current net profit attributable to holders of ordinary shares and 603,800,000 shares at the year end.

The Company has no potential ordinary shares, and hence has not diluted the presented EPS.

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IX. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48. Net profit after deducting extraordinary gains and losses

	Current year cumulative amount *RMB*	Previous year cumulative amount *RMB*
Net profit	175,606,353.06	206,966,569.52
Add/Less: extraordinary gains and losses	(58,420,262.91)	(10,926,404.54)
– Profits and losses from disposal of non-current assets	(16,040,942.09)	2,031,234.18
– Government grants	(11,875,298.18)	(4,197,331.23)
– Gains on entrusted loans	(9,535,514.30)	(4,230,589.00)
– Net amount of non-operating income and expenses other than the above items	(3,011,626.36)	(4,529,718.49)
– Other extraordinary gains and losses	(17,956,881.98)	–
Effect of income tax on extraordinary gains and losses	8,763,039.44	1,638,960.68
Net profit after deducting extraordinary gains and losses	125,949,129.59	197,679,125.66
Including: Net profit after deducting extraordinary and losses attributable to the parent company	116,796,229.01	180,369,379.63
Net profit after deducting extraordinary gains and losses attributable to minority shareholders	9,152,900.58	17,309,746.03

49. Cash and cash equivalents

	31st December 2007 *RMB*	31 December, 2006 *RMB*
Cash	637,468,328.04	895,709,011.76
Including: Inventory cash	1,113,277.26	1,002,594.81
Bank deposit used for payment at any time	631,953,545.75	887,048,328.60
Other currency capital used for payment at any time	4,401,505.03	7,658,088.35
Balance of cash and cash equivalents	637,468,328.04	895,709,011.76
Restricted cash and cash equivalents of parent company and Subsidiaries of the Group	6,830,744.72	7,891,154.00

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IX. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50. Supplementary information of cash flow statements

	Current year cumulative amount *RMB*	Previous year cumulative amount *RMB*
Reconciliation of net profit to cash flow from operating activities net profit	175,606,353.06	206,966,569.52
Add: Provision for assets impairment	12,330,310.14	10,629,738.70
Fixed assets depreciation	100,162,510.81	109,221,464.00
Intangible assets amortization	19,287,401.71	9,956,393.00
Amortization of long-term deferred expenses	–	484,262.00
Losses resulting from disposal of fixed assets, intangible assets or other long-term assets (less gains)	(189,229.76)	(1,115,317.82)
Fair value changes losses (less gains)	(1,945,000.00)	–
Financial costs	33,686,680.44	34,804,892.99
Investment losses (less gains)	(117,485,653.65)	(15,098,640.19)
Decrease in deferred income tax assets (less increase)	(3,049,329.78)	652,436.02
Inventory decrease	(323,048,418.16)	168,550,242.00
Decrease in operating receivables (less increase)	239,349,420.20	(74,200,274.44)
Increase in operating payables (less decrease)	(11,780,141.94)	(326,710,765.02)
Net cash flow from operating activities	122,924,903.07	129,641,000.76
Net changes of cash and cash equivalents at end of the year	637,468,328.04	895,709,011.76
Less: Cash at beginning of the year	(895,709,011.76)	(802,522,467.00)
Net increase of cash and cash equivalents	(258,240,683.72)	93,186,544.76

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IX. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51. Cash flow related to other operating activities

	Current year cumulative amount *RMB*	Previous year cumulative amount *RMB*
Cash received from other operating activities		
Interest income	13,808,808.29	24,890,043.11
Government subsidy	19,712,406.00	10,714,529.65
Amercement income	139,042.01	19,187.00
Miscellaneous	551,880.10	8,286,383.66
Subtotal	34,212,136.40	43,910,143.42
Cash paid relating to other operating activities comprising:		
R&D	54,321,435.73	45,343,102.14
Travel	35,778,937.28	35,186,052.70
Transportation and unloading	29,786,880.07	30,813,710.29
Maintenance	28,109,316.47	16,725,058.96
Office allowance	22,387,501.54	17,510,846.50
Water, electricity and heat	16,127,121.99	15,810,763.16
Business	12,889,704.17	11,829,711.78
Business entertainment	12,668,648.75	10,425,752.77
Rent	10,391,944.34	10,192,926.14
Ads and publicity	9,480,245.99	6,234,467.86
Sales services	9,231,267.35	10,743,653.30
Professional services	9,081,926.89	13,234,547.87
Green Project and fire-fighting	8,036,183.63	6,400,891.42
Exhibit	7,708,747.96	10,598,558.15
Insurance	3,991,515.17	3,429,554.79
Meetings	3,850,248.30	3,403,474.47
Storage and inventory management	3,364,625.98	2,346,450.43
Entrusted consignment commission	1,840,558.70	1,646,611.94
Product maintenance	1,159,727.47	2,015,290.24
Others	4,146,191.36	6,213,257.73
Subtotal	284,352,729.14	260,104,682.64

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IX. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

52. Cash flow related to other financing activities

	Current year cumulative amount *RMB*	Previous year cumulative amount *RMB*
Acceptance bill discount rate	10,966,605.43	11,701,465.45
Subtotal	10,966,605.43	11,701,465.45

53. Segment Information

(1) on a primary segment reporting basis, by business segment

Revenue, cost, profit and assets as well as liabilities of the business segments of the Group are mainly generated from manufacturing and selling of textile machinery. Other businesses of the Group include selling of raw materials, and textile machinery parts. The information of these business segments is as follows:

	Manufacture and sales of textile machinery *RMB'000*	Sales of raw materials, textile machinery parts and property development *RMB'000*	Total *RMB'000*
Current year cumulative amount			
TURNOVER			
External sales	4,806,039	564,286	5,370,325
RESULT			
Segment result	102,037	6,591	108,628
Unallocated expenses			(6,135)
Unallocated income			56,514
Finance costs			(43,794)
Gain on fair value changes of held-for-trading investments			65,323
Gains on investment in jointly controlled entities			1,938
Gains on investment in associates			19,645
Total profit			202,119
Income tax			(26,513)
Net profit			175,606
Previous year cumulative amount			
TURNOVER			
External sales	4,588,763	935,182	5,523,945
RESULT			
Segment result	177,558	36,273	213,831
Unallocated income			39,941
Unallocated expenses			(5,714)
Finance costs			(34,805)
Gain on fair value changes of held-for-trading investments			18,421
Gains on investments in jointly controlled entities			(837)
Gains on investments in associates			(297)
Total profit			230,540
Income tax			(23,574)
Net profit			206,966

The assets and liabilities of the Group are substantially used for manufacture and sales of textile machinery, therefore, no segment assets and liabilities are presented.

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IX. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

53. Segment Information (continued)

(2) on a secondary segment reporting basis, by geographical segment

Revenue, cost, profit and assets as well as liabilities of the business segments of the Group are mainly generated from sales in the PRC.

Overseas sales of the Group include sales in Asia, Africa and other regions. The size of these geographical regions is not significant enough to present an independent segment report.

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X. RELATED PARTIES AND TRANSACTIONS

(1) Related parties with controlling relationship

Company name	Place of registration	Business nature	Registered capital	% of voting rights	% of shares
CTMC	Beijing	Textile machinery manufacturing & trade	2,735,820,000.00	33.83	33.83

CTMC is the largest shareholder of the Company, the remaining 66.17% interest is separately held by other shareholders. CTMC substantially controls the Company, therefore, CTMC is the controlling parent company of the Company.

The ultimate controlling parent company of the Group is China Hengtian Group Company.

(2) For detailed information of subsidiaries, please refer to note VIII.

(3) Other related parties that have transactions with the Group but have no controlling relations with it are as follows:

	Relationship with related parties
China Textile Industrial Corporation for Foreign Economic and Technological Cooperation	Controlled by the ultimate controlling parent company
Hantrong Investment Co., Ltd.	Controlled by the ultimate controlling parent company
Beijing Hongda Industries Co., Ltd.	Controlled by the ultimate controlling parent company
Beijing Hongda Tiancheng Trade Company Limited	Controlled by the ultimate controlling parent company
Sales and Technical Services Company of China National Textile Machinery Corporation	Controlled by the same parent company
Guangzhou Branch of China Textile Industry Group	Controlled by the same parent company
Hongda Investment Company Limited	Controlled by the same parent company
Jinlang Company Limited	Controlled by the same parent company
Jingwei Machinery (Group) Company Limited	Controlled by the same parent company
Yuci Fibre Machinery Company Limited	Controlled by the same parent company
Jingjin Joint Package Company Limited	Controlled by the same parent company
Jingwei Machinery (Group) Packaging Company Limited	Controlled by the same parent company
Yuci Mechanic and Electronic Equipment Plant	Controlled by the same parent company
Tianjin Textile Machinery Plant	Controlled by the same parent company
Tianjintian Textile Machinery Steel Modification Company Limited	Controlled by the same parent company
Tianjintian Textile Machinery Heat Treatment Company Limited	Controlled by the same parent company
Yichang Textile Machinery Plant	Controlled by the same parent company
Yichang Chinese Textile Industry and Trade Company Limited	Controlled by the same parent company
Shenyang Textile Machinery Component Sales Company	Controlled by the same parent company
Parts Plant of Shanying Company	Controlled by the same parent company
Zhengzhou Textile Machinery Company Limited	Controlled by the same parent company
Weinan Textile Machinery Plant	Controlled by the same parent company
Weinan Textile Machinery Company Limited	Controlled by the same parent company
Hengyang Textile Machinery Plant	Controlled by the same parent company
Huangshi Textile Machinery Plant	Controlled by the same parent company
Guangzhou Carding Machinery Plant	Controlled by the same parent company
Taicang Hongdafangyuan Electronics Company Limited	Controlled by the same parent company
Shaoyang Textile Machinery Company Limited	Controlled by the same parent company
Honglong Daily Machinery Plant	Controlled by the same parent company
Technical Training Plant of Changde Textile Machinery Plant	Controlled by the same parent company
Qingdao Textile Machinery Company Limited	Controlled by the same parent company
Qingdao Jinyi Pressing Company Limited	Associate
Shenyang Jingxing Textile Machinery Manufacturing Company Limited	Associates
China Texmatech Company Limited	Associates
Anhui Huamao Jingwei New Type Textile Company Limited	Associate
Qingdao Textile Machinery Jinhui Molds Company	Jointly controlled entity
Qingdao Textile Machinery Kelifeng Company	Company in which key personnel of subsidiaries has significant influence ("Company in which Key Personnel of Subsidiaries has Significant Influence")
Qingdao Textile Machinery Carding Company	Company in which Key Personnel of Subsidiaries has Significant Influence
Qingdao Textile Machinery Forging Company	Company in which Key Personnel of Subsidiaries has Significant Influence
Qingdao Textile Electric Company	Company in which Key Personnel of Subsidiaries has Significant Influence
Qingdao Textile Machinery Nonwovens Company	Company in which Key Personnel of Subsidiaries has Significant Influence
Qingdao Textile Machinery and Lida Electric Company	Company in which Key Personnel of Subsidiaries has Significant Influence
Shenyang Textile Machinery Company Limited	Company in which Key Personnel of Subsidiaries has Significant Influence

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X. RELATED PARTIES AND TRANSACTIONS (CONTINUED)

(4) The Company has made the following major connected transactions with related parties in this year

(a) Sales and purchase

Goods sold to and charges on the related parties are detailed as follows:

	Current year cumulative amount *RMB*	Previous year cumulative amount *RMB*
Finished goods sold		
Companies controlled by the same parent company	29,780,849.40	303,268,937.11
Associates	493,821,336.91	31,320,043.16
Jointly controlled entities	37,374.92	138,765,989.77
Companies controlled by ultimate controlling parent company	124,949,997.80	2,058,119.66
Total	648,589,559.03	475,413,089.70
Raw materials and parts sold		
Controlling Companies	813,312.62	–
Companies controlled by the same parent company	241,789,809.84	353,578,548.97
Associates	1,755,566.00	2,462,451.91
Companies in which key personnel of subsidiaries has significant influence	91,607,037.72	110,761,373.12
Total	335,965,726.18	466,802,374.00
Processing charges		
Associates	–	–
Companies controlled by the same parent company	1,265,468.67	–
Companies in which key personnel of subsidiaries has significant influence	664,554.24	480,000.00
Total	1,930,022.91	480,000.00
Charges on provision of support services		
Controlling companies	2,900,000.00	–
Companies controlled by the same parent company	8,810,463.52	8,626,450.65
Total	11,710,463.52	8,626,450.65
Rental income received		
Companies controlled by the same parent company	7,146,637.00	6,076,485.56
Total	7,146,637.00	6,076,486.56

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X. RELATED PARTIES AND TRANSACTIONS (CONTINUED)

(4) The Company has made the following major connected transactions with related parties in this year (CONTINUED)

(a) Sales and purchase (continued)

Goods sold to and charges on the related parties are detailed as follows:

	Current year cumulative amount *RMB*	Previous year cumulative amount *RMB*
Tools and molds purchased		
Associates	116,426.98	705,963.60
Companies controlled by the same parent company	19,476,476.91	35,608,989.36
Companies in which key personnel of subsidiaries has significant influence	12,685.33	121,414.19
Total	19,605,589.22	36,436,367.15
Molds purchased		
Associates	42,655,080.00	30,716,248.22
Companies controlled by the same parent company	60,291,339.21	36,659,529.89
Companies in which key personnel of subsidiaries has significant influence	60,501,264.00	50,665,451.00
Total	163,447,683.21	118,041,229.11
Energy purchased		
Associates	–	1,540,936.17
Companies controlled by the same parent company	2,438,400.00	3,751,314.10
Total	2,438,400.00	5,292,250.27
Packaging materials purchased		
Companies in which key personnel of subsidiaries has significant influence	39,451,208.00	33,767,510.00
Total	39,451,208.00	33,767,510.00
Raw materials and parts purchased		
Associates	39,562,234.15	841,880.34
Companies controlled by the same parent company	192,713,418.59	133,345,650.30
Jointly controlled entities	–	2,067,740.00
Companies in which key personnel of subsidiaries has significant influence	246,333,217.32	242,862,421.16
Total	478,608,870.06	379,117,691.90
Finished goods purchased		
Associates	–	15,000,000.00
Companies controlled by the same parent company	333,378,384.59	423,715,743.16
Companies in which key personnel of subsidiaries has significant influence	77,122,819.00	79,111,248.00
Total	410,501,203.59	517,826,991.16
Processing fees paid		
Associates	944,484.59	4,869,774.76
Companies controlled by the same parent company	42,871,314.84	144,995,248.60
Total	43,815,799.43	149,865,023.36

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X. RELATED PARTIES AND TRANSACTIONS (CONTINUED)

(4) The Company has made the following major connected transactions with related parties in this year (CONTINUED)

(a) Sales and purchase (continued)

	Current year cumulative amount *RMB*	Previous year cumulative amount *RMB*
Transportation services fees		
Companies controlled by the same parent company	394,531.70	8,750,572.00
Total	394,531.70	8,750,572.00
Repair and maintenance fees		
Companies controlled by the same parent company	22,812,720.10	25,384,806.00
Total	22,812,720.10	25,384,806.00
Other support fees		
Companies controlled by the same parent company	7,311,508.04	8,794,822.00
Total	7,311,508.04	8,794,822.00
Rental expenses		
Associates	8,485,000.00	489,726.00
Companies controlled by the same parent company	605,058.84	807,146.84
Total	9,090,058.84	1,296,872.84
Staff accommodation rental expenses		
Companies controlled by the same parent company	–	345,741.00
Total	–	345,741.00
Property management fees		
Companies controlled by the same parent company	–	1,366,368.25
Total	–	1,366,368.25
Interest expense		
Companies controlled by the same parent company	1,480,114.75	2,006,513.00
Total	1,480,114.75	2,006,513.00

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X. RELATED PARTIES AND TRANSACTIONS (CONTINUED)

(4) The Company has made the following major connected transactions with related parties in this year (CONTINUED)

(a) Sales and purchase (continued)

Goods sold to and purchased from related parties by the Company are detailed as follows:

		Current year cumulative amount *RMB*	Previous year cumulative amount *RMB*
Sales			
Sales revenue	Subsidiaries	93,958,003.55	86,273,732.53
	Associates	–	138,765,989.77
	Companies controlled by the same parent company	434,239,478.11	306,345,628.31
		528,197,481.66	531,385,350.61
Other operating income	Subsidiaries	177,409,218.50	214,387,818.00
	Controlling companies	–	2,900,000.00
	Associates	2,900,000.00	249,081.57
	Companies controlled by the same parent company	158,047,876.82	256,682,854.48
	Total	338,357,095.32	474,219,754.05
Materials purchased	Subsidiaries	694,921,234.78	528,664,261.00
	Associates	–	2,026,386.25
	Companies controlled by the same parent company	140,052,355.37	26,254,897.82
	Total	834,973,590.15	556,945,545.07
Finished products purchased	Subsidiaries	1,489,282,929.02	1,501,474,210.00
	Associates	32,035.00	15,878.38
	Companies controlled by the same parent company	328,200,855.33	423,715,743.16
	Total	1,817,515,819.35	1,925,205,832.00
Processing fees	Companies controlled by the same parent company	17,780,965.93	113,057,337.77
	Total	17,780,965.93	113,057,337.77
Transportation services fees	Companies controlled by the same parent company	394,531.7	2,092,637.34
	Total	394,531.7	2,092,637.34

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X. RELATED PARTIES AND TRANSACTIONS (CONTINUED)

(4) The Company has made the following major connected transactions with related parties in this year (CONTINUED)

(a) Sales and purchase (continued)

		Current year cumulative amount *RMB*	Previous year cumulative amount *RMB*
Repair and maintenance expense	Companies controlled by the same parent company	22,812,720.10	19,874,544.78
	Total	22,812,720.10	19,874,544.78
Other supporting services expense	Companies controlled by the same parent company	7,311,508.04	3,746,030.13
	Total	7,311,508.04	3,746,030.13
Rental expenses	Companies controlled by the same parent company	605,058.84	555,028.84
	Total	605,058.84	555,028.84

The Group adopted negotiated prices for the above connected transactions.

(b) Balance accounts of claims and debts

Claims and debts between the Company and the related parties are detailed as follows:

		Current year cumulative amount		Previous year cumulative amount	
		Amount *RMB*	Proportion *%*	Amount *RMB*	Proportion *%*
Accounts receivable	Controlling companies	726,667.00	–	1,025,794.00	–
	Associates	45,843,622.48	-	69,546,956.43	2
	Companies controlled by the same parent company	95,525,264.77	33	115,727,000.00	40
	Jointly controlled entities	45,348,058.75	11	67,390,026.00	15
	Ultimate controlling companies	63,998.00	–	–	–
	Companies controlled by the ultimate controlling parent company	10,542,501.02	3	–	–
	Companies controlled by key personnel of subsidiaries	107,781.16	–	5,076.16	–
	Total	198,157,893.18	47	253,694,852.59	57
Notes receivable	Companies controlled by parent company	3,079,853.08	–	–	–
	Controlled by the ultimate controlling parent company	5,537,478.20	–	–	–
	Total	8,617,331.28	1	–	–
Accounts payable	Controlling companies	3,607,278.01	–	1,635,516.73	–
	Associates	59,899,821.00	30	94,469,812.00	40
	Companies controlled by the same parent company	21,978.35	–	–	–
	Total	63,529,077.36	30	96,105,328.73	40

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X. RELATED PARTIES AND TRANSACTIONS (CONTINUED)

(4) The Company has made the following major connected transactions with related parties in this year (CONTINUED)

(b) Balance accounts of claims and debts (CONTINUED)

		Current year cumulative amount		Previous year cumulative amount	
		Amount	Proportion	Amount	Proportion
		RMB	*%*	*RMB*	*%*
Accounts payable	Controlling companies	6,301,379.63	1	6,301,380.00	1
	Associates	899,499.69	–	3,201,954.31	–
	Companies controlled by the same parent company	46,252,025.57	7	63,203,613.00	10
	Associates	–	–	500,503.00	–
	Companies controlled by key personnel of subsidiaries	38,768,656.37	5	21,849,274.94	3
	Total	92,221,561.26	13	95,056,725.25	14
Notes payable	Companies controlled by the same parent company	31,006,992.76	11	–	–
	Total	31,006,992.76	11	–	–
Advance received from customers	Controlling companies	9,284,345.62	2	11,863,710.00	3
	Associates	2,313,479.33	–	–	–
	Companies controlled by the same parent company	132,567.34	1	1,851,192.00	–
	Jointly controlled entities	2,000.00	–	–	–
	Companies controlled by the ultimate controlling parent company	1,047,128.90	–	–	–
	Total	12,779,521.19	3	13,714,902.00	3
Other payables	Controlling companies	25,312,172.48	10	17,875,599.00	7
	Associates	19,532.51	–	10,151,674.00	4
	Companies controlled by the same parent company	24,959,427.51	9	75,303,666.00	32
	Jointly controlled entities	–	–	55,000.00	–
	Companies controlled by key personnel of subsidiaries	1,334,140.44	–	–	–
	Total	51,625,272.94	19	103,385,939.00	43

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X. RELATED PARTIES AND TRANSACTIONS (CONTINUED)

(4) The Company has made the following major connected transactions with related parties in this year (CONTINUED)

(b) Balance accounts of claims and debts (CONTINUED)

Claims and debts between the Company and the related parties are detailed as follows:

Items	Name of related parties	Current year cumulative amount Amount RMB	Current year cumulative amount Proportion %	Previous year cumulative amount Amount RMB	Previous year cumulative amount Proportion %
Accounts receivable	Subsidiaries	25,245,091.97	10	–	–
	Controlling companies	–	–	440,000.00	–
	Associates	34,999,151.64	13	62,818,527.04	24
	Companies controlled by the same parent company	62,900,766.62	23	56,454,291.11	22
	Jointly controlled entities	45,263,864.73	16	33,606,682.12	13
	Total	168,408,874.96	62	153,319,500.27	59
Advance to suppliers	Subsidiaries	14,137,191.80	21	12,398,492.22	17
	Associates	34,999,151.64	53	–	
	Companies controlled by the same parent company	–	–	31,606,524.05	44
	Total	49,136,343.44	74	44,005,016.27	61
Other receivables	Subsidiaries	182,634,071.98	68	134,474,520.63	100
	Total	182,634,071.98	68	134,474,520.63	100
Dividends receivable	Subsidiaries	4,592,565.36	100	16,910,146.85	100
	Total	4,592,565.36	100	16,910,146.85	100
Other non-current assets	Subsidiaries	77,136,576.10	100	77,682,683.29	100
	Total	77,136,576.10	100	77,682,683.29	100
Accounts payable	Subsidiaries	98,479,586.73	31	137,802,566.42	40
	Associates	82,375.63	–	18,566.00	–
	Companies controlled by the same parent company	28,905,079.01	9	14,730,510.27	4
	Jointly controlled entities	–	–	500,502.55	–
	Total	127,467,041.37	40	153,052,145.24	44
Notes payable	Subsidiaries	900,000.00	–	3,531,255.65	1
	Companies controlled by the same parent company	16,700,000.00	11	–	–
	Total	17,600,000.00	11	3,531,255.65	1
Advance received from customers	Subsidiaries	33,101,397.61	14	12,879,651.18	5
	Jointly controlled entities	2,000,000.00	1	3,929,979.00	1
	Companies controlled by the same parent company	183,627.53	–	–	–
	Associates	1,801,719.00	–	–	–
	Total	37,086,744.14	15	16,809,630.18	–

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X. RELATED PARTIES AND TRANSACTIONS (CONTINUED)

(4) The Company has made the following major connected transactions with related parties in this year (CONTINUED)

(b) Balance accounts of claims and debts (CONTINUED)

Items	Name of related parties	Current year cumulative amount Amount *RMB*	Current year cumulative amount Proportion *%*	Previous year cumulative amount Amount *RMB*	Previous year cumulative amount Proportion *%*
Other payables	Subsidiaries	109,933,042.16	77	3,899,417.57	8
	Controlling companies	792,029.68	–	552,082.83	–
	Companies controlled by the same parent company	4,331,777.20	3	8,035,954.33	17
	Associates	19,532.51	–	7,008,928.00	15
	Total	115,076,381.55	80	19,496,382.73	40
Dividends payable	Controlling companies	15,651,200.00	99	11,000,000.00	99
	Total	15,651,200.00	99	11,000,000.00	99

(c) Capital lending/borrowing

Capital lending/borrowing between the Company and related parties is detailed as follows:

	Amount incurred this year *RMB*	Balance at the end of this year *RMB*	Amount incurred previous year *RMB*	Balance at the end of previous year *RMB*
Borrowing from – Controlling companies	22,000,000.00	22,000,000.00	–	–
Lending to – Jointly controlled entities	14,000,000.00	67,000,000.00	53,000,000.00	53,000,000.00
Lending to – Associates	(28,000,000.00)	–	28,000,000.00	28,000,000.00
Borrowing interest paid-controlling companies	–		–	
Loan interest received – jointly controlled entities	2,931,143.75		2,608,272.00	
– Associates	8,780,661.80		–	

Please refer to note IX.8 for details of the amounts lent to jointly controlled entities and note IX.18 for details of the amounts borrowed from controlling companies.

Save from the abovementioned amounts lent to jointly controlled entities and loan interest received from jointly controlled entities, the Company had extended a short-term loan to a subsidiary during the year. The total amount incurred was RMB157,000,000.00. The subsidiary has repaid a large portion of the loan this year and the outstanding balance is RMB73,000,000.00. During the year, total interest received by the Company in respect of such subsidiary's borrowing amounted to RMB3,949,853.34.

(d) Remuneration for key managerial staff

	Current year cumulative amount *RMB*	Previous year cumulative amount *RMB*
Remuneration for key managerial staff	4,192,741.00	4,155,000.00

The key managerial staff include directors, general manager, financial controller, deputy general managers in charge of different business and secretary of Board of Directors.

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X. RELATED PARTIES AND TRANSACTIONS (CONTINUED)

(4) The Company has made the following major connected transactions with related parties in this year (CONTINUED)

(e) Contingent liabilities related to guarantees to the subsidiaries

	31st December 2007 *RMB*	31 December 2006 *RMB*
Security provided for banking facilities granted to subsidiaries	150,000,000.00	–
Total	150,000,000.00	–

As at 31st December 2007, the Company has provided security for the consolidated facilities of RMB100,000,000.00, RMB30,000,000.00 and RMB20,000,000.00 granted to Tianjin Hongda Textile Machinery Company Limited, Tianjin Jingwei New Type Textile Machinery Company Limited and Beijing Jingpeng Investment Management Co., Ltd. respectively.

XI. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Major financial instruments of the Group include equity investment, borrowings, accounts receivable, accounts payable, details of which are illustrated in note IX. Risks associated with these instruments and policies the Group has adopted to mitigate these risks are presented as follows. The management of this Group has managed and monitored these exposures to ensure that all the above risks are well controlled.

1. Objectives and policies of risk management

The risk management is designed to trade off between risks and earnings, minimizing their negative impact on the operational results of the Group and maximizing the value of shareholders and other investors. Based on this objective, the underlying strategy of risk management of the Group is to identify and analyze all types of risks faced by the Group, establish an appropriate risk appetite and conduct risk management, monitor risks of any nature timely and reliably, and control risks within prescribed scope.

1.1 Market risks

Foreign exchange risk

Foreign exchange risk refers to loss risks due to changes in exchange rate. The major activities of the Group are denominated in RMB. As of 31st December 2007, the assets and liabilities of the Group are all denominated in RMB, except those denominated in foreign currencies, such as HKD or USD.

		31st December 2007 *Amount in original currency*	31st December 2007 *RMB*	31 December, 2006 *Amount in original currency*	31 December, 2006 *RMB*
Currency capital	USD	355,064.41	2,593,603.48	471,151.30	36,790,079.16
	HKD	14,306,908.66	13,396,989.26	58,959,440.02	59,236,549.39
	EURO	44,240.01	471,903.81	3,314.04	34,023.67
	Other currencies	534,953.23	4,012,764.63	898,577.88	5,768,827.44
Accounts receivable	HKD	192,500.00	180,950.00	5,643,926.08	5,670,452.53
Other receivables	HKD	4,682,455.76	4,401,508.41	5,246,164.03	5,270,821.00
Accounts payable	EURO	(60,543.71)	(635,633.20)	–	–
	HKD	–	–	(6,902,283.77)	(6,934,724.50)
Other payables	USD	(984,290.60)	(7,185,321.41)	–	–
	HKD	–	–	(67,015,343.29)	(67,330,315.40)
Short-term borrowings	USD	(21,563,404.00)	(157,512,040.86)	(20,000,000.00)	(156,174,000.00)
Foreign exchange exposure	USD	(22,192,630.19)	–	(19,528,848.70)	–
Foreign exchange exposure	HKD	19,181,846.42	–	(4,068,096.93)	–
Foreign exchange exposure	EURO	(16,303.70)	–	3,314.04	–

The Group closely monitors the impact of exchange rate changes on its foreign exchange risk. The major foreign exchange risk faced by the Group is foreign exchange risk arising from USD-dominated assets and liabilities.

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XI. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

1. Objectives and policies of risk management (continued)

1.1 Market risk (continued)

Foreign exchange risk (continued)

The table below describes sensibility to 1% rise or fall of the exchange rate between USD and HKD. Positive figures indicate the impact on profit with a 1% increase in the exchange rate between USD and HKD.

	Impact on USD		Impact on HKD	
	2007	**2006**	**2007**	**2006**
	RMB	*RMB*	*RMB*	*RMB*
Net profit (loss) and retained earnings	(1,377,656.63)	(1,295,815.11)	152,825.31	(49,475.50)

As the proportion of assets and liabilities in foreign currencies to the Company's assets and liabilities is small, the Group and the Company are of the view that there is no material exchange rate risk as at 31st December 2007 and 31 December 2006.

Interest rate risks – Risks in changes of fair value

The risks from fair value changes of financial instruments arising out of interest changes are closely related to fixed rate bank loans. Where expected interest rate rises, the Group will try to improve the proportion of fixed rate loans to avoid risks in interest rate hike; when interest rate is expected to fall, the Group will try to improve the proportion of floating rate loans to reduce risks.

Interest rate risks – Risk from cash flow changes

Risks from cash flow changes of financial instruments due to interest rate change is closely related to floating rate loans. The Group's policy is to maintain the floating rate of these loans to eliminate such risks.

The interest rate of non-derivatives on the balance sheet date and reasonable potential changes during the year determine the interest rate sensibility risk of the Group. Assuming the remaining factors held constant, when the interest rate increases or decreases by 0.5%, the interest rate sensibility risk of the Group on each balance sheet date will be as follows:

	As at 31 December	
	2007	**2006**
	RMB	*RMB*
Increase (decrease) of net profit and retained earnings during the year		
– interest rate increases	1,943,000	4,525,000
– interest rate decreases	(1,943,000)	(4,525,000)

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XI. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

1. Objectives and policies of risk management (continued)

1.2 Credit risks

As of 31st December 2007, the major possible risks are losses arising from financial assets of the Group as a result of the other party of the contract fails to enforce its obligations and the financial guarantee undertaken by the Group. The details are as follows:

– Book value of financial assets recognized in the consolidated balance sheet; for financial instruments measured at fair value, book value indicates its risk exposure which is not necessarily the maximum. The maximum risk exposure may change with the changes of future fair value.

– The amount of financial guarantee is disclosed in "Contingencies" set out in note XII.

To reduce credit risk, the Group has put in place a team in charge of determining credit line, conducting credit approval, executing other monitoring procedures and making sure that all necessary measures must be taken to recover debts that have past due. In addition, the Group reviews each account receivable at each balance sheet date to ensure that sufficient provision for bad debts has been made for accounts unable to be recovered. Therefore, the management of the Group considers that the credit risks of the Group have been reduced substantially.

Since the liquidity of the Group is deposited in high-rated banks, the Group is subject to lower credit risk on liquidity.

1.3 Liquidity Risk

In managing liquidity risks, the Group's management believes that sufficient cash and cash equivalents and monitoring thereof are needed to meet the needs of operation and reduce the impact of cash flow fluctuation. The Group's management monitors the use of loans and ensures compliance with loan agreement.

The Group takes loans as the main source of capital. As of 31st December 2007, the credit line of short-term loans unutilised by the Group totaled RMB886,977,000.00, compared with RMB685,192,000.00 in 2006.

At the year end, the financial assets and financial liabilities held by the Group are analysed as follows in accordance with the maturities of the remaining contractual obligations:

	Within 1 year *RMB*	Within 1-5 years *RMB*	Over 5 years *RMB*	Total *RMB*
Notes receivable	1,229,251,866.76	–	–	1,229,251,866.76
Accounts receivable	427,383,317.15	–	–	427,383,317.15
Other receivables	71,219,437.33	–	–	71,219,437.33
Tradable financial assets	4,945,000.00	–	–	4,945,000.00
Entrusted loans	67,000,000.00	–	–	67,000,000.00
Currency capital	644,299,072.76	–	–	644,299,072.76
Sub-total of financial assets	2,444,098,694.00	–	–	2,444,098,694.00
Short-term borrowings	414,160,740.86	–	–	414,160,740.86
Notes payable	275,884,343.86	–	–	275,884,343.86
Accounts payable	1,244,290,600.73	–	–	1,244,290,600.73
Other payables	265,661,132.61	–	–	265,661,132.61
Long-term payables due within one year	8,680,000.00	–	–	8,680,000.00
Long-term borrowings due within one year	105,000,000.00	–	–	105,000,000.00
Other current liabilities	6,470,000.00	–	–	6,470,000.00
Long-term borrowings	–	150,000,000.00		150,000,000.00
Long-term payables	–	24,272,676.51	122,630,000.00	146,902,676.51
Sub-total of financial liabilities	2,320,146,818.06	174,272,676.51	122,630,000.00	2,617,049,494.57
Net amount	123,951,875.94	(174,272,676.51)	(122,630,000.00)	(172,950,800.57)

1.4 Other price risks

The Group is exposed to price risks due to holding of financial assets measured at fair value. However, as the value of financial assets measured at fair value held by the Group is relatively small, the Group is exposed to relatively low other price risks.

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XI. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

2. Fair Value

The fair value of financial assets and financial liabilities are determined under the following methods:

– the fair value of financial assets and financial liabilities with standard terms and conditions and traded in active markets is determined with reference to current offer and current bid prices in corresponding active markets;

– the fair value of other financial assets and financial liabilities is recognized under generic pricing model based on future cash flow discounting method or observable prevailing market transaction prices.

The Group's management believes that the book value of financial assets and financial liabilities measured under amortized cost is close to the fair value of such assets and liabilities.

The management believes that there is no significant financial assets impairment with the exception of some of the accounts receivable which provision for bad debts has been made.

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XII. CONTINGENCIES

	31st December 2007 *RMB*	31 December 2006 *RMB*
Guarantee for borrowings from a third party bank	150,000,000.00	235,000,000.00
Guarantee to banks for mortgage loans on behalf of commercial building buyers	92,811,000.00	–
Total	242,811,000.00	235,000,000.00

On 10 October 2007, the Group provided an irrevocable guarantee for Beijing Hualian Group Investment Holding Company for a one-year bank loan in the amount of RMB150,000,000.00 and undertook joint guarantee obligation.

As at 31 December 2007, Beijing Bohong Property Development Company Limited, a subsidiary of the Company, provided joint obligation guarantee to banks that provide mortgage loans in accordance with practices of the real estate industry for a secured loan amounted to RMB92,811,000.00 in respect of commodity buildings that have sold but have not obtained property title certificates.

Notes to the Financial Statements
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XIII. COMMITMENTS

(1) Capital commitments

	31st December 2007 *RMB*	31 December 2006 *RMB*
Contracted but not recognized in the financial statements		
– Commitments in relation to acquisition and construction of long-term assets	12,294,146.30	5,247,596.00

(2) Operating lease commitments

At the balance sheet date, the Group had commitments for non-cancellable operating leases which fall due as follows:

	31st December 2007 *RMB*	31 December 2006 *RMB*
Minimum lease payments under non-cancellable operating leases		
The first year after balance sheet date	10,331,318.29	10,728,439.00
The second year after balance sheet date	1,888,700.00	1,717,900.00
The third year after balance sheet date	1,836,900.00	–
Future years	300,000.00	–
Total	14,356,918.29	12,446,339.00

XIV. BUSINESS COMBINATION

The Group acquired two subsidiaries, namely Beijing Bohong Real Estates Development Company Ltd. and Shanghai WSP Mould and Injection Plastic Limited during the year 2007.

(I) Beijing Bohong Real Estates Development Company Ltd.

(1) Basic conditions

Please refer to note VIII for details of the basic conditions of Beijing Bohong Real Estates Development Company Ltd.

The Group acquired 65% interest of Beijing Bohong Real Estates Development Company Ltd. at a consideration of RMB100,000,000. As the company is a real estates company, such merger and acquisition was treated as acquisition of assets instead of business combination.

(2) The principal financial information of Beijing Bohong Real Estates Development Company Ltd. is as follows:

	31 March 2007 (Date of purchase) Purchase price *RMB*
Identifiable assets	
Current assets	406,988,453.00
Fixed assets	317,900.00
Intangible assets	40,000.00
Sub-total	407,346,353.00
Identifiable liabilities	
Current liabilities	253,500,200.00
Sub-total	253,500,200.00
Total net assets	153,846,153.00
Of which: Minority interests	53,846,153.00
Equity attributable to shareholders of the Company	100,000,000.00

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XIV. BUSINESS COMBINATION (CONTINUED)

(I) Beijing Bohong Real Estates Development Company Ltd. (continued)

	Amount *RMB*
Cash and cash equivalents as consideration for the merger	100,000,000.00
Less: Cash and cash equivalents held by Beijing Bohong Real Estates Development Company Ltd.	38,745,326.44
Cash and cash equivalents received from Beijing Bohong Real Estates Development Company Ltd.	61,254,673.56

(3) Operational results and net cash flow of Beijing Bohong Real Estates Development Company Ltd. from the date of merger and acquisition to the end of the current period of merger and acquisition are as follows:

	Date of purchase to the end of current period of the merger *RMB*
Operational income	726,515.00
Operational costs and expenses	(10,729,565.55)
Total profit	(10,003,050.55)
Net profit	(10,003,050.55)
Net cash flow from operating activities	4,617,852.88
Net cash flow from investment activities	(106,627.00)
Net cash flow from financing activities	(16,759,101.76)
Net increase in cash and cash equivalents	(12,247,875.88)

(II) Shanghai WSP Mould and Injection Plastic Limited

(1) Basic conditions of Shanghai WSP Mould and Injection Plastic Limited

Please refer to note VIII for details of the basic conditions of Shanghai WSP Mould and Injection Plastic Limited.

Shanghai WSP Mould and Injection Plastic Limited was a jointly controlled entity of the Company in the prior year. During this year, the Company has obtained voting trust from directors of that company's joint venture and subsequently has the control over the company's board of directors.

(2) The principal financial information of Shanghai WSP Mould and Injection Plastic Limited is as follows:

	Date of purchase and 1 January 2007	
	Book value *RMB*	Fair value *RMB*
Identifiable assets		
Current assets	4,959,857.77	4,959,857.77
Fixed assets	2,062,690.55	2,062,690.55
Intangible assets	–	–
Sub-total	7,022,548.32	7,022,548.32
Identifiable liabilities		
Current liabilities	361,790.64	361,790.64
Sub-total	361,790.64	361,790.64
Total net assets	6,660,757.68	6,660,757.68
Of which: Minority interests	3,330,378.84	3,330,378.84
Equity attributable to shareholders of the Company	3,330,378.84	3,330,378.84

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XIV. BUSINESS COMBINATION (CONTINUED)

(II) Shanghai WSP Mould and Injection Plastic Limited (continued)

(2) The principal financial information of Shanghai WSP Mould and Injection Plastic Limited is as follows: (continued)

	Amount *RMB*
Cash and cash equivalents as consideration for the merger and acquisition	–
Less: Cash and cash equivalents held by the combined subsidiary and other operating units	2,165,005.13
Cash and cash equivalents received from the combined subsidiary and other operating units	(2,165,005.13)

Date of merger and acquisition was the date of securing the actual control over the merged party by the merging party, i.e. the date of the control over the net assets of the mergerd party and decision-making authority on its production and operation being transferred to the merging party.

Operational results and net cash flow of the merged party from the date of purchase to the end of the current period of the merger are as follows:

	Date of purchase to the end of current period of the merger *RMB*
Operational income	8,160,287.86
Operational costs and expenses	(4,887,479.72)
Total profit	3,272,808.14
Net profit	3,027,347.53
Net cash flow from operating activities	324,312.87
Net cash flow from investment activities	(414,736.42)
Net cash flow from financing activities	(1,115,680.00)
Net increase in cash and cash equivalents	(1,206,103.55)

XV. NON-ADJUSTED ITEMS AFTER THE BALANCE SHEET DATE

Pursuant to the resolution approved by the Board on 22 April 2008, on the basis of 603,800,000 shares in issue, a cash dividend of $0.1 (with tax) for every 10 shares was proposed to all shareholders for the year 2007 and the total amount of dividends paid would be RMB6,038,000.00. The above dividend distribution proposal is still pending for shareholders' approval.

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XVI. INTERPRETATIONS FOR MAJOR ITEMS OF PARENT COMPANY'S FINANCIAL STATEMENTS

1. Currency capital

	31st December 2007			31 December 2006		
	Amount of Foreign currency	*Exchange Rate*	*RMB*	*Amount of Foreign currency*	*Exchange Rate*	*RMB*
Cash						
RMB			181,576.75			291,132.58
HKD	16,680.00	0.9364	15,619.15	5,513.12	1.0047	5,539.03
USD	3,407.84	7.3046	24,892.90	3,929.27	7.8087	30,682.48
EURO	24,370.50	10.6669	259,957.69	2,318.31	10.2665	23,800.96
Pound	1,050.00	14.5807	15,309.74	987.06	15.3232	15,124.96
Others	50.00	3.9306	196.53	50.00	3.9306	196.53
Bank Deposit						
RMB			345,030,487.45			560,689,156.36
HKD	20,827.73	0.9364	19,503.09	14,886.15	1.0047	14,956.11
USD	55,490.24	7.3046	405,334.02	21,752.96	7.8087	169,862.34
Other currency capital						
RMB			543,954.33			6,023,513.17
Total			346,496,831.65			567,263,964.52

2. Tradable financial assets

	Year-End Fair Value *RMB*	Year-Beginning Fair Value *RMB*
Tradable financial assets	4,945,000.00	7,004,635.00

The abovementioned tradable financial assets are publicly traded securities that were successfully subscribed by the Company during application to subscribe for new shares, cash realization of the above tradable financial asset investment is not subject to major restrictions.

3. Notes receivable

	31st December 2007 *RMB*	31 December 2006 *RMB*
Bank's Acceptance Bill	801,491,641.14	681,829,199.90
Commercial Acceptance Bill	53,881,197.75	1,700,000.00
Total	855,372,838.89	853,696,827.03

On 31st December 2007, the Group discounted unexpired acceptance bills with the right of recourse of RMB51,875,000.00 (2006:RMB174,575,191.00). Unexpired acceptance bills with the right of recourse that have been endorsed amounted to RMB551,701,382.58 (2006: RMB552,959,222.61).

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XVI. INTERPRETATIONS FOR MAJOR ITEMS OF PARENT COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

4. Accounts receivable

The ageing of accounts receivable is provided as follows:

	31st December 2007				31 December 2006			
	Amount	Proportion	Bad Debt Provision	Book Value	Amount	Proportion	Bad Debt Provision	Book value
	RMB	*%*	*RMB*	*RMB*	*RMB*	*%*	*RMB*	*RMB*
Within one year	205,809,466.15	64	–	205,809,466.15	225,399,272.95	69	–	225,399,272.95
One to two years	62,854,756.95	20	(5,594,320.21)	57,260,436.74	28,290,254.00	9	(5,757,298.00)	22,532,956.00
Two to three years	7,926,972.83	2	(5,444,931.64)	2,482,041.19	12,892,221.00	4	(5,680,988.00)	7,211,233.00
Above three years	44,403,601.98	14	(38,559,629.93)	5,843,972.05	61,715,562.00	18	(58,119,119.87)	3,596,442.13
Total	320,994,797.91	100	(49,598,881.78)	271,395,916.13	328,297,309.95	100	(69,557,405.87)	258,739,904.08

Accounts receivables are disclosed as follows by customer types:

	31st December 2007				31st December 2007			
	Amount	Proportion	Bad Debt Provision	Book Value	Amount	Proportion	Bad Debt Provision	Book value
	RMB	*%*	*RMB*	*RMB*	*RMB*	*%*	*RMB*	*RMB*
Items with significant single amount	22,506,600.00	7	–	22,506,600.00	–	–	–	–
Other insignificant items	259,928,567.98	81	(11,039,251.85)	248,889,316.13	326,894,064.83	100	(68,154,160.75)	258,739,904.08
Items with no significant single amount but carrying greater risks when rearranged with the characteristics of credit risk	38,559,629.93	12	(38,559,629.93)	–	1,403,245.12	–	(1,403,245.12)	–
Total	320,994,797.91	100	(49,598,881.78)	271,395,916.13	328,297,309.95	100	(69,557,405.87)	258,739,904.08

Changes in provision for bad debts for accounts receivable are stated as follows:

	31st December 2007	31 December 2006
Amount at beginning of year	69,557,405.87	58,942,446.00
Accrual amount of the year	3,465,206.89	10,614,959.87
Amount reversed during the year	(12,400,165.40)	–
Amount written off during the year	(11,023,565.58)	–
Amount at end of the year	49,598,881.78	69,557,405.87

Top five debt amounts are as follows:

Total amount of top 5 debt amounts	Ageing	% to total accounts receivable
		%
82,107,425.90	Within 1 year; within 1 – 2 years	26

Accounts receivable do not include receivables from shareholders holding 5% and above equity interest in the Company.

For amounts due from related parties included in the accounts receivable, please refer to note X.

Notes to the Financial Statements
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XVI. INTERPRETATIONS FOR MAJOR ITEMS OF PARENT COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

5. Prepayments

The aging of prepayments is stated as follows:

	31st December 2007 Amount *RMB*	Proportion *%*	31 December 2006 Amount *RMB*	Proportion *%*
Within one year	60,099,769.07	91	65,498,777.00	92
One to two years	911,052.89	1	124,283.00	–
Two to three years	9,803.00	–	4,941,327.94	7
Above three years	4,711,566.94	8	792,432.09	1
Total	65,732,191.90	100	71,356,820.03	100

Prepayments with an age above three years are principally the amounts for purchasing goods advanced to a subsidiary, Jingwei Textile Machinery Yuci Materials Company Limited by the Company. The Company intended to be committed to settle and recover the amounts recently.

Prepayments are disclosed as follows by categories of suppliers:

	31st December 2007 *RMB*	31 December 2006 *RMB*
Other insignificant items	65,732,191.90	71,356,820.03
Total	65,732,191.90	71,356,820.03

Items of prepayments that have not been made to shareholders with 5% and above shares.

6. Dividend receivable

	31st December 2007 *RMB*	31 December 2006 *RMB*
Within one year	3,658,115.36	16,910,146.85
One to two years	934,450.00	–
Total	4,592,565.36	16,910,146.85

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XVI. INTERPRETATIONS FOR MAJOR ITEMS OF PARENT COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

7. Other Receivables

The ageing of other receivables is provided as follows:

	31st December 2007				31 December 2006			
	Amount	Proportion	Provision for bad debt	Book value	Amount	Proportion	Provision for bad debt	Book value
	RMB	*%*	*RMB*	*RMB*	*RMB*	*%*	*RMB*	*RMB*
Within 1 year	235,171,142.34	86	(2,000,000.00)	233,171,142.34	80,872,458.80	60	–	80,872,458.80
1 to 2 years	13,427,351.17	5	(21,866.62)	13,405,484.55	33,853,323.00	25	–	33,853,323.00
2 to 3 years	11,288,399.53	4	(17,825.80)	11,270,573.73	4,332,507.00	3	–	4,332,507.00
Over 3 years	13,155,485.65	5	(877,343.58)	12,278,142.07	16,262,981.00	12	(846,749.17)	15,416,231.83
Total	273,042,378.69	100	(2,917,036.00)	270,125,342.69	135,321,269.80	100	(846,749.17)	134,474,520.63

Other receivables are disclosed as follows by category:

	31st December 2007				31 December 2006			
	Amount	Proportion	Provision for bad debt	Book value	Amount	Proportion	Provision for bad debt	Book value
	RMB	*%*	*RMB*	*RMB*	*RMB*	*%*	*RMB*	*RMB*
Items with significant single amount	–	–	–	–	14,802,733.99	11	–	14,802,733.99
Other insignificant items	272,165,035.11	100	(2,039,692.42)	270,125,342.69	119,794,354.81	89	(122,568.17)	119,671,786.64
Items with no significant single amount but carrying greater risks when rearranged with the characteristics of credit risk	877,343.58	–	(877,343.58)	–	724,181.00	–	(724,181.00)	–
Total	273,042,378.69	100	(2,917,036.00)	270,125,342.69	135,321,269.80	100	(846,749.17)	134,474,520.63

Changes in other provision for bad debts receivable are as follows:

	31st December 2007	31 December 2006
	RMB	*RMB*
Amount at beginning of the year	846,749.17	1,148,182.17
Accrual amount of the year	2,273,855.00	–
Amount reversed during the year	(203,568.17)	(301,433.00)
Amount at end of the year	2,917,036.00	846,749.17

Top 5 debt amounts are as follows:

Total amount of top 5 debt amounts	Ageing	% of other total receivables
		%
126,693,346.36	With 1 year and 1 to 2 years	46

Other receivables do not include receivables from shareholders holding 5% and above equity interest in the Company.

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XVI. INTERPRETATIONS FOR MAJOR ITEMS OF PARENT COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

8. Inventories

Category	**31 December 2006** *RMB*	**31st December 2007** *RMB*
Cost		
Raw materials	93,892,350.90	106,640,088.02
Unfinished products	169,519,773.38	132,568,498.49
Finished products	352,324,756.28	282,950,467.90
Less:Impairment	(32,844,262.87)	(15,669,820.85)
Total inventory	582,892,617.69	506,489,233.56

Changes of provision for obsolete stocks are as follows:

	Amount at beginning of the year *RMB*	**Accrual amount of the year** *RMB*	**Amount reversed during the year** *RMB*	**Amount at end of the year** *RMB*
Provision for obsolete stocks:				
Unfinished product	**4,500,000.00**	**9,000,000.00**	**–**	**13,500,000.00**
Finished products	**11,169,820.85**	**8,990,063.86**	**(815,621.84)**	**19,344,262.87**
Total	**15,669,820.85**	**17,990,063.86**	**(815,621.84)**	**32,844,262.87**

9. Entrusted loans

	31st December 2007 Book value *RMB*	**31 December 2006 Book value** *RMB*
To subsidiaries	73,000,000.00	–
To jointly controlled entities	67,000,000.00	53,000,000.00
To associates	–	28,000,000.00
To non-related parties	–	100,000,000.00
	140,000,000.00	181,000,000.00

There is no entrusted loan sold but not yet past due at the end of 2007 of 2006.

Entrusted loans are detailed as follows:

Borrowers	**Interest rate p.a.**	**Maturity date**	**Interest rate of current period** *RMB*	**Cumulative interest receivable or received** *RMB*	**Balance at the period end** *RMB*
Anhui Huamao Jingwei New Type Textile Company Limited	Interest rate for Bank loans decreases 10% during the corresponding period	1 September 2008	989,606.25	989,606.25	25,000,000.00
Anhui Huamao Jingwei New Type Textile Company Limited	5.913%	31 December 2008	210,360.50	210,360.50	14,000,000.00
Anhui Huamao Jingwei New Type Textile Company Limited	Interest rate for Bank loans decreases 10% during the corresponding period	13 February 2008	1,731,177.00	1,731,177.00	28,000,000.00
Beijing Bohong Property Development Company Limited	6.732%	5 March 2008	3,949,853.34	3,949,853.34	73,000,000.00
Total			6,880,997.09	6,880,997.09	140,000,000.00

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XVI. INTERPRETATIONS FOR MAJOR ITEMS OF PARENT COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

10. Long-term Equity Investment

(1) Long-term equity investments are detailed as follows:

Name of Investee	Initial Investment cost *RMB*	Cost at beginning of the year *RMB*	Newly added Investment during the period *RMB*	Equity adjustment during the period *RMB*	Cash dividends during the period *RMB*	Other decreases *RMB*	Cost at end of the year *RMB*
Equity method							
China Texma Tech Company Ltd	30,000,000.00	32,472,545.45	–	16,174,276.87	(2,278,713.80)	–	46,368,108.52
Hongda Research Institute Company	20,000,000.00	24,067,114.30	–	1,264,129.20	–	–	25,331,243.50
Anhui Huamao Jingwei New Type Textile Company Limited	25,000,000.00	11,753,261.84	–	976,960.07	–	–	12,730,221.91
Zhengzhou Hongda Non-woven Company Ltd	17,000,000.00	11,032,818.93	–	2,409,866.03	–	–	13,442,684.96
Shenzhen Jinghuachi S&R Investment Company Ltd	35,000,000.00	35,272,791.29	–	–	–	(35,272,791.29)	–
	127,000,000.00	114,598,531.81	–	20,825,232.17	(2,278,713.80)	(35,272,791.29)	97,872,258.89
Cost method							
Qingdao Hongda Textile Machinery Company Limited	44,100,000.00	96,341,388.00	–	–	–	–	96,341,388.00
Zhengzhou Hongda New Type Textile Machinery Compnay Limited	23,010,000.00	80,805,192.00	–	–	–	–	80,805,191.00
Shenyang Hongda Texma Company Limited	69,580,000.00	81,301,993.00	–	–	–	–	81,301,993.00
Tianjin Hongda Texma Company Limited	26,930,000.00	71,005,633.00	–	–	–	–	71,005,633.00
Changde Textile Machinery Company Limited	29,644,900.00	35,279,928.00	–	–	–	–	35,279,928.00
Beijing Jingwei Textile New Technology Company Limited	98,400,000.00	98,407,084.00	–	–	–	–	98,407,084.00
Tianjin Jingwei Textile Machinery Company Limited	12,000,000.00	12,000,000.00	–	–	–	–	12,000,000.00
Xianyang Jingwei Machinery Manufacturing Company Limited	57,468,693.00	61,469,929.00	–	–	–	–	61,469,929.00
Wuxi Hongda Textile Machinery Parts Company Limited	2,000,000.00	4,765,534.00	–	–	–	–	4,765,534.00
Wuxi Jingwei Textile S&T Test Company Limited	32,960,000.00	34,152,507.00	–	–	–	–	34,152,507.00
Shanxi Heli Jingwei Machinery Manufacturing Company Limited	30,000,000.00	39,288,285.00	–	–	–	–	39,288,285.00
Yichang Jingwei Textile Company Limited	15,000,000.00	15,000,000.00	–	–	–	–	15,000,000.00
Beijing Jingpeng Investment Management Company Limited	96,000,000.00	96,000,000.00	–	–	–	–	96,000,000.00
Jingwei Textile Machinery Yuci Materials Company Limited	4,960,000.00	5,000,000.00	–	–	–	–	5,000,000.00
Kunshan Jingwei Textile Machinery Manufacturing Company Limited	3,190,974.00	3,190,974.00	–	–	–	–	3,190,974.00
Shanghai Weixin Electronic& Mechanical Company Limited	14,400,000.00	14,400,000.00	–	–	–	–	14,400,000.00
Shanghai Chuangan Trade & Commerce Company Limited	1,800,000.00	1,800,000.00	–	–	–	–	1,800,000.00
Hong Kong Huaming Limited	4,966,416.00	62,559,880.00	–	–	–	–	62,559,880.00
Hongda Investment Company Limited	24,866,602.17	24,866,602.17	–	–	–	–	24,866,602.17
Jinzhong Jingwei Ring Manufacturing Company Limited	490,000.00	500,000.00	–	–	–	–	500,000.00
Taiyuan Jingwei Electric Appliance Company Limited	4,900,000.00	5,212,000.00	–	–	–	–	5,212,000.00
Shanghai Jingwei Dongxing Blooming–Carding Machinery Company Limited	36,974,000.00	36,974,000.00	–	–	–	–	36,974,000.00
	633,641,585.17	880,320,929.17	–	–	–	–	880,320,929.17
Total	760,641,585.17	994,919,460.98	–	20,825,232.17	(2,278,713.80)	(35,272,791.29)	978,193,188.06
Less: Provision for impairment		–					–
Net amount of long-term equity investment		994,919,460.98					978,193,188.06

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XVI. INTERPRETATIONS FOR MAJOR ITEMS OF PARENT COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

(2) List of jointly controlled entities and associates and their major financial information

Name of investee	Place of registration	Business Nature	Registered Capital	% of investee's registered capital %	% of voting rights in investee %	Year-end total assets of investee RMB	Year-end total liabilities of investee RMB	Investee's total operating income of the year RMB	Investee's net profit of the year RMB
Jointly controlled entities									
Anhui Huamao Jingwei New Type Textile Company Limited	Anhui	Production & sales (P&S) Textile products	50,000,000.00	25	25	410,473,686.74	359,554,311.97	241,133,138.78	3,854,489.95
Associates									
Hongda Research Institute Company Limited	Beijing	P&S Textile products	50,000,000.00	40	40	115,071,305.02	51,865,826.30	52,216,324.66	149,910.62
Zhengzhou Hongda Non-woven Company Ltd	Henan	P&S Textile products	40,000,000.00	23.74	23.74	70,239,365.14	13,617,815.53	79,448,343.71	15,884.35
China Texma Tech Company Ltd	Beijing	Export and import Texma	120,000,000.00	25	25	659,931,327.44	464,432,363.35	1,576,023,573.99	49,490,530.06

(3) There is no restriction on the ability of the investee in which the long-term equity investments are held by the Company as of 31st December 2007 to transfer capital to the Group.

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XVI. INTERPRETATIONS FOR MAJOR ITEMS OF PARENT COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

11. Fixed Assets

Changes in fixed assets during the year are provided as follows:

	Housing *RMB*	Machinery and equipment *RMB*	Transportation equipment *RMB*	Total *RMB*
Original value				
Amount at beginning of year	277,401,897.55	698,898,311.87	30,659,454.54	1,006,959,663.96
Purchase of the year	4,366,786.97	2,711,917.38	2,634,888.00	9,713,592.35
Transferred from construction in progress during the year	–	21,568,455.94	–	21,568,455.94
Decrease of the year	(1,193,961.17)	(5,362,550.92)	(2,586,546.45)	(9,143,058.54)
Amount at end of year	280,574,723.35	717,816,134.27	30,707,796.09	1,029,098,653.71
Accumulated depreciation				
Amount at beginning of year	(97,126,658.10)	(411,462,464.22)	(11,728,146.42)	(520,317,268.74)
Accrual amount of the year	(6,385,350.39)	(20,229,547.68)	(3,460,493.23)	(30,075,391.30)
Decrease of the year	1,011,299.37	4,967,482.36	1,640,237.46	7,619,019.19
Amount at end of year	(102,500,709.12)	(426,724,529.54)	(13,548,402.19)	(542,773,640.85)
Impairment allowance				
Amount at beginning of year	–	(30,453,392.62)	–	(30,453,392.62)
Increase of the year	–	–	–	–
Write-off of the year	–	23,098.27	–	23,098.27
Amount at end of year	–	(30,430,294.35)	–	(30,430,294.35)
Net amount				
Amount at beginning of year	180,275,239.45	256,982,455.03	18,931,308.12	456,189,002.60
Amount at end of year	178,074,014.23	260,661,310.38	17,159,393.90	455,894,718.51

As of 31st December 2007, housing in a net value of approximately RMB33,201,819.83 has not obtained property title certificate.

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XVI. INTERPRETATIONS FOR MAJOR ITEMS OF PARENT COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

12. Construction in Progress

	Cost at beginning of the year RMB	Increase in 2007 RMB	Transferred to fixed assets after completion this year RMB	Cost at end of the year RMB	Capital resources	Budget RMB	Input as % of budge %
Construction of Yuci's assembling plant	–	12,406,053.80	–	12,406,053.80	Proprietary fund	16,000,000.00	77.5
Machinery to be installed	13,356,305.20	19,114,638.26	(21,424,914.62)	11,046,028.84	Proprietary fund	40,000,000.00	81.2
Others	5,064.00	1,168,565.32	(143,541.32)	1,030,088.00	Proprietary fund		
Total	13,361,369.20	32,689,257.38	21,568,455.94	24,482,170.64			
Less:Provision for impairment	–			–			
Net value of construction in progress	13,361,369.20			24,482,170.64			

13. Construction materials

	31st December 2007 RMB	31 December 2006 RMB
Advances to large equipment	2,183,513.50	2,101,231.20

14. Intangible Assets

	Land use right RMB	Patent rights RMB	Software RMB	Total RMB
Original value				
Amount at beginning of the year	99,144,504.38	21,407,237.93	3,896,302.14	124,448,044.45
Increase of the year	–	6,390.00	2,467,252.14	2,473,642.14
Decrease of the year	–	–	(753,504.28)	(753,504.28)
Amount at end of the year	99,144,504.38	21,413,627.93	5,610,050.00	126,168,182.31
Accumulated amortization				
Amount at beginning of the year	(16,783,037.76)	(5,300,883.43)	(1,534,227.76)	(23,618,148.95)
Provision of the year	(2,202,338.96)	(10,723,371.18)	(1,052,444.85)	(13,978,154.99)
Decrease of the year	–	–	263,863.24	263,863.24
Amount at end of the year	(18,985,376.72)	(16,024,254.61)	(2,322,809.37)	(37,332,440.70)
Net amount				
Amount at beginning of the year	82,361,466.62	16,106,354.50	2,362,074.38	100,829,895.50
Amount at end of the year	80,159,127.66	5,389,373.32	3,287,240.63	88,835,741.61
Remaining amortization life	37.6 years to 43 years	6.3 years to 7.25 years	2 years to 4.83 years	

Research and development expenses

Research and development expenses represent expenses incurred by the Group's internal research and development projects. As the Group could not separate the expenses incurred during research and development, all the research and development expenses to be incurred are included in current profit and loss.

	Cumulative amount for the year RMB	Cumulative amount for previous year RMB
Research and development expenses	17,564,498.16	11,504,057.00

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XVI. INTERPRETATIONS FOR MAJOR ITEMS OF PARENT COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

15. Deferred income tax assets

	Deductible (assessable) temporary difference and deductible losses		Deferred income tax assets (liabilities)	
	31 December 2006	31st December 2007	31 December 2006	31st December 2007
	RMB	*RMB*	*RMB*	*RMB*
Withdrawn from provision for asset impairment	103,732,424.03	88,656,354.43	17,831,832.84	20,734,927.00
Bonus	18,700,000.00	–	2,805,000.00	–
Tradable financial assets	–	–	–	–
Changes in fair value	(1,945,000.00)	–	(291,750.00)	–
Others	3,930,000.00	–	589,500.00	–
Total	124,417,424.03	88,656,354.43	20,934,582.84	20,734,927.00

Deductible temporary differences and deductible losses that have not recognized deferred income tax assets are as follows:

	31st December 2007	31 December 2006
	RMB	*RMB*
Deductible losses	–	–
Deductible temporary differences	20,139,935.04	2,791,000.00
Total	20,139,935.04	2,791,000.00

16. Other non-current assets

	31st December 2007	31 December 2006
	RMB	*RMB*
Investment appropriation of subsidiaries	77,136,576.10	77,682,683.29

17. Provision for asset impairment

	31 December 2006	Provision for the year	Decrease of the year: Amount reversed during the year	Decrease of the year: Write-off amount of the year	31 December 2007
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Provision for bad debt	70,404,155.04	5,739,061.89	(12,603,733.57)	(11,023,565.58)	52,515,917.78
Provision for inventory obsolete stocks	15,669,820.85	17,990,063.86	(815,621.84)	–	32,844,262.87
Provision for fixed asset impairment	30,453,392.62	–	–	(23,098.27)	30,430,294.35
Total	116,527,368.51	23,729,125.75	(13,419,355.41)	(11,046,663.85)	115,790,475.00

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XVI. INTERPRETATIONS FOR MAJOR ITEMS OF PARENT COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

18. Short-term borrowings

Category	31st December 2007 *RMB*	31 December 2006 *RMB*
Credit loans	257,512,040.86	171,174,000.00
Notes facilities	51,875,000.00	174,575,191.00
Total	309,387,040.86	345,749,191.00

19. Notes payable

	31st December 2007 *RMB*	31 December 2006 *RMB*
Bank's acceptance bills	148,532,353.10	151,830,535.15
Commercial acceptance bills	2,006,197.75	6,711,255.65
Total	150,538,550.85	158,541,790.80

There are no payables to shareholders holding 5% and above equity interest with voting rights in the category of notes payable.

20. Accounts payable

There are no payables to shareholders holding 5% and above equity interest of the Company with voting rights in the category of accounts payable.

21. Advances from customers

Advances from shareholders holding 5% and above equity interest of the Company are as follows :

	31st December 2007 *RMB*	31 December 2006 *RMB*
CTMC	2,000,000.00	3,000,000.00

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XVI. INTERPRETATIONS FOR MAJOR ITEMS OF PARENT COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

22. Payroll-related payables

	31 December 2006 *RMB*	Provision of the year *RMB*	Payment of the year *RMB*	31st December 2007 *RMB*
Wage, bonus, subsidy and allowance	15,257,805.98	154,535,193.45	(143,410,264.44)	26,382,734.99
Employees' welfare	–	14,165,423.18	(13,707,582.39)	457,840.79
Social insurance	1,122,553.56	30,921,420.09	(31,087,989.69)	955,983.96
Including:Medical insurance	1,122,553.56	8,296,474.91	(8,926,474.91)	492,553.56
Basic pension insurance	–	19,099,702.61	(19,099,702.61)	–
Unemployment insurance	–	1,907,518.10	(1,596,578.42)	310,939.68
Work injury insurance	–	837,754.59	(685,263.87)	152,490.72
Birth insurance	–	779,969.88	(779,969.88)	–
Housing fund	1,958,842.43	3,031,996.76	(1,572,279.84)	3,418,559.35
Labor union and education fee	3,112,792.20	5,416,831.51	(4,080,639.15)	4,448,984.56
Others	1,910.68	156.87	–	2,067.55
Subtotal	21,453,904.85	208,071,021.86	(193,858,755.51)	35,666,171.20

23. Taxes payable

Tax category	31st December 2007 *RMB*	31 December 2006 *RMB*
Corporate income tax payable	4,847,932.55	2,278,000.00
Value added tax payable	(5,779,453.85)	22,443,520.32
Operating tax payable	35,426.69	23,012.61
Urban construction payable	(9,486,57)	882,602.06
Land use tax	210,053.87	262,587.55
Others	842,642.71	1,448,250.29
Total	147,115.40	27,337,972.83

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XVI. INTERPRETATIONS FOR MAJOR ITEMS OF PARENT COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

24. Dividends payable

Investor's Name	31st December 2007 *RMB*	31 December 2006 *RMB*
H-share shareholders	3,079.76	1,736.37
CTMC	15,651,200.00	11,000,000.00
	15,654,279.76	11,001,736.37

25. Other Payables

Payables to shareholders holding 5% and above equity interest of the Company are as follows:

	31st December 2007 *RMB*	31 December 2006 *RMB*
CTMC	792,029.68	792,029.68

26. Other current liabilities

	31st December 2007 *RMB*	31 December 2006 *RMB*
Accrued expenses	6,470,000.00	5,874,127.00
Total	6,470,000.00	5,874,127.00

27. Long-term loans

Category	31st December 2007 *RMB*	31 December 2006 *RMB*
Credit loans	55,000,000.00	5,000,000.00
Guaranteed loans	50,000,000.00	150,000,000.00
Total	105,000,000.00	155,000,000.00
Less: Long-term loans with maturity within one year	5,000,000.00	5,000,000.00
Long-term loans with maturity over one year	100,000,000.00	150,000,000.00

The interest rate for the above loans range from 5.670% – 6.732%.

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XVI. INTERPRETATIONS FOR MAJOR ITEMS OF PARENT COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

28. Long-term payables

	2007 *RMB*	**2006** *RMB*
Benefits for the early retired personnel	1,153,696.59	
Benefits for retired personnel	108,460,000.00	109,220,000.00
Total	109,613,696.59	109,220,000.00
Less: Long-term loans with maturity within one year	5,720,000.00	4,580,000.00
Long-term loans with maturity over one year	103,893,696.59	104,640,000.00

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XVI. INTERPRETATIONS FOR MAJOR ITEMS OF PARENT COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

29. Capital reserve

2007 and 2006

	31 December 2006 and 31st December 2007 *RMB*
Investor's injected capital premium	1,234,418,262.95
Difference resulting from consolidation under the same control	5,501,852.00
Total	1,239,920,114.95

30. Surplus reserve

	Statutory surplus reserve *RMB*	**Free surplus reserve** *RMB*	**Total** *RMB*
2006			
Balance at beginning of the year	193,307,271.80	100,000,000.00	293,307,271.80
Accrual of the year	5,182,974.30	50,000,000.00	55,182,974.30
Decrease of the year	–	–	
Balance at end of the year	198,490,246.10	150,000,000.00	348,490,246.10
2007			
Balance at beginning of the year	198,490,246.10	150,000,000.00	348,490,246.10
Accrual of the year	5,045,764.21	–	5,045,764.21
Decrease of the year	–	–	–
Balance at end of the year	203,536,010.31	150,000,000.00	353,536,010.31

Statutory reserves are used for the Company's losses, expand production and operation or convert capital.

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XVI. INTERPRETATIONS FOR MAJOR ITEMS OF PARENT COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

31. Unallocated profits

		2007 *RMB*	2006 *RMB*
Unallocated profit at beginning of year (see note 5 for the post-adjustment unallocated profit)		22,185,029.52	55,728,262.55
Add: Net profit of the year		50,457,645.80	51,829,741.27
Less: Accrual of statutory surplus reserve	Note (1)	(5,045,764.21)	(5,182,974.30)
Profit available for distribution to shareholders		67,596,911.11	102,375,029.52
Less: Accrual of free surplus reserve		–	(50,000,000.00)
Dividends payable – last year's/previous year's cash dividends approved at the general meeting	Note (2)	(48,304,000.00)	(30,190,000.00)
Unallocated profit at end of the year		19,292,911.11	22,185,029.52
Including: Cash dividend/profit decided to be allocated after the balance sheet date	Note (4)	6,038,000.00	48,304,000.00

Note (1) Accrual of statutory surplus reserve

As stated in the Articles of Association, statutory surplus reserve shall be accrued at 10% of net profit. Statutory corporate surplus reserve does not need to be accrued when its total amount exceeds 50% of the registered capital.

Note (2) Cash dividends approved at the Annual General Meeting

On the basis of 603,800,000 shares (RMB1 per share) in issue in 2006, a cash dividend of $0.8 (with tax) for every 10 shares was distributed to all shareholders and the total amount of dividends paid was RMB48,304,000.00.

Note (3) Cash dividends resolved to be distributed after the balance sheet date

Pursuant to the resolution approved by the Board on 22 April 2008, on the basis of 603,800,000 shares in issue, a cash dividend of $0.1 (with tax) for every 10 shares was proposed to all shareholders for the year 2007 and the total amount of dividends paid would be RMB6,038,000.00.

32. Operating Income

	Current year cumulative amount *RMB*	Previous year cumulative amount *RMB*
Principal activities	3,016,592,557.66	3,073,735,710.10
Other activities	485,781,853.76	588,105,647.78
Operating leases	1,396,334.00	603,375.00
Sales of raw materials and accessories	458,876,733.24	236,645,568.80
Others	25,508,786.52	350,856,703.98
Total	3,502,374,411.42	3,661,841,357.88

Total revenue of the top five clients amounted to RMB846,375,329.12 (last year: RMB 797,074,856.00), representing 24.2% (last year: 22%) of the total operating income.

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XVI. INTERPRETATIONS FOR MAJOR ITEMS OF PARENT COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

33. Operating cost

	Current year cumulative amount *RMB*	Previous year cumulative amount *RMB*
Principal activities	2,817,422,764.07	2,814,736,914.48
Other activities	481,319,076.55	568,675,879.40
Operating leases	508,782.76	159,000.00
Sales of raw materials and accessories	465,803,766.85	227,229,110.09
Others	15,006,526.94	341,287,769.31
	3,298,741,840.62	3,383,412,793.88

34. Business tax and surcharge

Tax category	Current year cumulative amount *RMB*	Previous year cumulative amount *RMB*
Business tax	430,887.98	–
Urban construction maintenance expense	1,810,262.12	3,675,569.36
Education surcharge	196,114.76	186,834.41
Total	2,437,264.86	3,862,403.77

35. Financial cost

	Current year cumulative amount *RMB*	Previous year cumulative amount *RMB*
Interest expense	26,789,019.76	13,755,732.16
Less: interest income	(15,703,286.03)	(16,952,147.03)
Exchange differences	(9,773,383.26)	(5,382,411.55)
Expenses for financial institutions' proceedings	1,070,507.08	319,557.00
Total	2,382,857.55	(8,259,269.42)

36. Asset impairment loss

	Current year cumulative amount *RMB*	Previous year cumulative amount *RMB*
Bad debt loss	(6,864,671.69)	10,313,526.87
Losses from obsolete stocks	17,174,442.02	3,051,758.82
Total	10,309,770.33	13,365,285.69

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XVI. INTERPRETATIONS FOR MAJOR ITEMS OF PARENT COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

37. Gain on changes in fair value

	Current year cumulative amount *RMB*	Previous year cumulative amount *RMB*
Tradable financial assets	1,945,000.00	–

38. Gain on investments

	Current year cumulative amount *RMB*	Previous year cumulative amount *RMB*
Gain on long-term equity investments	50,092,882.17	17,463,271.00
Including: Profit recognized under cost method and announced by investee to be distributed	29,267,650.00	18,509,918.00
Gain/loss recognized under equity method	20,825,232.17	(1,046,647.00)
Gain on entrusted loan interest investments	13,485,367.64	4,230,589.00
Gain on tradable financial assets	58,359,940.90	12,549,880.65
Gain on other investments	27,207.24	1,957,546.05
Total	121,965,397.95	36,201,286.70

There are no major restrictions on the remittance of investment earnings of the Company.

39. Non-operating income

	Current year cumulative amount *RMB*	Previous year cumulative amount *RMB*
Income from disposal of fixed assets	1,176,997.29	734,045.84
Amercement income	122,359.70	7,460.00
Government grant	1,750,000.00	–
Others	680,398.71	310,110.00
Total	3,729,755.70	1,051,615.84

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XVI. INTERPRETATIONS FOR MAJOR ITEMS OF PARENT COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

40. Non-operating expense

	Current year cumulative amount *RMB*	Previous Cumulative amount *RMB*
Expense from disposal of fixed assets	385,920.92	1,406,600.33
Amercement expense	1,725.33	16,983.58
Others	15,640.59	23,007.22
Total	403,286.84	1,446,591.13

41. Income tax

	Current year cumulative amount *RMB*	Previous year cumulative amount *RMB*
Current income tax expenses	10,570,669.85	5,630,922.64
Deferred income tax expenses	(199,655.84)	(4,200,012.68)
	10,371,014.01	1,430,909.96

Income tax expenses and accounting profits are adjusted as follows:

	Current year cumulative amount *RMB*	Previous year cumulative amount *RMB*
Accounting profit/loss	60,828,659.81	53,260,651.23
Income tax expenses calculated at 15% tax rate (15% in 2006)	9,124,298.97	7,989,097.68
Tax effect from nondeductible expenses	2,765,088.15	2,811,344.67
Tax effect from unrecognized deductible losses and deductible temporary differences	4,905,146.52	–
Additional deduction on research and development expenses	(645,005.46)	(1,902,294.35)
Additional deduction on purchase of domestically produced equipment	(983,514.66)	(3,529,069.20)
Tax effect from revenue expenses not subject to taxation	(5,331,462.05)	(3,946,887.08)
Changes on balance of deferred income tax assets/liabilities at the beginning of the period at a result of tax rate adjustment		
Effect from inconsistency between tax rates of subsidiaries (branches) in other regions	536,462.54	8,718.24
Income tax expenses	10,371,014.01	1,430,909.96

42. Government grant

	Current year accumulative amount *RMB*	Previous year accumulative amount *RMB*
Earnings-related government grant and textile industry special fund from the Ministry of Finance	1,750,000.00	–
Total	1,750,000.00	–
Government grants included in current profit and loss	1,750,000.00	–

Notes to the Financial Statements
For the year ended 31st December 2007

(Prepared in accordance with the PRC Accounting Standards and Systems)
(All amounts are stated in Rmb Yuan unless otherwise stated)

XVI. INTERPRETATIONS FOR MAJOR ITEMS OF PARENT COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

43. Cash and cash equivalents

	31st December 2007 *RMB*	31 December, 2006 *RMB*
Cash	345,952,877.32	561,793,451.96
Including: Inventory cash	497,552.77	366,476.54
Bank deposit used for payment at any time	345,436,559.46	560,873,974.81
Other currency capital used for payment at any time	18,765.09	553,000.61
Balance of cash and cash equivalents	345,952,877.32	561,793,451.96

44. Supplementary information for cash flow statement

	Current year accumulative amount *RMB*	Previous year accumulative amount *RMB*
Reconciliation of net profit to cash flow from operating activities		
Net profit	50,457,645.80	51,829,741.27
Add: Provision for assets impairment	10,309,770.34	13,365,285.69
Fixed assets depreciation	30,075,391.30	14,381,314.00
Intangible assets amortization	13,978,154.99	41,360,027.00
Amortization of long-term deferred expenses	–	5,346,844.00
Expenses to be amortized (decrease) increase	–	149,200.00
Accrued expenses increase	–	1,376,061.00
Losses resulting from disposal of fixed assets, intangible assets or other long-term assets	(791,076.37)	672,554.49
Loss resulting from changes in fair value (less gain)	(1,945,000.00)	–
Financial costs	17,015,636.50	5,023,715.02
Investment losses (less gain)	(121,965,397.95)	(36,201,286.70)
Decrease in deferred income tax assets (less increase)	(199,655.84)	(4,200,012.68)
Inventory decrease	(93,577,826.15)	95,268,333.00
Decrease in operating receivables (less increase)	76,556,271.89	122,439,397.19
Increase in operating payables (less decrease)	10,082,827.59	(226,148,046.32)
Net cash flow from operating activities	(10,003,257.90)	84,663,126.96
Net changes of cash and cash equivalents		
Balance at end of the year	345,952,877.32	561,793,451.96
Less: Balance of cash at beginning of the year	561,793,451.96	535,405,670.00
Add: Balance of cash equivalents at end of the year	–	–
Less: Balance of cash equivalents at beginning of the year	–	–
Net increase of cash and cash equivalents	(215,840,574.64)	26,387,781.96

Notes to the Financial Statements
For the year ended 31st December 2007

(Prepared in accordance with the PRC Accounting Standards and Systems)
(All amounts are stated in Rmb Yuan unless otherwise stated)

XVI. INTERPRETATIONS FOR MAJOR ITEMS OF PARENT COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

45. Cash flow related to other operating activities

	Current year cumulative amount *RMB*	Previous year cumulative amount *RMB*
Cash received from other operating activities		
Interest income	10,117,625.07	24,890,043.11
Government grant	1,750,000.00	–
Amercement income	122,359.70	7,460.00
Others	680,398.71	17,452,635.85
Subtotal	12,670,383.48	42,350,138.96
Cash paid to other operating activities		
Travel expense	12,880,883.95	13,551,437.65
R&D Fee	12,540,534.73	6,529,056.69
Office allowance	10,642,536.90	8,021,380.26
Transportation	9,616,098.22	11,749,329.56
Business	8,726,758.09	7,925,382.27
Water, electricity and heat	6,448,471.79	5,265,716.29
Business Entertainment	4,202,887.51	3,170,197.45
Rent	3,469,953.24	3,252,017.20
Exhibit	3,425,617.48	6,768,883.41
Professional service	3,417,949.34	7,172,046.27
Labour	3,054,415.94	6,558,401.31
Green project and fire-fighting	2,765,898.00	1,883,646.50
Storage and warehouse management	2,212,592.19	1,891,368.50
Ads and publicity	1,719,046.87	1,800,939.21
Others	4,503,616.49	1,002,103.83
Subtotal	89,627,260.74	86,541,906.40

46. Cash flow related to other investing activities

	Current year cumulative amount *RMB*	Previous year cumulative amount *RMB*
Cash paid for other financing activities		
Acceptance bill discount interest	1,378,282.49	–
Subtotal	1,378,282.49	–

Notes to the Financial Statements
For the year ended 31st December 2007

(Prepared in accordance with the PRC Accounting Standards and Systems)
(All amounts are stated in Rmb Yuan unless otherwise stated)

XVII. APPROVAL OF THE FINANCIAL STATEMENTS

The corporate and consolidated financial statements of the Company were approved by the Board of Directors of the Company on 22 April 2008.

Chapter XII Supplementary Information
For the year ended 31st December 2006

(Prepared in accordance with the PRC Accounting Standards and Systems)
(All amounts are stated in Rmb'000 Yuan unless otherwise stated)

1. DIFFERENCES BETWEEN FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AND FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH RELEVANT ACCOUNTING STANDARDS IN THE PRC

This adjustment table for the differences between the financial statements prepared domestically and overseas was prepared by Jingwei Textile Machinery Company Limited in accordance with the relevant requirements of the "Compilation Rules for Information Disclosures by Companies that Offer Securities to the Public (No. 15) – General Requirements for Financial Reports" (as amended in 2007) issued by the China Securities Regulatory Commission. There is no material difference in net profit and net assets presented in the financial statements prepared by the Group in accordance with Accounting Standards for China Enterprises and International Financial Reporting Standards.

2. FULLY DILUTED AND WEIGHTED AVERAGE RATE OF RETURN ON NET ASSETS AND EARNINGS PER SHARE

This rate of return on net assets table was prepared by Jingwei Textile Machinery Company Limited (hereinafter referred to as "Jingwei Company") in accordance with the relevant requirements of the "Compilation Rules for Information Disclosures by Companies that Offer Securities to the Public (No. 09) – Calculations and disclosures for the rate of return on net assets and earnings per share" (as amended in 2007) issued by the China Securities Regulatory Commission.

	Profit during the reporting period	Calculated in accordance with the net profit attributable to holders of the Company's ordinary shares	Calculated in accordance with the net profit attributable to holders of the Company's ordinary shares, net of non-recurring profit and loss
Rate of return on net assets	Fully diluted	5.74%	4.13%
	Weighted average	5.87%	4.23%
Earnings per share	Fully diluted	0.27	0.19
	Weighted average	0.27	0.19

3. ANALYSIS ON CHANGES OF ITEMS IN THE FINANCIAL STATEMENTS

The following analysis on changes of items in the financial statements was prepared by Jingwei Textile Machinery Company Limited (hereinafter referred to as "Jingwei Company") in accordance with the relevant requirements of the "Compilation Rules for Information Disclosures by Companies that Offer Securities to the Public (No. 15) –General Requirements for Financial Reports" (as amended in 2007) issued by the China Securities Regulatory Commission.

Items in financial statements	Consolidated Year 2007	Consolidated Year 2006	Range of change	Reason accounted for the difference
	RMB	*RMB*	*%*	
Tradable financial assets	4,945	8,886	(44)	Note (1)
Other receivables	71,219	41,355	72	Note (2)
Inventories	2,000,726	1,320,920	51	Note (3)
Entrusted loans	67,000	181,000	(63)	Note (4)
Construction in progress	66,265	39,930	66	Note (5)
Taxes payable	7,136	23,604	(66)	Note (6)
Dividends payable	26,680	19,177	39	Note (7)
Other current liabilities	6,470	19,065	(66)	Note (8)
Other non-current liabilities	20,180	10,315	96	Note (9)
Minority interests	230,098	161,375	43	Note (10)
Financial costs	22,035	5,501	75	Note (11)
Gain on investments	117,486	15,099	678	Note (12)
Non-operating income	19,541	14,644	33	Note (13)

3. ANALYSIS ON CHANGES OF ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

Note (1): Tradable financial assets mainly calculated investments in shares. The amount at the end of the current period saw a decrease over the end of last period. Such decrease was mainly attributable to the decrease in investments in shares at the end of the current period compared to the end of last period.

Note (2): Other receivables mainly calculated capital flow between connect parties, pre-paid value-added tax and staff borrowing reserve. The increase of the current period was mainly due to the increase of value-added tax.

Note (3): Inventories mainly calculated raw materials for production, goods in process, finished goods and real estate development cost. The increase of the current period over the previous period was mainly due to the acquisition of the subsidiary Beijing Bohong Real Estates Development Company Ltd. during the current period by the Company, which led to the increase in real estate development cost.

Note (4): Entrusted loans mainly calculated entrusted loans to jointly controlled entities and associates. The decrease of the current period over the previous period was mainly due to the collection of part of the entrusted loans.

Note (5): Construction in progress mainly calculated uncompleted constructions and incomplete installation of machinery and equipment. The increase of the current period over the previous period was mainly due to the injection of outstanding amount for the construction that was needed for the expansion of the Company.

Note (6): Taxes payable mainly calculated payable value-added tax, business tax, income tax, etc. The decrease of the current period over the previous period was mainly due to the increase of inventory of the current period over the previous period and the import tax increased correspondingly.

Note (7): Dividends payable mainly calculated the dividends payable to the shareholders at the end of the period. The increase of the current period over the previous period was mainly due to the acquisition of Beijing Bohong Real Estate Development Co., Ltd. and the dividends to be paid to minority shareholders.

Note (8): Other current liabilities mainly calculated provisions for various expenses. The decrease of the current period over the previous period was mainly due to the fact that the Company had transferred relevant determined expenses to the other payables.

Note (9): Deferred tax income mainly calculated various government grants. The increase of the current period over the previous period was mainly due to the fact that the Company had received textile industry special fund and local support funds.

Note (10): Minority interest mainly calculated the net asset of the Company attributable to minority shareholders. The increase of the current period over the previous period was mainly due to the acquisition of the subsidiary Beijing Bohong Real Estate Development Co., Ltd. and hence the recognition of the interest of its minority shareholders.

Note (11): Financial costs mainly calculated interest income, discounted interest of bills, gain and loss on translation and bank fees. The increase of the current period over the previous period was mainly due to the fact that the Company had enhanced bill financing and hence bore a higher discount rate, and because of the increase in interest expense as a result of upward adjustment in bank loan rate.

Note (12): Gain on investments mainly calculated gain on investments made by associates, and made from tradable financial assets as well as interest income from entrusted loans. The increase of the current period over the previous period was mainly due to the increase in income from equity transactions obtained by the Company and the increase in income from investments in associates.

Note (13): Non-operating income mainly calculated supplemental income and income from disposal of assets. The increase of the current period over the previous period was mainly due to the fact that the Company had received textile industry special fund and other local support funds.

The supplemental information provided by the management is endorsed by the following responsible persons from Jingwei Textile Machinery Company Limited:

Responsible Person of the enterprise:

Person responsible for the supervision of accounting work:

Responsible Person of the accounting organization:

22 April 2008

Chapter XIII Report of the Independent Auditor – Hong Kong

TO THE MEMBERS OF JINGWEI TEXTILE MACHINERY COMPANY LIMITED
(incorporated in People's Republic of China with limited liability)

We have audited the consolidated financial statements of Jingwei Textile Machinery Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 165 to 213, which comprise the consolidated balance sheet as at 31st December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of the affairs of the Group as at 31st December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
22nd April 2008

Chapter XIV Accounts Prepared in Accordance with Hong Kong Financial Reporting Standards

Consolidated Income Statement
For the year ended 31st December 2007

	Notes	2007 *RMB'000*	2006 *RMB'000* (Restated)
Turnover	8	5,370,325	5,523,945
Cost of sales		(4,676,136)	(4,698,376)
Gross profit		694,189	825,569
Other income	10	96,503	53,545
Gain on fair value changes of held-for-trading investments		65,323	18,421
Distribution expenses		(147,676)	(141,451)
Administrative expenses		(484,009)	(489,605)
Finance costs	11	(43,794)	(34,805)
Share of results of jointly controlled entities		1,938	(837)
Share of results of associates		19,645	(297)
Profit before taxation	12	202,119	230,540
Taxation	13	(26,513)	(23,574)
Profit for the year		175,606	206,966
Attributable to			
Equity holders of the Company		162,206	189,095
Minority interests		13,400	17,871
		175,606	206,966
Dividends	15	48,304	30,190
Earnings per share			
– Basic	16	RMB0.27	RMB0.31

Consolidated Balance Sheet
At 31st December 2007

	Notes	2007 *RMB'000*	2006 *RMB'000* (Restated)
Non-current assets			
Property, plant and equipment	17	1,255,400	1,194,263
Prepaid lease payments	18	262,518	234,321
Intangible assets	19	12,446	24,517
Interests in associates	20	86,983	127,092
Interests in jointly controlled entities	21	25,445	26,840
Available-for-sale investments	22	45,931	39,611
Deferred tax assets	23	35,731	33,919
		1,724,454	1,680,563
Current assets			
Inventories	24	1,521,121	1,320,920
Properties under development for sale	25	479,605	–
Loan receivable	26	–	100,000
Trade and other receivables	27	1,670,243	1,968,097
Prepaid lease payments	18	5,975	5,131
Amounts due from holding companies	28	791	–
Amounts due from fellow subsidiaries	28	174,585	204,398
Amounts due from associates	28	49,451	99,052
Amounts due from jointly controlled entities	28	112,348	120,390
Held-for-trading investments	29	4,945	8,886
Pledged bank balances	30	6,831	7,891
Bank balances and cash	30	637,468	895,709
		4,663,363	4,730,474
Current liabilities			
Trade and other payables	31	2,321,792	2,496,961
Amounts due to holding companies	28	78,549	46,015
Amounts due to fellow subsidiaries	28	103,398	140,358
Amounts due to associates	28	3,233	10,691
Amounts due to jointly controlled entities	28	–	556
Taxation payable		7,687	2,764
Borrowings – amount due within one year	32	497,161	485,019
		3,011,820	3,182,364
Net current assets		1,651,543	1,548,110
Total assets less current liabilities		3,375,997	3,228,673
Non-current liabilities			
Borrowings – amount due after one year	32	150,000	200,000
Deferred tax liabilities	23	–	1,237
Other non-current liabilities	33	167,983	151,675
		317,983	352,912
		3,058,014	2,875,761
Capital and reserves			
Share capital	34	603,800	603,800
Reserves		2,224,115	2,110,586
Equity attributable to equity holders of the Company		2,827,915	2,714,386
Minority interests		230,099	161,375
		3,058,014	2,875,761

The financial statements on pages 165 to 213 were approved by the Board of Directors on 22nd April 2008 and are signed on its behalf by:

Ye Maoxin
Director

Yao Yuming
Director

Consolidated Statement of Changes in Equity
For the year ended 31st December 2007

	Attributable to equity holders of the Company									
	Share capital RMB'000	Share premium RMB'000	Statutory surplus reserve RMB'000 (note 35a)	Statutory public welfare reserve RMB'000 (note 35b)	Discretionary surplus RMB'000 (note 35c)	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1st January 2006 – as original stated	603,800	1,249,865	159,075	159,075	127,764	(95)	394,112	2,693,596	175,473	2,869,069
Prior year adjustments (note 3)	–	–	(13,609)	–	–	–	(122,484)	(136,093)	(15,737)	(151,830)
As restated	603,800	1,249,865	145,466	159,075	127,764	(95)	271,628	2,557,503	159,736	2,717,239
Exchange differences arising on translation of foreign operations and net expense recognised directly in equity	–	–	–	–	–	(2,022)	–	(2,022)	–	(2,022)
Profit for the year	–	–	–	–	–	–	189,095	189,095	17,871	206,966
Total recognised income and expense for the year	–	–	–	–	–	(2,022)	189,095	187,073	17,871	204,944
Transfers	–	–	195,792	(159,075)	50,000	–	(86,717)	–	–	–
Arising on acquisition of subsidiaries	–	–	–	–	–	–	–	–	31,705	31,705
Contribution from minority shareholders	–	–	–	–	–	–	–	–	477	477
Reduction in minority interests on acquisition of additional interests in a subsidiary	–	–	–	–	–	–	–	–	(15,254)	(15,254)
Released on disposal of a subsidiary	–	–	–	–	–	–	–	–	(21,193)	(21,193)
Dividends paid to minority interests	–	–	–	–	–	–	–	–	(11,967)	(11,967)
Dividends paid	–	–	–	–	–	–	(30,190)	(30,190)	–	(30,190)
At 31st December 2006 – as restated	603,800	1,249,865	341,258	–	177,764	(2,117)	343,816	2,714,386	161,375	2,875,761
Reclassification (Note)	–	–	4,801	–	–	–	(4,801)	–	–	–
At 1st January 2007 – as restated	603,800	1,249,865	346,059	–	177,764	(2,117)	339,015	2,714,386	161,375	2,875,761
Exchange differences arising on translation of foreign operations and net expense recognised directly in equity	–	–	–	–	–	(373)	–	(373)	–	(373)
Profit for the year	–	–	–	–	–	–	162,206	162,206	13,400	175,606
Total recognised income and expense for the year	–	–	–	–	–	(373)	162,206	161,833	13,400	175,233
Transfers	–	–	23,756	–	–	–	(23,756)	–	–	–
Arising on acquisition of subsidiaries	–	–	–	–	–	–	–	–	57,179	57,179
Dividends paid to minority interests	–	–	–	–	–	–	–	–	(1,855)	(1,855)
Dividends paid	–	–	–	–	–	–	(48,304)	(48,304)	–	(48,304)
At 31st December 2007	603,800	1,249,865	369,815	–	177,764	(2,490)	429,161	2,827,915	230,099	3,058,014

Note: According to the Articles of Association of the Company, 10% of profit after taxation reported under PRC GAAP is required to be transferred to statutory surplus reserve until the statutory surplus reserve reaches 50% of the registered capital of the Group. During the year, the Group has adopted the new accounting standards issued by the Ministry of Finance of People's Republic of China on 15th February 2006 for its PRC statutory financial statements which resulted in certain changes in accounting policies adopted in its PRC statutory financial statements. Such changes in accounting policies resulted in changes to the Group's retained profits under PRC statutory financial statements and hence additional appropriation to the statutory surplus reserve had been made accordingly.

Consolidated Cash Flow Statement
For the year ended 31st December 2007

	2007 *RMB'000*	2006 *RMB'000* (Restated)
Operating activities		
Profit before taxation	202,119	230,540
Adjustments for:		
Depreciation of property, plant and equipment	100,162	99,429
Gain on disposal of property, plant and equipment	(197)	(1,221)
Amortisation of intangible assets	2,755	4,744
Amortisation of prepaid lease payments	6,558	5,131
Interest income	(23,345)	(29,250)
Interest expenses	43,794	34,805
Gain on disposal of associates	(15,852)	–
(Write back of allowance) allowance for doubtful debts	(13,749)	10,271
Share of results of associates	(19,645)	297
Share of results of jointly controlled entities	(1,938)	837
Dividends income from available-for-sale investments	(7,210)	–
Allowance for obsolete inventories	20,076	4,157
Impairment loss recognised in respect of intangible assets	9,974	–
Loss on disposal of available-for-sale investments	72	–
Loss on disposal of intangible assets	8	–
Discount on acquisition arising from acquisitions of a subsidiary	–	(2,136)
Discount on acquisition arising from acquisition of additional interests in a subsidiary	–	(3,206)
Operating cash flows before movements in working capital	303,582	354,398
(Increase) decrease in inventories	(220,015)	177,054
Increase in properties under development for sale	(103,661)	–
Decrease (increase) in trade and other receivables	316,277	(704,997)
Increase in amounts due from holding companies	(791)	–
(Increase) decrease in amounts due from fellow subsidiaries	(4,757)	12,810
Decrease in amounts due from associates	23,637	–
Decrease (increase) in amounts due from jointly controlled entities	22,042	(59,941)
Decrease (increase) in held-for-trading investments	3,941	(27,307)
(Decrease) increase in trade and other payables	(321,439)	294,551
Increase in amounts due to fellow subsidiaries	14,055	21,239
Increase in amounts due to associates	360	–
Decrease in amounts due to jointly controlled entities	(500)	–
Increase in retirement benefit obligations	5,953	–
Increase in deferred income and others	10,765	–
Cash generated from operations	49,449	67,807
PRC Enterprise Income Tax paid	(24,639)	(30,969)
Net cash from operating activities	24,810	36,838

Consolidated Cash Flow Statement (continued)
For the year ended 31st December 2007

	Notes	2007 *RMB'000*	2006 *RMB'000* (Restated)
Investing activities			
Repayments of loan receivable		100,000	300,000
Proceeds from disposal of associates		66,374	–
Decrease in amounts due from related parties		46,534	–
Interest received		23,345	27,114
Proceeds from disposal of property, plant and equipment		10,291	18,242
Dividends received from available-for-sale investments		7,210	–
Dividend received from an associate		2,279	–
Decrease (increase) in pledged bank balances		1,060	(3,235)
Proceeds on disposal of available-for-sale investments		561	–
Proceeds on disposal of intangible assets		482	–
Purchase of property, plant and equipment		(169,013)	(117,278)
Acquisition of subsidiaries	36	(59,089)	912
Additions of prepaid lease payments		(35,599)	(29,037)
(Increase) decrease in time deposits with maturity more than three months		(17,372)	4,095
Purchase of intangible assets		(1,108)	(13,069)
Repayments of other loan from third parties		–	456,657
Repayments of loan from associate		–	118,464
Proceeds from disposal of a subsidiary	37	–	12,957
Increase in loan receivable		–	(400,000)
Other loans granted to third parties		–	(239,448)
Loans granted to associate		–	(156,584)
Acquisition of additional interests in a subsidiary		–	(12,048)
Purchase of available-for-sale investments		–	(2,867)
Net cash used in investing activities		(24,045)	(35,125)
Financing activities			
New bank loans raised		256,338	503,692
Repayments of bank loan		(402,196)	(442,351)
Interest paid		(53,633)	(38,746)
Dividends paid		(43,653)	(11,909)
Decrease in amounts due to related parties		(31,006)	–
Dividends paid to minority shareholders		(1,855)	(11,968)
Loans from third parties		–	238,745
Loans from related parties		–	19,755
Capital contribution from minority shareholders		–	477
Repayments of loan from third parties		–	(145,077)
Repayments of loan from related parties		–	(7,893)
Net cash (used in) from financing activities		(276,005)	104,725
Net (decrease) increase in cash and cash equivalents		(275,240)	106,438
Cash and cash equivalents at beginning of the year		893,804	789,388
Effect of foreign exchange rate changes		(373)	(2,022)
Cash and cash equivalents at end of the year		618,191	893,804
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		637,468	895,709
Time deposits with maturity more than 3 months		(19,277)	(1,905)
		618,191	893,804

Notes to the Consolidated Financial Statements
For the year ended 31st December 2007

1. GENERAL

The Company is a public limited company incorporated in the People's Republic of China (the "PRC") with its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Shenzhen Stock Exchange. Its immediate substantial shareholder is China Textile Machinery (Group) Company Limited ("CTMC"), a company established in the PRC which holds 33.83% of the equity interest in the Company with controlling interest. The remaining 66.17% of the Company's shares are widely held. The directors regard the Company's parent company is CTMC and the Company's ultimate holding company is China Hengtain Group Company ("China Hengtain"). China Hengtain is a state-owned enterprise established in the PRC. The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information section of the annual report.

These consolidated financial statements are presented in Renminbi ("RMB") which is also the functional currency of the Company.

The Company and its subsidiaries (the "Group") are principally engaged in manufacturing and sales of textile machinery mainly in the PRC. The registered address of the Company is 8 Yongchangzhong Road, Beijing Economic & Technological Development Zone, Beijing, the PRC.

In the current year, the deferred income in respect of government grant received in relation to the lease payment of land of RMB10,315,000 are classified as other non-current liabilities as such grant relates to long term assets and would be recognised as income over the useful lives of the long term assets. The comparative figures in the consolidated balance sheet have been reclassified from current liabilities to conform to current year's presentation.

In addition, revenue from sales of materials, parts and components of RMB564,286,000 (2006: RMB935,182,000) which was previously included in other income has been reclassified as turnover. The related cost of sales of materials, parts and components amounting to RMB553,897,000 (2006: RMB890,012,000), which was previously treated as deduction of other income, has been reclassified as cost of sales. The directors consider sales of materials, parts and components as one of the Group's principal revenue-generating activities undertaken in the course of its ordinary activities and therefore the reclassification to turnover and cost of sales more appropriately reflect the nature of this activity.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), amendment to Hong Kong Accounting Standards ("HKAS") and Interpretations ("HK(IFRIC)-INT") (hereinafter collectively referred to as "new HKFRSs"), issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1st January 2007. The application of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

HKAS 1 (Amendment)	Capital disclosures
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC)-INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-INT 8	Scope of HKFRS 2
HK(IFRIC)-INT 9	Reassessment of embedded derivatives
HK(IFRIC)-INT 10	Interim financial reporting and impairment

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of financial statements [1]
HKAS 23 (Revised)	Borrowing costs [1]
HKAS 27 (Revised)	Consolidated and separate financial statements [2]
HKFRS 2 (Amendment)	Vesting conditions and cancellations [1]
HKFRS 3 (Revised)	Business combinations [2]
HKFRS 8	Operating segments [1]
HK(IFRIC)-INT 11	HKFRS 2: Group and treasury share transactions [3]
HK(IFRIC)-INT 12	Service concession arrangements [4]
HK(IFRIC)-INT 13	Customer loyalty programmes [5]
HK(IFRIC)-INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction [4]

[1] Effective for annual periods beginning on or after 1st January 2009.
[2] Effective for annual periods beginning on or after 1st July 2009.
[3] Effective for annual periods beginning on or after 1st March 2007.
[4] Effective for annual periods beginning on or after 1st January 2008.
[5] Effective for annual periods beginning on or after 1st July 2008.

Notes to the Consolidated Financial Statements
For the year ended 31st December 2007

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

3. CHANGES IN ACCOUNTING POLICY AND PRIOR YEAR ADJUSTMENT

In the current year, the Group has changed the accounting policy in relation to interests in jointly controlled entities and has made prior period adjustments in relation to the understatement of post-retirement supplemental benefits in prior periods.

(a) Prior to 1st January 2007, the Group recognised its interests in jointly controlled entities using proportionate consolidation. The Group's share of each of the assets, liabilities, income and expenses of the jointly controlled entities were combined with the Group's similar line items, line by line, in the consolidated financial statements.

In the current year, the Group has changed to use the equity method to account for its interests in the jointly controlled entities for consistency of presentation with its statutory consolidated financial statements prepared under PRC accounting standards. The Directors are of the view that equity method whereby the Group's share of results is included in the consolidated income statement and the Group's share of net assets is included in the consolidated balance sheet fairly reflects the substance and economic reality of the arrangement for the jointly controlled entity and therefore the financial performance and position of the Group. Under the equity method, the Group's interests in jointly controlled entities in the consolidated balance sheet are carried at cost as adjusted for post-acquisition changes in the Group's share of the net assets, less any identified impairment losses.

The change in the accounting policy described above has been applied retrospectively by adjusting the opening balances of components of equity affected and restating the other comparative amounts disclosed for 2006 as if the new accounting policy had always been applied. The amounts of the adjustments to each line item in consolidated income statement affected are as follows:

	2007 *RMB'000*	**2006** *RMB'000*
Decrease in turnover	(120,567)	(20,559)
Decrease in cost of sales	108,007	16,161
Decrease in other income	(451)	–
Decrease in distribution expenses	780	392
Decrease in administrative expenses	2,036	2,661
Decrease in finance costs	8,257	2,182
Increase (decrease) in share of results of jointly controlled entities	1,938	(837)
	–	–

Notes to the Consolidated Financial Statements
For the year ended 31st December 2007

3. CHANGES IN ACCOUNTING POLICY AND PRIOR YEAR ADJUSTMENT (CONTINUED)

(b) In the current year, the Group has determined that it has constructive obligation to provide post-retirement supplemental benefits to certain retired employees and dependents of certain deceased employees in the PRC. Accordingly, prior period adjustments have been made in the consolidated financial statements to recognise understatement of post-retirement supplemental benefits in prior periods for its qualifying retired employees and the dependents of certain deceased employees in the PRC. It resulted in an adjustment to increase payables of RMB149,630,000 at 31st December 2006 with a corresponding reduction of the opening balances of the retained profits, statutory surplus reserve and minority interests as at 31st December 2006 of RMB120,996,000, RMB13,444,000 and RMB15,190,000 respectively. It also resulted in a decrease in the Group's administrative expenses of approximately RMB2,200,000 for the year ended 31st December 2006 with a corresponding increase in 2006 profit attributable to equity holders of the Company and minority interests of RMB1,653,000 and RMB547,000 respectively. The effect of such change had no significant impact on the profit for the year ended 31st December 2007.

The cumulative effects of the change in accounting policy and prior year adjustments at 31st December 2006 are summarised below:

	Adjustments on change in accounting policy (a) *RMB'000*	Adjustments on prior year adjustment (b) *RMB'000*	Total *RMB'000*
Property, plant and equipment	(168,802)	–	(168,802)
Interests in jointly controlled entities	26,840	–	26,840
Inventories	(5,119)	–	(5,119)
Trade and other receivables	(7,631)	–	(7,631)
Amounts due from jointly controlled entities	86,695	–	86,695
Bank balances and cash	(1,681)	–	(1,681)
Trade and other payables	31,930	(8,270)	23,660
Borrowings – amount due within one year	37,768	–	37,768
Other non-current liabilities	–	(141,360)	(141,360)
Total effects on assets and liabilities	–	(149,630)	(149,630)
Retained profits	–	(120,996)	(120,996)
Statutory surplus reserve	–	(13,444)	(13,444)
Minority interests	–	(15,190)	(15,190)
Total effects on equity	–	(149,630)	(149,630)

The financial effects of the changes on accounting policy and prior period adjustment to the Group's equity at 1st January 2006 are summarised below:

	As originally stated *RMB'000*	Adjustments *RMB'000*	As restated *RMB'000*
Retained profits	394,112	(122,484)	271,628
Statutory surplus reserve	159,075	(13,609)	145,466
Minority interests	175,473	(15,737)	159,736
	728,660	(151,830)	576,830

Notes to the Consolidated Financial Statements
For the year ended 31st December 2007

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values.

The consolidated financial statements have been prepared in accordance with HKFRS. In addition, the consolidated financial statements include applicable disclosures required by The Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

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

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

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

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

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

Business combinations

The acquisition of business is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

When the Group acquires an additional interest in a subsidiary, the excess of the cost of acquisition over the carrying amount of the net assets acquired is recognised as goodwill.

Notes to the Consolidated Financial Statements
For the year ended 31st December 2007

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill

Goodwill arising on an acquisition of a business for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet as an intangible asset.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Interests in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Notes to the Consolidated Financial Statements
For the year ended 31st December 2007

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a Group entity transacts with a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts, returns and sales related taxes.

Revenue from sales of goods are recognised when goods are delivered and title have passed.

Sub-contracting service income is recognised in the period in which such services are rendered.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Leasing

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

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight line basis over the term of the relevant lease.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

Notes to the Consolidated Financial Statements
For the year ended 31st December 2007

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded in the respective functional currency, i.e. the currency of the primary economic environment in which the entity operates, at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in profit or loss in the period in which they arise.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Renminbi using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuated significantly during that year, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (exchange reserve). Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Employee benefits

Bonus plans

The expected cost of bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

Retirement benefit costs

Companies within the Group, which were established in the PRC, contribute to a defined contribution retirement scheme established by the relevant local municipal government who undertakes the retirement benefit obligations of all existing and future retired employees employed by the Group. Contributions to the schemes are charged to the income statement as incurred.

A subsidiary of the Group, which was incorporated in Hong Kong, operates a defined contribution scheme for certain employees in Hong Kong. Contributions to this scheme are calculated based on certain percentage of the employee's monthly salary. The assets of this scheme are held separately from the subsidiary in an independently administered fund. Contributions to this scheme are charged to the income statement as incurred.

For defined benefit retirement plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses which exceed 10 per cent of the greater of the present value of the Group's pension obligations and the fair value of plan assets are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the amended benefits become vested. The amount recognised in the consolidated balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Notes to the Consolidated Financial Statements
For the year ended 31st December 2007

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as deferred income and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are reported separately as ‘other income’.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in jointly controlled entities, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at historical cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight line method.

Construction in progress include property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified in the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these asset, on the same basis as other property assets, commences when the assets are ready for their intended use.

Notes to the Consolidated Financial Statements
For the year ended 31st December 2007

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses, being their fair value at the date of the revaluation less subsequent accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Patents and trademark

Expenditure on acquired patents and trademarks is capitalised and amortised using the straight-line method over their estimated useful lives. Patents and trademarks are carried in the balance sheet at its cost less any accumulated amortisation and any accumulated impairment losses.

Research and development costs

Research expenditure is recognised as an expense as incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. Where no internally-generated intangible asset can be recognised, development expenditure is charged to income statement in the period in which it is incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value.

Properties under development for sale

The carrying value of properties under development for sale comprises the interest in leasehold land together with development expenditure, which includes construction costs, capitalised interest and other borrowing costs, if any, less foreseeable losses. The properties under development are stated at the lower of cost and net realisable value.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in consolidated income statement.

Financial assets

Financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables, and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL, of which interest income is included in net gains or losses.

Notes to the Consolidated Financial Statements
For the year ended 31st December 2007

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets at FVTPL of the Group represents financial assets held for trading which has been acquired principally for the purpose of selling in the near future.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in consolidated income statement excludes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, loan receivable, amounts due from holding company, fellow subsidiaries, associates and jointly controlled entities, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

Available-for-sales financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy in respect of impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables from third parties, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable or other receivables is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Notes to the Consolidated Financial Statements
For the year ended 31st December 2007

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables, amounts due to holding company, fellow subsidiaries and associates and bank borrowing are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire or, the assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and any cumulative gain or loss that had been recognised directly in equity is recognised in consolidated income statement. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial asset and recognise a collaterised borrowing for proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in consolidated income statement.

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Notes to the Consolidated Financial Statements
For the year ended 31st December 2007

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the entity's accounting policies which are described in note 4, the directors of the Company has made the following judgment that has a significant effect on the amounts recognised in the consolidated financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Estimated impairment of property, plant and equipment

Determining whether property, plant and equipment are impaired requires an estimation of the value in use of property, plant and equipment. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the property, plant and equipment. Where the actual future cash flows are less than expected, a material impairment loss may arise.

Estimated impairment of trade receivable

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

Estimated net realisable value of inventories

The determination of net realisable value of inventories requires significant judgment. In making this judgment, the Group estimates the selling prices in the ordinary course of business, the costs of completion and the costs necessary to make the sale.

Provision for employee retirement benefits

The Group is obligated to pay employee retirement benefits for the qualifying retired employees and certain early retired employees (i.e. retired before their statutory retirement dates) for their life time or up to their statutory retirement dates, respectively. The estimation requires subjective assumptions; any change to the assumptions can materially affect the fair value of the provision for employee retirement benefits. As at 31st December 2007, total provision for the employee retirement benefits is HK$155,583,000.

Deferred tax assets

As at 31st December 2007, a deferred tax assets of HK$35,731,000 (2006: HK$33,919,000) in relation to temporary timing differences and unused tax losses have been recognised in the consolidated balance sheet. The recognition of the deferred tax assets mainly depends on whether sufficient taxable temporary differences or future assessable profits will be available in the future. In cases where the actual future assessable profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in the consolidated income statement in the period such a reversal takes place.

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in note 32, net of cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained profits.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debts. The Group's overall strategy remains unchanged from prior year.

Notes to the Consolidated Financial Statements
For the year ended 31st December 2007

7. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2007 *RMB'000*	2006 *RMB'000*
Financial assets		
Held-for-trading investments	4,945	8,886
Loans and receivables (including cash and cash equivalents)	2,449,979	3,160,917
Available-for-sale financial assets	45,931	39,611
Financial liabilities		
Other financial liabilities	2,594,771	2,943,652

Financial risk management objectives and policies

The Group's major financial assets and liabilities include available-for-sale investment, trade and other receivables, amounts due from holding companies/fellow subsidiaries/associates/jointly controlled entities, bank balances and cash, pledged bank deposits, trade and other payables, amounts due to holding companies/fellow subsidiaries/associates/jointly controlled entities, held-for-trading investments and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

The functional currency of the group entities is mainly RMB in which most of the transactions are denominated. The carrying amounts of the foreign currency denominated monetary assets and monetary liabilities of the group entities at the balance sheet date are disclosed in respective notes.

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

The following table details the Group's sensitivity to a 1% and 5% increase and decrease in the functional currency of group entities against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at balance sheet date for a 1% and 5% change in foreign currency rates. A positive number below indicated an increase in profit where the functional currency of group entities strengthens 1% and 5% against the relevant foreign currencies. For a 1% and 5% working of the functional currency of group entities against the relevant foreign currencies, these would be an equal and opposite impact on the profit, and the balances below would be negative.

If RMB strengthens against foreign currencies by 1%:

	USD impact		HKD impact	
	2007 *RMB'000*	2006 *RMB'000*	2007 *RMB'000*	2006 *RMB'000*
Profit (loss) before taxation	1,378	1,296 (i)	(153)	49 (ii)

If RMB strengthens against foreign currencies by 5%:

	USD impact		HKD impact	
	2007 *RMB'000*	2006 *RMB'000*	2007 *RMB'000*	2006 *RMB'000*
Profit (loss) before taxation	6,890	6,480 (i)	(765)	245 (ii)

(i) This is mainly attributable to the exposure outstanding on USD bank borrowings and bank balances at year end.

(ii) This is mainly attributable to the exposure outstanding on HKD bank balances and other payables at year end.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Notes to the Consolidated Financial Statements
For the year ended 31st December 2007

7. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Interest rate risk

The cash flow interest rate risk relates primarily to the Group's floating-rate bank borrowings which mainly float at Singapore Interbank Offer Rate ("SIBOR") and rate offered by the Peoples' Bank of China (the "PBOC") and cash flow interest rate risk in relation to bank balances carry interests at prevailing market rates. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group's sensitivity to interest rate risk has been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet date. For variable rate bank borrowing, the analysis is prepared assuming amount outstanding at the balance sheet date was outstanding for the whole year and the reasonably possible change taking place at the beginning of each year and held constant throughout the year. The Group's sensitivity to interest rate risk at each balance sheet date while all other variables were held constant is as follows:

	Year ended 31st December	
	2007	**2006**
Reasonably possible change in interest rate	50 basis points	50 basis points

	Year ended 31st December	
	2007	**2006**
	RMB'000	*RMB'000*
Increase (decrease) in profit for the year		
– as a result of increase in interest rate	1,943	4,525
– as a result of decrease in interest rate	(1,943)	(4,525)

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December 2007 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet and the amount of contingent liabilities disclosed in note 39. In order to minimise the credit risk, the management of the Group has formulated a defined fixed credit policy and delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade receivable regularly at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies and PRC stated-owned banks with good reputation.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Price risk

The Group's held for trading investments comprising listed equity securities. These listed equity securities are subject to market price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles. Details of the held-for-trading investments are set out in note 29.

A hypothetical 10% change in prices of trading investments would result in an effect to the Group's profit before taxation for the year as follows:

	Year ended 31st December	
	2007	**2006**
	RMB'000	*RMB'000*
Increase in profit before taxation for the year as a result of increase in price of trading investments	495	889
Decrease in profit before taxation for the year as a result of decrease in price of trading investments	(495)	(889)

Notes to the Consolidated Financial Statements
For the year ended 31st December 2007

7. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As at 31st December 2007, the Group has available unutilised borrowing facilities of approximately RMB886,977,000 (2006: RMB685,192,000). Details of which are set out in note 32.

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Liquidity and interest risk tables

	Weighted average effective interest rate	Less than 1 year	1-2 years	2-3 years	Total undiscount cash flow	Carrying amount at 31.12.2007
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2007						
Non-derivative financial liabilities						
Trade and other payables		1,762,430	–	–	1,762,430	1,762,430
Amounts due to holding companies		78,549	–	–	78,549	78,549
Amounts due to fellow subsidiaries		103,398	–	–	103,398	103,398
Amounts due to associates		3,233	–	–	3,233	3,233
Borrowings						
Fixed rate	5.74	111,028	111,482	–	222,510	205,000
Variable rate *	5.90	415,298	–	58,850	474,148	442,161
		2,473,936	111,482	58,850	2,644,268	2,594,771

	Weighted average effective interest rate	Less than 1 year	1-2 years	2-3 years	Total undiscount cash flow	Carrying amount at 31.12.2006
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2006						
Non-derivative financial liabilities						
Trade and other payables		2,061,013	–	–	2,061,013	2,061,013
Amounts due to holding companies		46,015	–	–	46,015	46,015
Amounts due to fellow subsidiaries		140,358	–	–	140,358	140,358
Amounts due to associates		10,691	–	–	10,691	10,691
Amounts due to jointly controlled entities		556	–	–	556	556
Borrowings						
Fixed rate	5.94	27,492	–	235,655	263,147	225,950
Variable rate *	5.28	483,295	–	–	483,295	459,069
		2,769,420	–	235,655	3,005,075	2,943,652

* The interest rates applied to project discounted cash flows of variable rate bank loans are the interest rates at the balance sheet date.

Notes to the Consolidated Financial Statements
For the year ended 31st December 2007

7. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

8. TURNOVER

Turnover represents the amount received and receivable for goods sold by the Group to outsiders for the year, excluding value added tax, and is analysed as follows:

	2007 *RMB'000*	2006 *RMB'000* (Restated)
Manufacture and sales of textile machinery	4,806,039	4,588,763
Sales of materials, parts and components	564,286	935,182
	5,370,325	5,523,945

Notes to the Consolidated Financial Statements
For the year ended 31st December 2007

9. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

For management reporting purposes, the Group is currently organised into two divisions-(a) manufacture and sale of textile machinery; and (b) sales of materials, parts and components. Sales of materials, parts and components of RMB564,286,000 (2006: RMB935,182,000) which was previously included in other income has been reclassified as turnover as the directors consider that the reclassification reflects more appropriately the nature of this income which is recurring for the Group. Therefore, sales of materials, parts and components is presented as a separate business segment of the Group and the comparative information is restated to conform with current year's presentation.

Segment information about these businesses is presented below.

	Manufacture and sales of textile machinery *RMB'000*	**Sales of materials, parts and components** *RMB'000*	**Consolidated** *RMB'000*
Year ended 31st December 2007			
TURNOVER			
External sales	4,806,039	564,286	5,370,325
RESULT			
Segment result	102,037	6,591	108,628
Unallocated income			56,514
Unallocated expenses			(6,135)
Finance costs			(43,794)
Gain on fair value changes of held-for-trading investments			65,323
Share of results of jointly controlled entities			1,938
Share of results of associates			19,645
Profit before taxation			202,119
Taxation			(26,513)
Profit for the year			175,606
Year ended 31st December 2006			
TURNOVER			
External sales	4,588,763	935,182	5,523,945
RESULT			
Segment result	177,558	36,273	213,831
Unallocated income			39,941
Unallocated expenses			(5,714)
Finance costs			(34,805)
Gain on fair value changes of held-for-trading investments			18,421
Share of results of jointly controlled entities			(837)
Share of results of associates			(297)
Profit before taxation			230,540
Taxation			(23,574)
Profit for the year			206,966

The assets and liabilities of the Group are substantially attributable to manufacture and sales of textile machinery, no analysis of segment assets and liabilities and capital expenditures is presented.

Notes to the Consolidated Financial Statements
For the year ended 31st December 2007

9. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

(b) Geographical segments

The Group's operations and assets are principally carried out and located in the PRC, including Mainland China and Hong Kong, no geographical segment analysis is presented.

10. OTHER INCOME

	2007	**2006**
	RMB'000	*RMB'000*
Other income includes:		
Interest income from banks	13,809	24,890
Interest income from loan receivable and related parties	9,536	4,290
Government subsidies (Note)	11,875	–
Gain on disposal of associates	15,852	–
Net exchange gain	10,108	5,419
Rental income, net of deductible outgoings of RMB7,303,000 (2006: RMB8,529,000)	2,696	1,499
Dividends income from available-for-sale investments	7,210	–
Gain on disposal of property, plant and equipment	197	1,221
Discount on acquisition arising from acquisition of a subsidiary (note 36)	–	2,136
Discount on acquisition arising from acquisition of additional interests in a subsidiary	–	3,206

Note: Government subsidies mainly represent subsidies received from local authorities to support the research and development activities carried out by the Group in relation to textile industry and value added tax refunds in relation to acquisition of certain qualifying software and machinery.

11. FINANCE COSTS

	2007	**2006**
	RMB'000	*RMB'000*
Interest expenses on borrowings wholly repayable within five years	53,633	34,805
Less: Interest capitalised under properties under development for sale	(9,839)	–
	43,794	34,805

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 6.82% (2006: nil) to expenditure on qualifying assets.

Notes to the Consolidated Financial Statements
For the year ended 31st December 2007

12. PROFIT BEFORE TAXATION

	2007 *RMB'000*	2006 *RMB'000* (Restated)
Profit before taxation has been arrived at after charging:		
Directors' remuneration (note 14)		
Fees	195	150
Other emoluments	1,421	1,293
Retirement benefits costs	23	21
	1,639	1,464
Other staff costs	417,657	462,097
Retirement benefits costs, net of forfeited contributions	62,112	54,311
Total staff costs	481,408	517,872
Auditor's remuneration	3,380	4,250
Depreciation of property, plant and equipment	100,162	99,429
(Write back of allowance) allowance for doubtful debts	(13,749)	10,271
Allowance for inventories	20,076	4,157
Amortisation:		
– intangible assets (included in administrative expenses)	2,755	4,744
– prepaid lease payments	6,558	5,131
Minimum lease payments paid under operating lease in respect of leasehold land and buildings	16,040	19,075
Impairment loss recognised in respect of intangible assets (included in administrative expenses)	9,974	–
Loss on disposal of available-for-sale investments (included in administrative expenses)	72	–
Loss on disposal of intangible assets (included in administrative expenses)	8	–
Research and development costs (included staff costs of RMB15,527,000 (2006: RMB15,000,000))	62,848	60,343

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13. TAXATION

	2007 RMB'000	2006 RMB'000
The charge comprises:		
Current tax		
PRC Enterprise Income Tax	29,562	22,921
Deferred tax		
(Credit) charge for the year (note 23)	(3,329)	653
Attributable to change of PRC Enterprise Income Tax rate	280	–
	26,513	23,574

Hong Kong Profits Tax has not been provided as the Group had no taxable profits in Hong Kong for the year (2006: nil). The Company and its subsidiaries are subject to PRC Enterprise Income Tax on their taxable profits.

The charge for the year can be reconciled to the profit before taxation per consolidated income statement as follows:

	2007 RMB'000	2006 RMB'000 (Restated)
Profit before taxation	202,119	230,540
Tax at the PRC Enterprise Income Tax rate of 15% (2006: 15%) (Note a)	30,318	34,581
Tax effect of share of profit of associates and jointly controlled entities	(3,241)	170
Tax effect of other temporary differences not recognised	4,133	9,170
Tax effect on non taxable income	(2,758)	(815)
Effect of tax exemptions granted to PRC subsidiaries	(5,018)	(7,560)
Tax effect of tax losses not recognised	10,084	3,433
Tax effect on non deductible expenses	5,314	2,912
Tax effect on utilisation of other temporary differences not previously recognised	(3,387)	(6,627)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(879)	(5,209)
Reduction of tax in respect of tax benefits (Note b)	(8,333)	(6,481)
Change in opening deferred tax liability resulting from a decrease in applicable tax rate	280	–
Taxation charge	26,513	23,574

PRC Enterprise Income Tax has been calculated based on the estimated assessable profits in accordance with the relevant tax laws applicable to certain subsidiaries in the PRC.

Pursuant to the relevant laws and regulations in the PRC, certain of the Company's PRC subsidiaries are exempted from PRC Enterprise Income Tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years.

The Company's PRC subsidiaries are subject to PRC Enterprise Income Tax at 33%, except for certain subsidiaries which are regarded as high new technology enterprises and thus enjoy a preferential tax rate of 15%.

On 16th March 2007, the PRC promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6th December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the existing tax rates for group entities from 15% and 18% to 25% progressively over 5 years for certain subsidiaries from 1st January 2008. For the subsidiaries enjoying preferential tax rate at 15%, they will continue to enjoy the preferential rate. The deferred tax has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the assets is realised or the liability is settled.

Notes:

(a) The tax rate of 15% represented the tax rate applicable to majority of the group companies.

(b) Certain of the Company's PRC subsidiaries are entitled to tax benefits on purchase of PRC produced plant and equipment for production use and on certain qualifying research and development expenses charged to profit and loss for the year.

Notes to the Consolidated Financial Statements
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14. DIRECTORS, SUPERVISORS' AND HIGHEST PAID INDIVIDUALS' EMOLUMENTS

(a) Directors' and supervisors' emoluments

The emoluments paid or payable to each of the 13 (2006: 13) directors were as follows:

	Liu Haitao *RMB'000*	Ye Maoxin *RMB'000*	Fan Xinmin *RMB'000*	Yan Fuquan *RMB'000*	Liu Hong *RMB'000*	Shi Tinghong *RMB'000*	Yao Yuming *RMB'000*	Zhang Jianguo *RMB'000*	Wang Zengjing *RMB'000*	Kon Hiu King *RMB'000*	Gao Yong *RMB'000*	Chen Zhong *RMB'000*	Yu Shiquan *RMB'000*	Total 2007 *RMB'000*
Fees	–	–	–	–	–	–	–	–	40	50	35	35	35	195
Other emoluments														
Salaries and other benefits	–	99	–	–	–	–	84	81	–	–	–	–	–	264
Discretionary bonus	–	354	–	–	–	–	318	485	–	–	–	–	–	1,157
Retirement benefits costs	–	8	–	–	–	–	8	7	–	–	–	–	–	23
Total emoluments	–	461	–	–	–	–	410	573	40	50	35	35	35	1,639

	Liu Haitao *RMB'000*	Ye Maoxin *RMB'000*	Fan Xinmin *RMB'000*	Yan Fuquan *RMB'000*	Liu Hong *RMB'000*	Shi Tinghong *RMB'000*	Yao Yuming *RMB'000*	Zhang Jianguo *RMB'000*	Wang Zengjing *RMB'000*	Kon Hiu King *RMB'000*	Gao Yong *RMB'000*	Chen Zhong *RMB'000*	Yu Shiquan *RMB'000*	Total 2006 *RMB'000*
Fees	–	–	–	–	–	–	–	–	30	30	30	30	30	150
Other emoluments														
Salaries and other benefits	–	92	–	–	–	–	83	76	–	–	–	–	–	251
Discretionary bonus	–	380	–	–	–	–	380	282	–	–	–	–	–	1,042
Retirement benefits costs	–	8	–	–	–	–	7	6	–	–	–	–	–	21
Total emoluments	–	480	–	–	–	–	470	364	30	30	30	30	30	1,464

The emoluments paid or payable to the supervisors are as follows:

	2007 *RMB'000*	**2006** *RMB'000*
Salaries and other benefits	262	233
Discretionary bonus	814	615
Retirement benefits costs	25	19
Total emoluments	1,101	867

None of the directors has waived or agreed to waive any emoluments in both years.

During the year, no emoluments were paid by the Group to the directors or the supervisors as an inducement to join or upon joining the Group or as compensation for loss of office.

(b) Highest paid individuals

Of the five individuals with highest emoluments in the Group, two (2006: three) were directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining three (2006: two) individuals are as follows:

	2007 *RMB'000*	**2006** *RMB'000*
Salaries and other benefits	234	141
Discretionary bonus	1,668	461
Employer's contribution to premium scheme	19	12
	1,921	614

The emoluments of each of the aforesaid employees were less than RMB930,000 (2006: less than RMB985,000), equivalent to approximately less than HK$1,000,000.

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15. DIVIDENDS

Dividend recognised as distributions during the year:

	2007 *RMB'000*	2006 *RMB'000*
Final dividend for 2006, paid RMB0.08 (2006: RMB0.05 paid for 2005) per share:		
A shares		
– Restricted	16,340	11,000
– Others	17,500	10,150
H shares	14,464	9,040
	48,304	30,190

Subsequent to the balance sheet date, a final dividend of RMB0.01 (2006: RMB0.08) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming general meeting.

16. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to equity holders of RMB162,206,000 (2006: RMB189,095,000) and the number of 603,800,000 (2006: 603,800,000) shares in issue during the year.

No diluted earnings per share is presented as the Group does not have any potential dilutive shares for both years.

The effect of changes in accounting policy and prior year adjustment had no significant impact on basic earnings per shares for the year 2007 and 2006.

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17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST					
At 1st January 2006					
– As originally stated	572,726	1,459,814	88,637	62,178	2,183,355
– Effect of change in accounting policy (note 3a)	(12,484)	(33,228)	(276)	(17,618)	(63,606)
– As restated	560,242	1,426,586	88,361	44,560	2,119,749
Additions	10,371	44,753	11,808	92,221	159,153
Acquired on acquisition of subsidiaries	62,402	37,208	2,180	3,984	105,774
Disposals	(14,126)	(34,787)	(3,449)	–	(52,362)
Disposal of a subsidiary	–	–	(1,899)	–	(1,899)
Transfers	45,159	40,083	1,878	(87,120)	–
At 31st December 2006	664,048	1,513,843	98,879	53,645	2,330,415
Additions	7,493	50,411	9,474	101,635	169,013
Acquired on acquisition of subsidiaries (note 36)	–	2,113	267	–	2,380
Disposals	(1,221)	(21,840)	(6,739)	(3,537)	(33,337)
Transfers	36,055	37,623	–	(73,678)	–
Reclassification	–	6,052	–	(6,052)	–
At 31st December 2007	706,375	1,588,202	101,881	72,013	2,468,471
DEPRECIATION AND IMPAIRMENT					
At 1st January 2006					
– As originally stated	192,322	847,750	32,076	–	1,072,148
– Effect of changes in accounting policy (note 3a)	–	(84)	–	–	(84)
– As restated	192,322	847,666	32,076	–	1,072,064
Charge for the year	21,411	69,077	8,941	–	99,429
Eliminated on disposals	(7,979)	(25,615)	(1,747)	–	(35,341)
At 31st December 2006	205,754	891,128	39,270	–	1,136,152
Charge for the year	18,155	71,136	10,871	–	100,162
Eliminated on disposals	(1,135)	(17,861)	(4,247)	–	(23,243)
At 31st December 2007	222,774	944,403	45,894	–	1,213,071
CARRYING VALUES					
At 31st December 2007	483,601	643,799	55,987	72,013	1,255,400
At 31st December 2006	458,294	622,715	59,609	53,645	1,194,263

The above items of property, plant and equipment, other than construction in progress, are depreciated using the straight line method to allocate cost to their residual values over their estimated useful lives, as follows:

Buildings	9 to 50 years
Machinery and equipment	7 to 22 years
Motor vehicles	9 to 14 years

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18. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments represent medium-term land use rights situated in the PRC.

	2007 *RMB'000*	2006 *RMB'000*
Analysed for reporting purposes as:		
Current asset	5,975	5,131
Non-current asset	262,518	234,321
	268,493	239,452

19. INTANGIBLE ASSETS

	Patents and licenses *RMB'000*	Software *RMB'000*	Goodwill *RMB'000*	Total *RMB'000*
COST				
At 1st January 2006	10,495	11,243	–	21,738
Additions	11,980	1,089	–	13,069
Acquired on acquisition of subsidiaries	–	–	2,259	2,259
At 31st December 2006	22,475	12,332	2,259	37,066
Additions	6	1,102	–	1,108
Acquired on acquisition of subsidiaries	40	–	–	40
Disposals	–	(754)	–	(754)
Written off	(1,067)	(206)	–	(1,273)
At 31st December 2007	21,454	12,474	2,259	36,187
AMORTISATION AND IMPAIRMENT				
At 1st January 2006	3,619	4,186	–	7,805
Charge for the year	2,743	2,001	–	4,744
At 31st December 2006	6,362	6,187	–	12,549
Charge for the year	1,136	1,619	–	2,755
Eliminated on disposals	–	(264)	–	(264)
Eliminated on written off	(1,067)	(206)	–	(1,273)
Impairment loss recognised	9,587	387	–	9,974
Reclassification	6	(6)	–	–
At 31st December 2007	16,024	7,717	–	23,741
CARRYING VALUES				
At 31st December 2007	5,430	4,757	2,259	12,446
At 31st December 2006	16,113	6,145	2,259	24,517

Patents and licences mainly represent licensing of technology for manufacturing of textile machinery.

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19. INTANGIBLE ASSETS (CONTINUED)

Patents and licenses and software have definite useful lives and are amortised on a straight line basis over the following periods:

Patents and licenses	10 years
Software	5 years

During the year, the directors conducted a review of the patents and licenses and software and determined that certain of those assets were impaired due to technical obsolescence of certain product models of the underlying intangible assets. Accordingly, impairment losses of RMB9,587,000 in respect of patents and licenses on obsolete models and RMB387,000 for old version software have been recognised for the year (2006: nil).

20. INTERESTS IN ASSOCIATES

	2007 *RMB'000*	2006 *RMB'000*
Cost of investment, unlisted investments	68,997	126,199
Share of post-acquisition profits, net of dividend received	17,986	893
	86,983	127,092

Details of the Group's associates as at 31st December 2007 and 2006 are as follows:

Name of associate	Place of establishment and operation	Registered capital	Proportion of registered capital attributable to the Group 2007 %	2006 %	Principal activities
Qingdao Jinyi Pressing and Casting Company Limited	PRC	RMB3,850,000	27	27	Pressing and casting of non-ferrous metal. Design, manufacturing and sales of model metal products
Shenzhen Jinghuachi Technology Investment Company Limited (Formerly named as Shenzhen Bolue Technology Investment Company Limited)	PRC	RMB85,500,000	–	40.94	Investing, setting up and management of new enterprises and investment consultation
Hongda Research Company Limited	PRC	RMB50,000,000	40	40	Sale and development of environmental protective machine, textile machine, office equipment, electronics and provision of technical support servers
Qingdao Jinshan City Hotel	PRC	RMB1,000,000	–	20	Provision of accommodation, restaurant, wholesale and retailing of food
Qingdao Lanlifeng Laser Technology Company Limited	PRC	RMB3,200,000	–	31.25	Manufacturing and trading of laser machine and equipment

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20. INTERESTS IN ASSOCIATES (CONTINUED)

Name of associate	Place of establishment and operation	Registered capital	Proportion of registered capital attributable to the Group 2007 %	2006 %	Principal activities
Shenyang Jingxing Textile Machinery Company Limited	PRC	RMB3,200,000	31.25	31.25	Manufacturing and sales of textile machinery, spare parts and related components
Zhengzhou Hongda Non-woven Fabric Company Limited	PRC	RMB40,000,000	23.74	23.74	Manufacturing and sales of various non-woven fabrics; consultation and training services of relevant techniques. Research and development of new products, techniques, equipments and materials
China Textile Machinery and Technology Import and Export Corporation	PRC	RMB120,000,000	25	25	Provision of management consultation and corporate image services
Beijing Chen Yu Tai He Property Development Co., Ltd. ("Beijing Chen Yu") (Note)	PRC	RMB44,000,000	10	30	Property development

Note: During the year, the Group disposed of 20% equity interest of Beijing Chen Yu, therefore the Group's remaining interest on Beijing Chen Yu was classified as available-for-sale investment.

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

	2007 *RMB'000*	2006 *RMB'000*
Total assets	881,783	1,272,518
Total liabilities	(556,547)	(882,596)
Net assets	325,236	389,922
Group's share of net assets of associates	86,983	127,092
Revenue	1,783,838	316,230
Group's share of results of associates for the year	19,645	(297)

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21. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2007 *RMB'000*	2006 *RMB'000*
Cost of investment, unlisted investment	25,000	27,677
Share of post acquisition profits, net of dividend received	445	(837)
	25,445	26,840

Details of the Group's jointly controlled entities as at 31st December 2007 and 2006 are as follows:

Name of jointly controlled entity	Place of establishment and operation	Proportion of registered attributable to the Group 2007 %	2006 %	Proportion of voting power held 2007 %	2006 %	Principal activities
Anhui Huamao Jingwei New Type Textile Company Limited ("Anhui Huamao")	PRC	50	50	50	50	Production, processing and sales of various kinds of yarn and textile products
Shanghai WSP Mould and Injection Plastic Company Limited ("Shanghai WSP") (Note)	PRC	50	50	100	50	Development manufacturing and trading of textile machinery, automobile component, mould and general machinery

Note:

In January 2007, the Group is able to obtain the control of the board of directors of Shanghai WSP and accordingly Shanghai WSP is accounted for as a subsidiary of the Group (note 36).

The summarised financial information in respect of the Group's jointly controlled entities which are accounted for using equity method is set out below:

	2007 *RMB'000*	2006 *RMB'000*
Current assets	17,885	12,753
Non-current assets	187,352	168,803
Current liabilities	99,917	154,716
Non-current liabilities	79,875	–
Revenue	120,567	55,471
Expenses	118,629	56,308

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22. AVAILABLE-FOR-SALE INVESTMENTS

	2007 *RMB'000*	2006 *RMB'000*
Unlisted equity securities in the PRC, at cost	52,254	45,934
less: Impairment loss recognised	(6,323)	(6,323)
	45,931	39,611

The above unlisted investments represent investments in unlisted equity securities issued by private entities incorporated in the PRC. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

23. DEFERRED TAXATION

The following are the major deferred tax balances recognised and movements thereon during the current and prior year:

	Accelerated tax depreciation and others *RMB'000*	Allowance for receivables, inventories and impairment of assets *RMB'000*	Tax losses *RMB'000*	Others *RMB'000* (Note)	Total *RMB'000*
At 1st January 2006	(25,949)	33,726	–	–	7,777
(Charge) credit to consolidated income statement for the year	(45)	(1,329)	1,522	(801)	(653)
Disposal of a subsidiary	25,558	–	–	–	25,558
At 31st December 2006	(436)	32,397	1,522	(801)	32,682
(Charge) credit to consolidated income statement for the year	–	(3,776)	570	6,535	3,329
Effect of change of PRC Enterprise Income Tax rate	–	–	(280)	–	(280)
At 31st December 2007	(436)	28,621	1,812	5,734	35,731

Note: Others mainly represent deferred tax assets arising from unrealised profit on intra-group sales, accrued bonus and expenses and other temporary differences.

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2007 *RMB'000*	2006 *RMB'000*
Deferred tax assets	35,731	33,919
Deferred tax liabilities	–	(1,237)
	35,731	32,682

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23. DEFERRED TAXATION (CONTINUED)

The deductible temporary differences not recognised in the financial statements as follows:

	2007	**2006**
	RMB'000	*RMB'000*
Tax losses	68,243	41,262
Other temporary differences	27,211	18,109
	95,454	59,371

At the balance sheet date, the Group has unused tax losses of approximately RMB80.3 million (2006: RMB81.4 million) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately RMB12.1 million (2006: RMB10.1 million) of such losses. No deferred tax asset has been recognised for the remaining balances of approximately RMB68.2 million (2006: RMB41.3 million) due to unpredictability of future profit streams.

24. INVENTORIES

	2007	**2006**
	RMB'000	*RMB'000*
Raw materials	378,086	349,279
Work in progress	386,147	353,428
Finished goods	756,888	618,213
	1,521,121	1,320,920

25. PROPERTIES UNDER DEVELOPMENT FOR SALE

	RMB'000
COST	
Acquired on acquisition of a subsidiary during the year ended 31st December 2007 (note 36(a))	366,105
Additions	113,500
At 31st December 2007	479,605

At 31st December 2007, total borrowing costs capitalised in the properties under development for sale were RMB9,839,000 (2006: nil).

The Group has pledged properties under development for sale having carrying value of approximately RMB192,610,000 (2006: nil) to secure general banking facilities granted to the Group.

Properties under development for sale are expected to be completed and available for sale after twelve months from the balance sheet date. They are are classified under current assets as it is expected to be realised in the Group's normal operating cycle.

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26. LOAN RECEIVABLE

The loan receivable at 31st December 2006 represented the fourth trenche of entrusted loan granted to Huayuan Shengming, a subsidiary of China Worldbest Group, a state-owned enterprise. The loan was unsecured and bore interest at 6% per annum. The principal was repaid in full during the current year.

27. TRADE AND OTHER RECEIVABLES

	2007	**2006**
	RMB'000	*RMB'000*
Trade receivables	393,784	396,362
Less: Allowance for doubtful debts	(164,452)	(197,385)
	229,332	198,977
Bills receivables	1,220,635	1,594,213
Prepayments, deposits and other receivables	220,276	174,907
	1,670,243	1,968,097

At the balance sheet date, bills receivables outstanding amounted to RMB552,001,000 (2006: RMB855,617,000) have been endorsed to certain creditors and RMB134,649,000 (2006: RMB283,163,000) have been discounted to the banks. The Group continues to present the endorsed bills and discounted bills as bills receivables until maturity.

At 31st December 2007, the Group has pledged bills receivables having a carrying amount of RMB34,687,000 to secure credit facilities granted to the Group.

At the balance sheet date, trade and other receivables included an aggregate carrying amount of RMB130,000 (2006: RMB5,000), representing certain balances with companies in which certain key management personnel of the subsidiaries of the Company have influence in.

Majority of the Group's turnover is generated through receipts of customers' payments in advance. The remaining settlement is made in accordance with the terms specified in the contracts governing the relevant transactions. A credit period 30 to 360 days may be granted to large or long established customers with good payment history. The following is an aged analysis of the trade and bills receivables net of allowance for doubtful debts, including receivables of holding companies, fellow subsidiaries, associates and jointly controlled entities (note 28), at the balance sheet date:

	2007	**2006**
	RMB'000	*RMB'000*
Less than 1 year	1,572,310	1,985,402
1-2 years	70,065	32,070
2-3 years	8,085	18,484
Over 3 years	6,175	4,033
	1,656,635	2,039,989

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately RMB84,325,000 (2006: RMB54,587,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

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27. TRADE AND OTHER RECEIVABLES (CONTINUED)

Ageing of trade and bills receivables, including receivables of related parties, which are past due but not impaired

	2007	2006
	RMB'000	*RMB'000*
1-2 years	70,065	32,070
2-3 years	8,085	18,484
Over 3 years	6,175	4,033
	84,325	54,587

The Group has not provided for some of certain of trade receivables aged over 1 year because historical experience indicated that the balance of these receivables not provided for are eventually recoverable.

Movement in the allowance for doubtful debts

	2007	2006
	RMB'000	*RMB'000*
Balance at beginning of the year	197,385	195,886
Allowance for doubtful debts	5,195	10,271
Write back of allowance for doubtful debts	(18,944)	–
Amounts written off	(19,184)	(8,772)
Balance at end of the year	164,452	197,385

28. AMOUNTS DUE FROM/TO HOLDING COMPANIES/FELLOW SUBSIDIARIES/ASSOCIATES/JOINTLY CONTROLLED ENTITIES

Amounts due from holding companies

At 31st December 2007, the amounts are unsecured, trade nature, non-interest bearing and repayable on demand.

Amounts due from fellow subsidiaries

The amounts are unsecured, non-interest bearing and repayable on demand. Included in the balances are trade nature with carrying amount of approximately RMB114,685,000 (2006: RMB109,928,000).

At 31st December 2006, included in the carrying amount of amounts due from fellow subsidiaries was accumulated impairment loss of RMB5,799,000 (2007: nil).

Amounts due from associates

The amounts are unsecured and repayable on demand. Included in the balances are trade nature with carrying amount of approximately RMB45,844,000 (2006: RMB69,481,000).

At 31st December 2007, the amounts are non-interest bearing.

At 31st December 2006, an amount of RMB28,000,000 bore interest at 6.12% per annum. Other amounts were non-interest bearing.

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28. AMOUNTS DUE FROM/TO HOLDING COMPANIES/FELLOW SUBSIDIARIES/ASSOCIATES/JOINTLY CONTROLLED ENTITIES (CONTINUED)

Amounts due from jointly controlled entities

	2007 *RMB'000*	**2006** *RMB'000*
Interest bearing	67,000	53,000
Non-interest bearing	45,348	67,390
	112,348	120,390

The interest bearing balances included a fixed-rate loan of RMB14,000,000 (2006: nil) which bears interest at 5.913% (2006: nil) per annum. The remaining balances are variable-rate loans carry interests at 90% of the rate offered by the PBOC (2006: 90% of the rate offered by PBOC) per annum. All the interest bearing balances are repayable within one year.

The non-interest bearing balances are unsecured and repayable on demand.

Included in the balances are trade nature with carrying amount of approximately RMB45,348,000 (2006: RMB67,390,000).

Amounts due to holding companies/fellow subsidiaries/associates/jointly controlled entities

The amounts are unsecured, non-interest bearing and repayable on demand.

Included in the balances are trade nature with carrying amount of approximately RMB84,460,000 (2006: RMB70,545,000).

Included in the balances with holding companies are dividend payable with carrying amount of RMB15,651,000 (2006: RMB11,000,000).

29. HELD-FOR-TRADING INVESTMENTS

	2007 *RMB'000*	**2006** *RMB'000*
Listed securities		
– Equity securities – Hong Kong	–	1,126
– Equity securities – PRC	4,945	7,760
Total	4,945	8,886
Market value of listed securities	4,945	8,886

30. PLEDGED BANK BALANCES/BANK BALANCES AND CASH

Pledged bank balances represents deposits pledged to banks to secure bills payables granted to the Group. The average effective interest rate on pledged bank deposits is 3.78% (2006: 2.25%) per annum.

At the balance sheet date, bank balances and cash comprised mainly short-term deposits which carry interests at prevailing market rates.

The Group's bank balances and cash that are denominated in currencies other than functional currencies of the relevant group entities are set out below:

	2007 *RMB'000*	**2006** *RMB'000*
Hong Kong dollars	13,397	59,237
Swiss Franc	3,462	5,754
United States dollars	2,594	3,679
Euro	472	34
Others	15	15

Included in bank balances and cash is RMB19,277,000 (2006: RMB1,905,000) of time deposits with maturity more than three months.

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31. TRADE AND OTHER PAYABLES

	2007	2006
	RMB'000	*RMB'000*
Trade payables	1,190,838	1,438,717
Bills payables	244,877	339,584
Accrued charges and other payables	886,077	718,660
	2,321,792	2,496,961

At the balance sheet date, the Group has endorsed bank acceptance bills to certain creditors amounted to RMB552,001,000 (2006: RMB855,617,000). The settlement of trade payables by such bills will only be derecognised when the relevant bills have been matured.

Included in the bills payables as at 31st December 2007 is an amount of RMB89,750,000, representing bank acceptance bills issued by the Group to certain related parties of which the relevant bills were endorsed by these related parties to certain creditors of the Group for the settlement of outstanding balances.

At the balance sheet date, trade and other payables included an aggregate carrying amount of RMB40,103,000 (2006: RMB21,849,000), representing certain balances with companies in which certain key management personnel of the subsidiaries of the Company have influence in.

The following is an aged analysis of trade and bills payables, including payables of holding companies, fellow subsidiaries, associates and jointly controlled entities (note 28), at the balance sheet date:

	2007	2006
	RMB'000	*RMB'000*
Less than 1 year	1,459,155	1,784,470
1-2 years	28,476	25,414
2-3 years	7,915	16,495
Over 3 years	24,629	22,467
	1,520,175	1,848,846

The Group's trade and other payables that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2007	2006
	RMB'000	*RMB'000*
United States dollars	7,185	–
Euro	635	–
Hong Kong dollars	–	74,265

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32. BORROWINGS

	2007	2006
	RMB'000	*RMB'000*
Discounted bills	134,649	283,163
Variable-rate bank loans	307,512	175,906
Fixed-rate bank loans	200,000	210,000
Other loan	5,000	15,950
	647,161	685,019
Secured	334,649	492,895
Unsecured	312,512	192,124
	647,161	685,019
The borrowings are repayable as follows:		
On demand or within one year	497,161	485,019
More than one year, but not exceeding two years	100,000	-
More than two years, but not exceeding three years	50,000	200,000
	647,161	685,019
Less: Amount due within one year and shown under current liabilities	(497,161)	(485,019)
	150,000	200,000

Variable-rate bank loans of RMB157,512,000 (2006: RMB156,174,000) are denominated in United States dollars, a currency other than the functional currencies of the relevant group entities, and bear interests at 1% over SIBOR (2006: 1% over SIBOR) per annum.

The remaining variable-rate bank loans of RMB150,000,000 (2006: RMB19,732,000) bear interests at 110% of the rate offered by the PBOC (2006: 110% of the rate offered by the PBOC). All these variable interest rates are repriced from every month to every three months (2006: from every month to every three months).

The fixed-rate bank loans of RMB200,000,000 (2006: RMB210,000,000) bear interests at 4.65% to 6.8% (2006: 5.427% to 6.39%) per annum. In addition, other loan of RMB5,000,000 (2006: RMB15,950,000) is arranged at fixed interest rate of 6.39% (2006: 6.39%) per annum.

Discounted bills carry interests at market rates ranging from 3.24% to 6.00% per annum.

The ranges of effective interest rates of the borrowings are also equal to contracted interest rates.

At the balance sheet date, the Group has undrawn borrowing facilities expiring within one year amounting to approximately RMB886,997,000 (2006: RMB658,192,000).

At the balance sheet date, the following borrowings are secured by:

	2007	2006
	RMB'000	*RMB'000*
Guarantee by China Textile Machinery (Group) Company Limited	100,000	200,000
Guarantee by a third party	–	10,000
Properties under development for sale	100,000	–
Bills receivables for discounted bills	134,649	283,163

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33. OTHER NON-CURRENT LIABILITIES

	2007	2006
	RMB'000	*RMB'000*
Deferred income (Note a)	20,180	10,315
Retirement benefit obligations (Note b)	155,583	149,630
Others	900	–
	176,663	159,945
Less: Current portion included in trade and other payables	(8,680)	(8,270)
	167,983	151,675

Notes:

a. The amounts represented government subsidies received in relation to lease payment of land of RMB10,315,000 (2006: RMB10,315,000) and qualifying assets of RMB8,520,000 (2006: nil) which is released to the consolidated income statement over the expected useful life of the relevant assets and government subsidies for research development on technological development in textile industry of RMB1,345,000 (2006: nil) which will be recognised in the same period as those expenses are charged in the consolidated income statement and are reported separately as other income.

b. Included in the balance is an amount of RMB146,610,000 (2006: RMB149,630,000) representing the Group's obligations on retirement and supplementary benefits to the qualifying retired employees which were determined based on actuarial valuations performed by an independent firm of valuers (see note 40).

34. SHARE CAPITAL

	Number of shares		Amount	
	2007	2006	2007	2006
			RMB'000	*RMB'000*
Registered, issued and fully paid				
A shares, RMB 1.00 each				
– restricted	204,255,248	195,640,000	204,255	195,640
– others	218,744,752	227,360,000	218,745	227,360
H shares, RMB 1.00 each	180,800,000	180,800,000	180,800	180,800
	603,800,000	603,800,000	603,800	603,800

In August 2006, the Company completed its share reform ("Share Reform") whereby the Company's only unlisted domestic shareholder, China Textile Machinery (Group) Company Limited ("CMTC") (also the Company's holding company), compensated the Company's A shareholders with 1.2 shares and RMB 2.5 for every 10 A shares. Accordingly, CMTC made a total compensation of 24,360,000 shares and RMB 50,750,000 to A shareholders. As a result of the Share Reform, all of the Company's 220,000,000 domestic shares were converted into 195,640,000 A shares (restricted). Disposal of A shares (restricted) held by CTMC are subject to certain conditions for a period ending 8th August 2011 (see the Company's announcement for share segregation reform on 8 August 2006 for details).

The A shares and H shares have a par value of RMB 1 each and rank pari passu in all respects, except for certain conditions on restricted A shares as stated above, while H shares can only be owned and traded by overseas investors and A shares can only be owned and traded by PRC investors.

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35. RESERVES

(a) According to the relevant laws and regulations and the Articles of Association of respective companies comprising the Group, 10% of profit after taxation reported under PRC GAAP is required to be transferred to statutory surplus reserve until the statutory surplus reserve reaches 50% of the registered capital of the respective companies. Upon approval from the authorities, the statutory surplus reserve can be used to offset accumulated losses or to increase share capital. When it is utilised to increase share capital, the remaining balance of the statutory surplus reserve cannot fall below 25% of the share capital.

(b) According to the Articles of Association of respective companies comprising the Group, 10% of profit after taxation reported under PRC GAAP is required to be transferred to the statutory public welfare reserve.

In accordance with the amendment of the Company Law of PRC on 27th October 2005 and effective from pursuant to 1st January 2006, and pursuant to the Company's Articles of Association and the board resolution, the Company decided not to accrue for statutory public welfare reserve from the year 2006. In accordance with the "Circular on Accounting Treatment Following the Implementation of Company Law" issued by Ministry of Finance on 15th March 2006, the balance of statutory public welfare reserve amounting to RMB159,075,000 of the Group as at 31st December 2005 have been converted into statutory surplus reserve.

(c) According to the Company's and the subsidiaries' Articles of Association, the Board of Directors, after obtaining approval from the shareholders, has the discretion to provide for discretionary surplus reserve. Upon approval from the authorities, the discretionary surplus reserve can be used to make up any losses incurred or to increase share capital.

36. ACQUISITION OF ASSETS/SUBSIDIARIES

(a) During the year, the Group acquired 65% equity interest in a real estate development company, Beijing Bohong Real Estate Development Company Limited ("Beijing Bohong"), for a consideration of RMB100,000,000. The principal asset of Beijing Bohong comprises property under development situated in the PRC. These acquisitions have been accounted for as acquisitions of assets as the major assets held by these subsidiaries are property interests. The net assets acquired in this transaction are as follows:

	RMB'000
Property, plant and equipment	318
Intangible assets	40
Properties under development for sale	366,105
Trade and other receivables	2,138
Bank balances and cash	38,745
Trade and other payables	(145,500)
Borrowings	(108,000)
	153,846
Minority interests	(53,846)
Total consideration	100,000
Satisfied by:	
Cash consideration	100,000
Net cash outflow arising on acquisition:	
Cash consideration paid	100,000
Bank balances and cash acquired	(38,745)
	61,255

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For the year ended 31st December 2007

36. ACQUISITION OF ASSETS/SUBSIDIARIES (CONTINUED)

(b) In January 2007, Shanghai WSP became a subsidiary of the Group as the Group is able to control the board of directors of the Company pursuant to power of attorney issued by another major shareholder of Shanghai WSP to the Group, which empower, the Group to execute her voting right in the board of directors of Shanghai WSP for the period from January 2007 to December 2011.

	RMB'000
Property, plant and equipment	2,062
Inventories	262
Trade and other receivables	2,536
Bank balances and cash	2,166
Trade and other payables	(360)
	6,666
Minority interests	(3,333)
	3,333
Transfer from interest in jointly controlled entity	(3,333)
	–
Net cash inflow arising on acquisition	
Purchase consideration	–
Cash and cash equivalents in subsidiary acquired	(2,166)
	(2,166)

The acquiree's carrying value of net assets before combination approximates to its fair value.

The acquiree has contributed total revenue of RMB8,160,000 and profit before taxation to the Group of approximately of RMB3,027,000 for the year.

(c) In January 2006, Wuxi Textile Technology Testing Company Limited became a subsidiary of the Group as the Group is able to control the board of directors of the Company. During 2006, the Group further acquired 10% equity interest in Wuxi Hongda Textile Machinery and Special Parts Company Limited at a consideration of RMB4,800,000 and 96.68% equity interest in Xianyang Wei'er Machinery Company Limited at a consideration of RMB1,880,000. Theses transactions have been accounted for using the purchase method.

	RMB'000
Net assets acquired	47,179
Fair value adjustments	2,143
Fair value of net assets acquired	49,322
Minority interests	(31,705)
	17,617
Transfer from interests in associates	(11,060)
	6,557
Goodwill	2,259
Discount on acquisition	(2,136)
	6,680
Satisfied by:	
Cash consideration	6,680
Net cash inflow arising on acquisition:	
Cash consideration	6,680
Cash and cash equivalents in subsidiaries acquired	(7,592)
	(912)

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For the year ended 31st December 2007

37. DISPOSAL OF A SUBSIDIARY

In November 2006, the Group disposed of a 40% equity interest in Beijing Chen Yu at a consideration of RMB26,000,000. Beijing Chen Yu's assets and liabilities as at date of disposal were as follows:

	RMB
Net assets disposed of	68,199
Minority interests	(21,193)
	47,006
Satisfied by:	
Cash consideration	26,000
Transfer to interest in an associate	21,006
	47,006
Net cash outflow arising on disposal:	
Cash consideration	26,000
Bank balances and cash disposed of	(13,043)
	12,957

38. COMMITMENTS

(a) Capital commitments

	2007 *RMB'000*	**2006** *RMB'000*
Authorised but not contracted for	9,410	10,000
Contracted but not provided for	12,294	5,248
	21,704	15,248

(b) Lease commitments

At the balance sheet date, the Group had commitments for future aggregate minimum lease payments under non-cancellable operating leases which fall due as follows:

	2007 *RMB'000*	**2006** *RMB'000*
Land and buildings		
Within one year	10,331	10,728
In the second to fifth years inclusive	4,026	1,718
	14,357	12,446

Operating lease payments represent rentals payable by the Group for certain of its offices and sales offices. Leases are negotiated for an average term of two years and rentals are fixed for an average of two years.

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39. CONTINGENT LIABILITIES

	2007 *RMB'000*	2006 *RMB'000*
Guarantees for bank loans of third party	150,000	235,000
Guarantees for mortgage bank loans of customers	92,811	–
	242,811	235,000

The directors consider the fair values of the financial guarantee contracts granted by the Group at the date of inception were insignificant during both years.

40. RETIREMENT BENEFIT PLANS

State-managed retirement plan

The employee of the Group in the PRC are members of state-managed retirement benefit plans operated by the government of the PRC. The subsidiaries are required to contribute 25% (2006: 25%) of payroll costs to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions. The total expenses recognised in the consolidated income statement of RMB65,155,000 (2006: RMB56,802,000) represents contributions payables to these plans by the Group at rates specified in the rules of plans.

At 31st December 2007, contributions totalling RMB7,831,000 (2006: RMB9,312,000) were payable to the retirement schemes and were included in other payables and accruals. There were no forfeited contributions utilised during the year or available at 31st December 2007 to reduce future contributions (2006: nil).

Retirement and supplemental benefit obligations

The Group paid post-retirement supplemental benefits to its qualifying retired employees in the PRC. In addition, the Group was committed to make periodic benefits payments to the dependents of certain deceased employees in accordance with various employee benefit schemes adopted by the Group.

The amount of retirement and supplemental benefit obligations recognised in the balance sheet is determined as follows:

	2007 *RMB'000*	2006 *RMB'000*
Present value of unfunded defined benefit obligations	136,700	164,120
Net actuarial gains (losses) not recognised	9,910	(14,490)
Net liability arising from defined benefit obligations	146,610	149,630

Movements in the present value of the retirement and supplemental benefit obligations during the year are as follows:

	2007 *RMB'000*	2006 *RMB'000*
At beginning of the year	164,120	161,780
Interest cost	5,520	5,200
Benefits paid	(8,260)	(7,670)
Actuarial (gains) losses	(24,680)	4,810
At the end of the year	136,700	164,120

The above obligations were determined based on actuarial valuations performed by an independent firm of actuaries, Towers Perrin, using the projected unit credit method.

The net expenses recognised in the consolidated income statement of the Group for the year is RMB5,520,000 (2006: RMB5,200,000).

Notes to the Consolidated Financial Statements
For the year ended 31st December 2007

40. RETIREMENT BENEFITS PLAN (CONTINUED)

Retirement and supplemental benefit obligations (continued)

The principal assumptions used for the purposes of the actuarial valuations are as follows:

	2007	2006
	%	%
Discount rate	4.75	3.25
Medical cost trend	6.00	6.00
Cost of living adjustment for beneficiaries	4.50	4.50
Mortality rate	China Life Annuity Mortality table 2000-03 up 2 years	

An increase of one percentage point in the assumed medical cost trend rates:

(i) would result in an increase of RMB399,000 and RMB395,000 on the aggregate of the current service cost and interest cost components of net periodic post-employment medical costs for the year ended 31st December 2006 and 2007 respectively.

(ii) would result in an increase of RMB12,145,000 and RMB10,739,000 on the accumulated post-employment benefit obligation for medical costs for the year ended 31st December 2006 and 2007 respectively.

41. RELATED PARTIES TRANSACTIONS

Other than the transactions and balances with related parties disclosed in respective notes to consolidated financial statements, during the year, the Group has the following transactions with its related companies:

(a) (i) Transactions with holding companies

	2007	2006
	RMB'000	*RMB'000*
Other supporting services income received	2,900	2,900

(ii) Transactions with fellow subsidiaries

	2007	2006
	RMB'000	*RMB'000*
Sales of goods and services		
Sale of finished goods	154,731	43,933
Sale of materials, parts and components	242,603	353,850
Other supporting services income received	8,810	5,726
Processing fee received	1,265	–
Rental income received	7,147	6,076
Purchases of goods and services		
Purchase of finished goods	333,378	423,715
Purchase of materials, parts and components	272,481	266,509
Purchase of intangible assets	–	11,974
Purchase of energy	2,438	5,292
Processing fee paid	42,871	154,153
Transportation services expense paid	395	8,751
Repairs and maintenance services expense paid	22,813	25,385
Other supporting services expense paid	7,312	8,795
Rental expense paid	605	1,297
Staff accommodation rental expense paid	–	346
Estate administrative expense paid	–	1,368
Interest paid	1,480	1,297

Notes to the Consolidated Financial Statements
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41. RELATED PARTIES TRANSACTIONS (CONTINUED)

(iii) Transactions with associates

	2007 *RMB'000*	2006 *RMB'000*
Sales of goods and services		
Sale of finished goods	493,821	292,714
Sale of materials, parts and components	1,756	–
Processing fee received	665	480
Purchases of goods and services		
Purchase of finished goods	–	15,016
Purchase of materials, parts and components	82,334	47,396

(iv) Transactions with jointly controlled entities

	2007 *RMB'000*	2006 *RMB'000*
Sale of finished goods	37	69,383
Purchase of materials, parts and components	–	2,068

(v) Transactions with companies in which certain key management personnel of the subsidiaries of the Company have influence in

	2007 *RMB'000*	2006 *RMB'000*
Sale of materials, parts and components	91,607	110,761
Purchase of goods and services		
Purchase of finished goods	77,123	79,111
Purchase of materials, parts and components	346,298	327,417
Processing fee paid	944	–

(b) Transactions with other state-owned entities

	2007 *RMB'000*	2006 *RMB'000*
Sales of goods and services		
Sale of finished goods	619,234	466,171
Sale of materials, parts and components	51,156	311
Other supporting services income received	502	–
Interest received	1,184	1,585
Purchases of goods and services		
Purchase of finished goods	1,317	5,870
Purchase of materials, parts and components	168,168	251,847
Purchase of energy	48,902	58,375
Processing fee paid	3,056	253
Delivery fee paid	1,146	1,929
Interest paid	8,990	28,924
Borrowings raised from state-owned banks	170,000	80,919

(c) Compensation of key management personnel

	2007 *RMB'000*	2006 *RMB'000*
Salaries and other short-term employee benefits	13,711	10,090
Post-employment benefits	288	131
	13,999	10,221

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42. SUBSIDIARIES

Details of the subsidiaries at 31st December 2007 are as follows:

Name of company	Place of incorporation and operation/ date of establishment	Issued and fully paid share capital	Attributable equity interest of the Group Indirectly %	Directly %	Principal activities
Jingwei Textile Machinery Yuci Material Company Limited	PRC 9th July 1996	RMB5,000,000	0.8	99.2	Trading of furnace materials, metals, textile machinery component and charcoal
Taiyuan Jingwei Electrical Company Limited	PRC 18th March 1997	RMB 5,000,000	2	98	Manufacturing and sales of transformers and electrical components
Qingdao Hongda Textile Machinery Company Limited	PRC 16th August 1999	RMB114,000,000	–	98	Manufacturing, sales and leasing of textile machinery and related components
Tianjin Hongda Textile Machinery Company Limited	PRC 17th August 1999	RMB78,500,000	–	98	Sales of textile, photocopying, agriculture processing machinery and related components
Zhengzhou Hongda New Textile Machinery Company Limited	PRC 11th August 1999	RMB74,500,000	–	98	Developing and manufacturing of textile machinery and related components
Shenyang Hongda Textile Machinery Company Limited	PRC 16th August 1999	RMB71,000,000	–	98	Developing, manufacturing and processing of textile machinery and related components
Changde Textile Machinery Company Limited	PRC 5th January 2002	RMB42,349,900	25	70	Manufacturing and trading of textile machinery and other machinery
Beijing Jingwei Textile Machinery New Technology Company Limited ("Beijing New Tech")	PRC 2nd March 2000	RMB100,000,000	–	98.4	Technical development and manufacturing of textile machinery, sale of textile, industrial specialised machinery
Shanghai Weixin Electrical and Machinery Company Limited	PRC 30th June 2000	RMB16,000,000	10	90	Textile machinery, automobile component and general machinery's development and manufacturing
Beijing Jingpeng Investment Management Company Limited ("Beijing Jingpeng")	PRC 30th July 2001	RMB100,000,000	4	96	Investment management, sales of electronic and chemical products
Shanghai Chuangan Trading Company Limited	PRC 29th September 2001	RMB2,000,000	–	90	Trading of textile, electronic products and chemical products

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42. SUBSIDIARIES (CONTINUED)

Name of company	Place of incorporation and operation/ date of establishment	Issued and fully paid share capital	Attributable equity interest of the Group Indirectly %	Directly %	Principal activities
Shanghai Jingwei Dongxing blowing-carding Machinery Company Limited	PRC 5th September 2001	RMB50,000,000	10	73.874	Manufacturing and sales of blowing-carding machinery and related components
Beijing Ximen Information Technology Company Limited	PRC 7th June 2001	RMB12,000,000	63.08	–	Research and development and sales of softwares
Wuxi Jingwei Textile Technology and Testing Company Limited	PRC 14th May 2003	RMB49,530,000	–	66.55	Manufacturing and sales of textile products; research and development of technology relating to textile machinery and equipments
Kunshan Jingwei Machinery Manufacturing Company Limited	PRC 20th July 1991	RMB3,208,260	25	75	Manufacturing and installation of textile machines
Tianjin Jingwei New Type Textile Machinery Company Limited	PRC 16th August 2005	RMB16,000,000	25	75	Developing and processing textile machinery and related components
Shenyang Hongda Huaming Textile Machinery Company Limited	PRC 13th July 2005	RMB40,000,000	98.5	–	Development and processing of textile machinery and related components
Wuxi Textile Technology Testing Company Limited ("Wuxi Testing") (Note b)	PRC 31st December 2005	RMB1,000,000	100	–	Manufacturing and sales of textile products; textile machinery and related components
Wuxi Hongda Textile Machinery and Special Parts Company Limited ("Wuxi Hongda") (Note b)	PRC 13th March 2005	RMB20,000,000	25	10	Manufacturing of textile machinery and related components, general machinery and component, advanced textile machinery
Xianyang Wei'er Machinery Company Limited ("Xianyang Wei'er")	PRC 9th April 1999	RMB75,079,600	–	99.33	Manufacturing of weaving machines and equipments, and provision of relevant consulting service
Yichang Jingwei Textile Machinery Company Limited	PRC 22nd December 2006	RMB20,000,000	25	75	Development and manufacturing of textile machine
Jinzhong Jingwei Ring Manufacturing Company Limited	PRC 24th September 1993	RMB500,000	–	98	Manufacturing of textile machinery components
Hong Kong Huaming Company Limited (Note a)	Hong Kong 31st December 2000	USD7,700,000	–	100	Provision of general trading and consulting services

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42. SUBSIDIARIES (CONTINUED)

Name of company	Place of incorporation and operation/ date of establishment	Issued and fully paid share capital	Attributable equity interest of the Group Indirectly %	Directly %	Principal activities
Shanxi Jingwei Heli Machinery Manufacturing Company (Note b)	PRC 26th February 2003	RMB100,000,000	–	30	Designing and manufacturing of various electromechanical products and mining products
Beijing Bohong Real Estate Development Company Limited ("Beijing Bohong") (Note c)	PRC 28th May 2001	RMB100,000,000	65	–	Real estate development
Shanghai WSP Mould and Injection Plastic company Limited (Note d)	PRC 14th May 2005	RMB5,256,800	–	50%	Development manufacturing and trading of textile machinery, automobile component, mould and general machinery

Notes:

(a) Several shareholders of Wuxi Hongda assigned their voting rights to the Group for the period from January 2006 to May 2009 by issuing a power of the attorney to the Group. Accordingly, Wuxi Hongda is accounted for as subsidiary of the Group.

(b) Except for Hong Kong Huaming Company Limited which was incorporated and operated in Hong Kong with limited liabilities, all other subsidiaries are limited liability companies established and operated in the PRC.

(c) Several shareholders of Shangxi Jingwei assigned their voting rights to the Group since the date of the acquisition agreement by issuing a power of the attorney to the Group. Accordingly, Shanxi Jingwei is accounted for as subsidiary of the Group.

(d) During the year, the Group acquired 65% equity interest in Beijing Bohong. Please refer to note 36 for details.

(e) Several shareholders of Shanghai WSP assigned their voting rights to the Group for the period from January 2007 to December 2011 by issuing a power of the attorney to the Group. Accordingly, Shanghai WSP is accounted for as subsidiary of the Group.

Chapter XV Documents Available for Inspection

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

1. The accounting statements duly signed and sealed by the authorised representative, the person in charge of finance and the person in charge of accounting;

2. The original copy of the auditor's report duly hand signed by Deloitte Touche Tohmatsu CPA Limited and certified public accountants registered in the PRC and the original copy of the auditor's report signed by Deloitte Touche Tohmatsu and financial statements prepared under HKFRS;

3. Original of all documents and public announcements which had been disclosed in the newspapers for company information disclosure during the reporting period and original of such manuscripts;

4. 2007 annual reports (both English and Chinese versions).

Friend of Worldwide Textile Industry

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