

Report of the Directors

The Board of Directors is pleased to present the report of the directors and audited financial statements for the year ended 31st December 2000 to the shareholders.

1. Operating conditions of the Company

- (1) The Company is one of the largest manufacturers of textile machinery in the PRC. It is principally engaged in the manufacture and sales of textile machinery and its components.

In 2000, the domestic economy maintained its trend of swift development. On the foundation that the entire textile industry became profitable in 1999, there was steady growth in returns. Coupled with the gradual recovery of the economy of the Company's major exporting regions, the production operations of the Company was greeted with a sound macroeconomic environment. In particular, under the stewardship of the Management, the workers of the Company became proactive in expanding, committed in efforts and better in securing market opportunities and achieved the better results in its history.

Pursuant to the financial statements prepared in accordance with the HK GAAP, the Company's turnover and profit attributable to shareholders for the year ended 31st December 2000 amounted to RMB1,808,125,000, and RMB133,875,000 respectively, representing increases of 125% and 52.79% respectively over the previous year.

On the basis of the financial statements prepared in accordance with the PRC GAAP, the turnover of the Company for the year ended 31st December 2000 was RMB1,808,125,000, representing an increase of 125% over the previous year. The net profit was RMB133,933,000 representing an increase of 51.17% over the previous year.

In 2000, the turnover and net profit of the Company were RMB798,129,000 and RMB133,311,000, representing increases of 39.09% and 50.6% respectively over the previous year.

The operating conditions and results of the subsidiaries and the associated company of the Company are set out below:

- (2) In respect of our subsidiaries, the turnover and net profit of Zhengzhou Hongda New Textile Machinery Company Limited were RMB165,663,000 and RMB10,804,000 respectively.

The turnover and net profit of Qingdao Hongda Textile Machinery Company Limited were RMB441,707,000 and RMB26,190,000 respectively.

The turnover and net profit of Shenyang Hongda Textile Machinery Company Limited were RMB141,702,000 and RMB9,689,000 respectively.

The turnover and net profit of Tianjin Hongda Textile Machinery Company Limited were RMB181,492,000 and RMB11,702,000 respectively.

The export sales of the Company was RMB183,334,000, which accounted for 10.14% of the total turnover for 2000, representing a decrease of 6.32% compared with the previous year.

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- (3) An analysis of the Turnover and Contributions to Operating Profit prepared in accordance with the accounting principles generally accepted in Hong Kong

	Turnover RMB'000	Contributions to operating profit RMB'000
Manufacture and sales		
Natural fibre textile machinery	1,386,771	
Chemical fibre textile machinery	182,694	
Textile machinery series	68,597	
Textile machinery components and special parts	100,034	
Other products	<u>70,029</u>	
	<u>1,808,125</u>	364,120
Other revenues		15,134
Distribution expenses		(54,537)
Administrative expenses		(161,657)
Net interest expenses		(16,657)
Other operating expenses		<u>(301)</u>
Profit from ordinary activities		<u>146,102</u>
Major markets		
The People's Republic of China	1,624,791	
South Asia	46,628	
Southeast Asia	85,124	
Africa	24,097	
Others	<u>27,485</u>	
	<u>1,808,125</u>	

- (4) Problems faced by the Company during operations and its remedial measures

In 2000, there were increases in demand for domestic textile machinery, especially that of the major products of the Company, resulting in a serious imbalance of its production schedule and actual output. The measures undertaken by the Company were: adjustment of the production organisational structure in time and enhancement of incentive mechanisms to upgrade production efficiency.

2. Financial position of the Company

Items	2000 RMB'000	1999 RMB'000	Changes in %
Total assets	3,673,565	1,926,711	90.67
Long-term liabilities	71,290	28,000	154.61
Shareholders' equity	2,128,315	826,000	157.67
Operating profit	362,410	175,651	106.32
Net profit	133,933	88,598	51.17

The increase in total assets was mainly due to the issuance of new shares during the year.

The increase in long-term liabilities was mainly due to the increase in borrowings for the technology upgrading projects during the year.

The increase in shareholders' equity was mainly due to the issuance of new shares at a premium and the increase of profit during the year.

The increase in operating profit was mainly due to significant increases in sales.

The increase in net profit was mainly due to significant increases in sales.

3. Use of proceeds raised by the Company

In May 2000, the Company issued 180,000,000 A Shares and the net proceeds arising therefrom, after deduction of related listing expenses, were RMB1,234,800,000, among which of RMB298,670,000 were used for the following purposes in accordance with the prospectus during the period of this year.

- a. new cotton yarn equipment project: planned investment of RMB149,200,000 with actual at investment of RMB17,460,000, of which
 - RMB4,490,000 was for the research and development of new 短流程開清梳聯合機；
 - RMB4,020,000 was for the research, development and production of a new series of 並條機；
 - RMB5,120,000 was for development of 多電機分部傳動懸錠粗紗機；
 - RMB3,830,000 was for the development of new 高速轉杯紡紗機；
- b. establishment of technological development centre project: planned investment of RMB72,200,000 with actual at investment of RMB38,340,000, of which
 - RMB18,400,000 was for investment in new technology companies;
 - RMB19,940,000 was for purchase of new premises for research and development use.
- c. Project of local productions of important technologies and of the State: planned investment of RMB82,500,000 with actual investment at RMB2,820,000 for domestication local productions of automatic machine.
- d. Working capital of RMB240,050,000.

As at 31st December 2000, funds not yet utilised and deposited in banks amounted to RMB936,130,000.

4. Year 2001 Prospects

With the completion of the three-year assignment of reforms and reengineering of the State-owned enterprises, the next five to ten years is a key period for strategic adjustments of the structure of the national economy. The PRC is expected to achieve the historical transformation from a large textile country to that of a giant textile country. Advances in technology and upgrade improvement of the industry will become key assignments of the textile industry of the new century. Applying new high technology to innovate the traditional textile industry will pose higher demands on the textile machinery industry. Accelerating the pace of domestic production and upgrading of textile machinery products will bring about a good opportunity for development of the textile machinery industry. In view of this, the Company will focus on the following area:

- (1) improve principal business, strengthen product development and increase potential for corporate development

The strategic directions of the development of the Company are to introduce new textile machinery for its principal business, to be the largest in its industry and to be the strongest amongst enterprises.

The Company will follow the product development planning of "production, trial, research and concept" in hastening the extent and speed of new product development. In 2001, the Company will complete its technology development centre, establish its cotton and textile machinery trial centre and construct its model factory for full sets of cotton and textile equipment. Within three to five years, the level of our design and production of cotton and textile machinery shall reach international advanced standards. The focus of production and operation for the current year is upgrading to different levels for serialisation of products at high, medium and low ends as well as driving the process of innovation of the traditional industry with new and high technology.

- (2) strengthen basic management and enhance corporate economic returns

The Company will impose strict governance of the enterprises by enhancing and establishing different systems of regulations, implementing the JW-CIMS process and network cooperation amongst Group companies, implementing a system of comparative pricing for sourcing and strengthening the management of the systems of quality management, evaluation of economic responsibility and personnel. We will continue to carry out cost controls and capital management by using financial management as the focal point and implement the activities of "double increases - double savings" in our efforts to reduce costs.

- (3) manage capital operations and speed up corporate development

The Company will capitalise its existing advantages of having adequate funds in entering new economy and new arena by exploiting the core technology of the Company with breakthroughs in new materials and automation which will become the new sources of profit growth for the Company.

5. Report on the work of the Directors

Board meetings held during the period of this report and contents of resolutions passed

(1) On 10th March 2000, the six meeting of the second term of the Board of Directors was held in Beijing and the following resolutions were considered and passed;

- (i) the working report of the general manager for 1999 and the operating plan of the Company for 2000;
- (ii) the proposals on the internal control system of the 4 reserves and their appropriations;
- (iii) the financial statements of the Company for 1999;
- (iv) the profit distribution proposal of the Company for 1999: the Company has realised net profits of RMB88,598,002, 10% of which, i.e. RMB8,851,976 will be appropriated to each of the statutory reserve and the statutory public welfare fund respectively. The remaining balance, when combined with the undistributed profit of RMB56,304,361 brought forward at the beginning of the year, leaves a total profit of RMB127,198,411 available for distribution to the shareholders. In view of the operating conditions in 1999 and the future development of the Company, the Board resolved not to make any profit distribution nor any increase in capital by means of transfer from capital reserve in respect of 1999;
- (v) the annual report of the Company for 1999;
- (vi) the election of Mr. Fan Xinmin as Vice-chairman of the Company;
- (vii) the appointments of Mr. Li Chuanhua and Mr. Tong Wenqi as deputy general managers of the Company;
- (viii) the resignation of Yang Peizhou as Secretary of the Board of the Company and the appointment of Ye Xuehua in his stead;
- (ix) the proposed organisational structure;
- (x) the proposal of amendment of Article 116 of the Articles of Association of the Company by deleting the sentence "The Company shall have 3 to 5 deputy general managers.", and replacing it with "The Company shall have 3 to 5 deputy general managers, a financial controller, a chief engineer and a chief economist. Deputy general managers, financial controller, chief engineer and chief economist shall be nominated by the general manager."

The press announcements in respect of the resolutions considered and passed were published on 11th March 2000 in the Securities Times and in the Wen Wei Po and the Hong Kong Standard in Hong Kong.

(2) On 9th May 2000, the seventh meeting of the second term of the Board of Directors was held in Beijing and the following resolutions were considered and passed:-

- (i) The meeting was held pursuant to the authorities given to the Board of Directors by the resolutions of the Extraordinary General Meeting, the class meeting of holders of A Shares and the class meeting of the holders of H Shares of the Company held on 15th November 1999 in respect of the matters relating the A Share Issue, and having taken adequate consideration of the significant growth in turnover of the Company subsequent to the Asset Exchange and the prevailing changes in the conditions of the stock market. New adjustments in respect of the price range and means of issue of the A Share Issue for the development of the Company and safeguard the best interests of the shareholders were approved.
- (ii) The proposal of relieving the duties of Mr. Tong Wenqi as deputy general manager of the Company was considered and approved.

The press announcements in respect of the resolutions considered and passed were published on 10th May 2000 in the Securities Times in the PRC and in the Wen Wei Po and the Hong Kong Standard in Hong Kong.

(3) On 14th August 2000, the eighth meeting of the second term of the board of directors was held in Beijing and the following resolutions were considered and passed:-

- (i) the interim report of the Company for 2000 was approved;
- (ii) the proposal of not making any profit distribution nor increasing in share capital by means of transfers from capital reserve at the interim period of 2000 was approved;
- (iii) the resignation of Mr. Liu Shitong as general manager of the Company was approved;
- (iv) the proposal of appointment of Mr. Ye Maoxin as general manager of the Company was approved;
- (v) the proposal of appointments of Mr. Yao Yuming as executive deputy general manager, Mr. Lin Jianwang and Ms. Shu Hong as deputy general managers of the Company was approved;
- (vi) the proposal of retirement of Mr. Li Weihua as deputy general manager of the Company was approved.

The press announcements in respect of the resolutions considered and passed were published on 15th August 2000 in the Securities Times in the PRC and in the Wen Wei Po and the Hong Kong Standard in Hong Kong.

6. Information on the management and staff

(1) Directors, supervisors and senior management

The following is a list of all current directors, supervisors and senior management:

Executive directors

Mr. Yin Shouen, aged 59, senior engineer, is the Chairman of the Company and, currently, the deputy general manager of China National Textile Machinery (Group) Company Limited.

Mr. Liu Shitong, aged 59, senior economist, is the Vice-Chairman of the Company.

Mr. Fan Xinmin, aged 50, senior economist, is the secretary of the party committee and Vice-Chairman of the Company.

Mr. Ye Maoxin, aged 38, senior engineer, is the general manager of the Company.

Mr. Li Shaoping, aged 50, senior accountant, is the head of the finance department of China National Textile Machinery (Group) Company Limited.

Mr. Yao Yuming, aged 39, senior accountant, is the executive deputy general manager of the Company.

Mr. Lu Chengye, aged 53, economist, is the head of Zhengzhou Textile Machinery Factory and Chairman of Zhengzhou Hongda New Textile Machinery Company Limited.

Mr. Gong Enqing, aged 53, engineer, is the head of Qingdao Textile Machinery Factory and Chairman of Qingdao Hongda Textile Machinery Company Limited.

Mr. Liu Xianming, aged 39, senior engineer, is the head of Shenyang Textile Machinery Factory and Chairman of Shenyang Hongda Textile Machinery Company Limited.

Mr. Zhang Jianguo, aged 49, economist, is the head of Tianjin Textile Machinery Factory and Chairman of Tianjin Hongda Textile Machinery Company Limited.

Mr. Wang Weizhi, aged 44, senior political engineer, is the general manager of Jingwei Textile Machinery (Holding) Company Limited.

Non-executive directors

* Mr. Wang Zengjing, aged 68, is the head of the PRC Textile Industry Federation and the Vice-Chairman of the PRC Small to Medium Enterprises International Cooperation Association.

* Mr. Kong Hui King, Kenneth, aged 39, an executive director of Dan Form Holdings Co., Ltd.

* Members of the audit committee.

Supervisors

Mr. Lu Yunliang, aged 51, senior engineer, is the Chairman of the supervisory committee and, currently, the Chairman and general manager of China National Textile Machinery (Group) Company Limited.

Mr. Tu Kelin, aged 50, senior engineer, is the assistant to the general manager and head of the personnel department of China National Textile Machinery (Group) Company Limited.

Mr. Bao Shanjun, aged 49, economist, is the deputy general manager of Jingwei Machinery (Group) Company Limited.

Mr. Cong Yongfa, aged 43, political engineer, is the head of the foundry of Jingwei Machinery (Group) Company.

Mr. Yang Enchang, aged 59, economist, is the Chairman of the Supervisory Committee of Shenyang Hongda Textile Machinery Company Limited.

Deputy general managers

Mr. Lin Jianwang, aged 45, is a senior engineer.

Ms. Shu Hong, aged 37, is a senior engineer.

Mr. Zhang Qingxi, aged 56, is a senior engineer.

Company secretary

Mr. Ye Xuehua, aged 36, is a senior engineer.

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Term of office, equity interest and annual remuneration of directors, supervisors and senior management

As at 31st December 2000, the equity interests of the directors, supervisors and senior management of the Company in the share capital of the Company and their remuneration for the year are as follows

Name	Position	Gender	Terms of office	Number of A Shares held at		Annual remuneration (RMB)
				beginning	end	
Yin Shouen	Chairman	Male	15/8/1998 - 15/8/2001	0	0	Not collected in the Company
Liu Shitong	Vice-chairman	Male	15/8/1998 - 15/8/2001	3,200	12,800	Not collected in the Company
Fan Xinmin	Vice-chairman	Male	15/8/1998 - 15/8/2001	0	0	Not collected in the Company
Ye Maoxin	Director	Male	15/8/1998 - 15/8/2001	2,550	10,214	38,132
Li Shaoping	Director	Male	15/8/1998 - 15/8/2001	0	0	Not collected in the Company
Yao Yuming	Director	Male	15/8/1998 - 15/8/2001	2,300	9,200	32,390
Lu Chengye	Director	Male	15/11/1999 - 15/8/2001	0	0	Not collected in the Company
Gong Enqing	Director	Male	15/11/1999 - 15/8/2001	0	0	Not collected in the Company
Liu Xianming	Director	Male	15/11/1999 - 15/8/2001	0	0	Not collected in the Company
Zhang Jianguo	Director	Male	15/11/1999 - 15/8/2001	0	0	Not collected in the Company
Wang Weizhi	Director	Male	15/11/1999 - 15/8/2001	0	0	Not collected in the Company
Wang Zengjing	Non-executive Director	Male	16/6/1999 - 15/8/2001	0	0	Not collected in the Company
Kon Hiu King, Kenneth	Non-executive Director	Male	16/6/1999 - 15/8/2001	0	0	Not collected in the Company
Lu Yunliang	Chairman of the supervisory committe	Male	15/5/2000 - 15/8/2001	0	0	Not collected in the Company
Tu Kelin	Supervisor	Male	15/5/2000 - 15/8/2001	0	0	Not collected in the Company
Bao Shanjun	Supervisor	Male	15/8/1998 - 15/8/2001	0	0	Not collected in the Company
Yang Enchang	Supervisor	Male	15/2/2000 - 15/8/2001	0	0	Not collected in the Company
Cong Yongfa	Supervisor	Male	15/8/1998 - 15/8/2001	2,300	7,000	Not collected in the Company
Lin Jianwang	Deputy general manager	Male		0	0	27,462
Shu Hong	Deputy general manager	Female		0	0	18,147
Zhang Qingxi	Deputy general manager	Male		2,370	2,370	29,862
Ye Xuehua	Secretary of the Board	Male		0	0	15,907

The increase in the number of shares held by each of the existing directors, supervisors and senior management of the Company at the end of the year was the result of a placement of new shares by the Company to its then existing shareholders.

Changes in directors, supervisors and senior management

With the approval of the 1999 Annual General Meeting, Ms. Gu Pei and Mr. Zhang Jie resigned from the office of supervisors and Mr. Lu Yunliang and Mr. Tu Kelin were appointed supervisors of the Company. At the seventh and eighth meetings of the second term of the board of directors, it was approved that Mr. Tong Wenqi and Mr. Li Chuanhua be relieved as deputy general managers of the Company. With the approval of the eighth meeting of the second term of the board of directors, Mr. Liu Shitong resigned from the office of general manager of the Company and Mr. Ye Maoxin was appointed general manager and Mr. Lin Jianwang and Ms. Shu Hong as deputy general managers of the Company.

(2) Staff

The Company places strong emphasis on enhancing the competence and quality as well as actively strengthening the training of its staff. As at 31st December 2000, the total number of the Company's staff was 8,848, among which the number of senior, middle and junior management staff were 189, 697 and 626 respectively. Amongst them, 772 were deployed to technical, scientific research and development, 364 in sales and marketing, 669 in operations management, 177 in finance, 5,790 in production and 1,076 in others.

Besides, the number of retired staff was 1,558 as at 31st December 2000.

7. Profit distribution proposal for the current year

In 2000, the Company has realized net profit of RMB133,311,000, 10% of which totalling RMB13,331,000 will be appropriated to each of the statutory surplus reserve fund and statutory public welfare fund respectively in accordance with the Articles of Association of the Company. The current year's balance of profit of RMB106,649,000 available for distribution, when aggregated with the undistributed profit of RMB127,120,000 at the beginning of the year, amounted to a total profit of RMB233,769,000 available for distribution to the shareholders. A final dividend of RMB0.11 (before tax) per share was declared, making an aggregate of RMB66,418,000. The balance of the undistributed profit of RMB167,351,000 will be carried forward to the following year.

8. Forecast of profit distribution policy for 2001

- (1) Dividend distribution for 2001 will only be made once;
- (2) The percentage of the net profit available for distribution for 2001 will be at 10%;
- (3) The percentage of the undistributed profit available for distribution as at the end of 2000 will not be less than 20%;
- (4) The dividend distribution in respect of 2001 will be in the form of cash.

The Board of Directors of the Company reserves its rights to adjust the dividend distribution policy subject to the then actual circumstances.

9. Other matters

- (1) Interests of directors and supervisors in contracts

Apart from the service contracts, none of the directors or supervisors of the Company held any material interests, whether directly and indirectly, in any contracts of significance to the Company, its holding company or any of its fellow subsidiaries at the end of the year or at any time during the year.

- (2) Directors' and supervisors' rights to subscribe for shares or debentures

Save as disclosed above, none of the directors, supervisors and any of their spouse or children under the age of 18 held any shares in, debentures of, or other interests in the Company, nor was granted or exercised any rights to subscribe for any shares or debentures of the Company.

(3) Highest paid individuals

The five highest paid individuals of the Company during the year were employees of the Company.

(4) Major customers and suppliers

The percentage of the Group's turnover for the year ended 31st December 2000 attributable to the five largest customers of the Group was less than 30%.

The percentage of the Group's purchases for the year ended 31st December 2000 attributable to the five largest suppliers of the Group was less than 30%.

None of the directors, supervisors or their respective associates had any interests in the five largest customers and suppliers of the Group at any time during the year.

(5) Financial highlights

The results of the Group for each of the three years ended 31st December 2000, prepared in accordance with the PRC accounting rules and regulations, are set out on page 3.

The results and balance sheet of the Group for each of the five years ended 31st December 2000, prepared in accordance with the accounting principles generally accepted in Hong Kong, are set out on pages 5 to 6.

(6) Fixed assets

Details of movement in the fixed assets during the year are set out on pages 46 to 47 and 74 to 75.

(7) Share capital

Details of movement in the share capital during the year are set out on pages 51 and 79.

(8) Reserves

Details of movement in the reserves of the Group and the Company during the year are set out on pages 51 to 52 and 80.

(9) Bank loans

Particulars of the bank loans of the Group and the Company as at 31st December 2000 are set out on pages 48, 50 and 81.

(10) Purchase, sale and redemption of the Company's securities

Neither the Company nor any of its subsidiaries has purchased, sold and redeemed any of the Company's securities during the year.

(11) Pre-emptive rights

There is no provision in the Articles of Association of the Company for pre-emptive rights in respect of the shares of the Company.

(12) Retirement scheme

The Group's contributions to a defined contribution retirement scheme established by the relevant local municipal government which undertakes to assume the obligations in respect of the retirement benefits of all existing and future retired employees of the Group. Contributions to the scheme are charged to the profit and loss account as incurred. During the year, the retirement contributions and old age insurance premium payable by the Group amounted to RMB20,077,000.

(13) Management contracts

No contracts concerning the management and administration of the whole or any substantial part of its business were entered into by the Company or subsisted during the year.

(14) Code of Best Practice

During the year, the Company has complied with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

By Order of the Board
Yin Shouen
Chairman

Beijing, the PRC
9th April 2001