

# Notes to the Accounts

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

## 1 COMPANY BACKGROUND

Jingwei Textile Machinery Company Limited (the “Company”) is a joint stock company established in the People’s Republic of China (the “PRC”) on 15th August 1995 as part of the reorganisation of a State-owned enterprise, Jingwei Machinery (Group) Company Limited (“Jingwei Group Company”). Pursuant to the reorganisation, the Company took over the principal business undertakings and related assets and liabilities and the principal subsidiaries of Jingwei Group Company.

Pursuant to an assets exchange agreement of 15th November 1999 between the Company and its ultimate holding company, the Company acquired 98% equity interest in certain of its fellow subsidiaries, Qingdao Hongda Textile Machinery Company Limited, Tianjin Hongda Textile Machinery Company Limited, Zhengzhou Hongda New Textile Machinery Company Limited and Shenyang Hongda Textile Machinery Company Limited (collectively the “New Subsidiaries”) and disposed of four ancillary processing plants of the Company to its ultimate holding company. The difference between the consideration payable by the Company to its ultimate holding company for the acquisition of the New Subsidiaries and the consideration receivable by the Company from its ultimate holding company for the disposal of the four ancillary processing plants was settled in cash (note 28(b) and (c)). The four ancillary processing plants disposed of did not form any part of the core production facilities for the manufacturing of the Company’s principal products.

The consolidated accounts for 1999 included the financial position of the New Subsidiaries as at 31st December 1999 and the operating results and cash flows of the New Subsidiaries for the period from 15th November 1999 to 31st December 1999.

The Company and its new and other subsidiaries are herein collectively referred to as the “Group”. The Group is principally engaged in the manufacture and sale of textile machinery.

## 2 PRINCIPAL ACCOUNTING POLICIES

The accounts have been prepared under the historical cost convention, in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

### (a) Basis of consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

A Company is a subsidiary if more than 50 percent of the voting capital is held for the long term or if the composition of the board of directors is controlled by the Company.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company’s balance sheet, the investments in subsidiaries are stated at cost less provision, if necessary, for any diminution in value other than temporary in nature. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

## 2 PRINCIPAL ACCOUNTING POLICIES (continued)

### (b) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies.

In the Company's balance sheet, the investments in associated companies are stated at cost less provision, if necessary, for any diminution in value other than temporary in nature. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

### (c) Goodwill

Goodwill or capital reserve arising on consolidation, which represents the excess or shortfall of purchase consideration over the fair values ascribed to the net assets of subsidiaries and associated companies acquired, is taken directly to reserves in the year of acquisition. Upon the disposal of a subsidiary or an associated company, the related goodwill or capital reserve is included in calculating the profit or loss on disposal.

### (d) Capitalisation of fixed assets

All direct and indirect costs relating to the acquisition or construction of buildings, plant and machinery and other fixed assets, including interest costs on related borrowed funds during the construction period and prior to the commissioning date, are capitalised as fixed assets.

A plant is considered to be commissioned when it is capable of producing saleable quality output in commercial quantities on an ongoing basis, notwithstanding any delays in the issue of the relevant commissioning certificate by the appropriate authorities of the PRC.

### (e) Fixed assets and depreciation

No depreciation is provided in respect of construction in progress.

Other fixed assets are stated at cost less accumulated depreciation. Depreciation of other fixed assets is calculated to write off the cost of the assets, less estimated residual value, on a straight line basis over their estimated useful lives which are as follows:

Land	Over the lease term of 50 years
Buildings	9 to 35 years
Machinery and equipment	7 to 22 years
Motor vehicles	9 years

Major cost incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

### (f) Intangible assets

License payments for trademarks and patents which are capitalised as intangibles are amortised on a straight line basis over a period of ten years.

## **2 PRINCIPAL ACCOUNTING POLICIES (continued)**

### **(g) Investment securities**

Investments are held for the long term and are stated at cost less any provision for diminution in value other than temporary.

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

### **(h) Inventories**

Inventories comprise raw materials, work in progress and finished goods. Inventories, other than components and consumables, are stated at the lower of cost and net realisable value. Cost of raw materials is computed using the weighted average method, while cost of work in progress and finished goods includes raw materials, direct labour and an appropriate proportion of production overheads. Net realisable value is determined by reference to the proceeds of goods sold in the ordinary course of business subsequent to the balance sheet date or to management estimates based on prevailing market conditions, less estimated selling expenses.

Components and consumables are stated at cost less any provision for obsolescence.

### **(i) Revenue recognition**

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincide with the time when the goods are delivered to customers and title has passed.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Investment income is recognised when the right to receive payment is established.

Dividend income is recognised when the right to receive payment is established.

Operating lease rental income is recognised on a straight line basis over the lease terms.

### **(j) Repairs and maintenance expenses**

Repairs and maintenance expenses are charged to the profit and loss account as incurred.

### **(k) Research and development expenses**

Research expenditure is charged to the profit and loss account as incurred.

Development expenditure is charged to the profit and loss account as incurred, unless it is probable that the expenditure can be recovered from related future economic benefits in which case it will be recognised as an asset and amortised on a straight line basis over the period in which the related economic benefits are expected to be recognised.

### **(l) Retirement benefit costs**

The Group's contributions to a retirement scheme or 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 of the Group. Contributions to the schemes are charged to the profit and loss accounts as incurred.

## Notes to the Accounts

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 2 PRINCIPAL ACCOUNTING POLICIES (continued)

(m) Translation of foreign currencies

The Group maintains its books and records in Renminbi.

Transactions in foreign currencies are translated into Renminbi at rates of exchange quoted by the People's Bank of China on the first day of the month. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated into Renminbi at rates of exchange quoted by the People's Bank of China at the balance sheet date. Exchange difference arising in these cases are dealt with in the profit and loss accounts.

(n) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on a straight line basis over the lease terms.

Rentals receivable in respect of operating leases are credited to the profit and loss account on a straight line basis over the respective lease terms.

(o) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(p) Deferred taxation

Deferred taxation is accounted for at the current tax rate, using the liability method, in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

### 3 REVENUE AND TURNOVER

Turnover represents the value of goods sold, net of value added tax ("VAT"). VAT represents sales tax which was assessed on the Group's sales at the statutory rate of 17% (1999: 17%).

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

	2000 Rmb'000	1999 Rmb'000
Turnover		
Sales of goods	1,808,125	803,585
Other revenues		
Rental income from Jingwei Group Company, net of outgoings	576	576
Investment income (i)	6,543	6,360
Sub-contract income (ii)	-	5,829
Exports VAT refund	-	16,655
Others	8,015	4,676
	15,134	34,096
Total revenues	1,823,259	837,681

(i) Investment income represents return on deposits placed with investment management companies in Beijing and Shanxi, the PRC.

(ii) Prior to the completion of acquisitions of the New Subsidiaries as mentioned in note 1, a sub-contract agreement was signed between the Company, its ultimate holding company and the predecessors of the New Subsidiaries on 5th June 1999. Pursuant to the sub-contract agreement, the predecessors of the New Subsidiaries paid the Company an amount equal to their net profit after tax for the period from 1st June 1999 to 14th November 1999 upon payment by the Company a fixed sum to the ultimate holding company. The sub-contract income for that period was Rmb5,829,000.

## Notes to the Accounts

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 4 OPERATING PROFIT

	2000 Rmb'000	1999 Rmb'000
Operating profit is arrived at after crediting and charging the following:		
<b>Crediting</b>		
Gain on disposal of fixed assets	-	204
Gain on liquidation of an associated company	4,467	-
Subsidy for labour cost received from the ultimate holding company	-	4,500
	<u>-</u>	<u>4,500</u>
<b>Charging</b>		
Loss on disposal of fixed assets	601	-
Depreciation	48,474	31,097
Staff costs	159,810	70,816
Repairs and maintenance expenses	24,538	15,242
Retirement benefit costs (note 6)	20,077	13,997
Research and development costs	5,978	5,255
Operating lease expenses - land and buildings	12,350	1,930
Net exchange losses	197	195
Auditors' remuneration	2,380	2,200
Provision for doubtful debts	16,357	671
Provision for inventories	2,919	-
	<u>2,919</u>	<u>-</u>

### 5 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

#### (i) EMOLUMENTS OF DIRECTORS AND SUPERVISORS

	2000 Rmb'000	1999 Rmb'000
Directors' emoluments		
Salaries and other benefits	57	36
Bonuses	43	69
Retirement scheme contributions	13	3
	<u>113</u>	<u>108</u>
Supervisors' emoluments		
Salaries and other benefits	21	25
Bonuses	25	18
Retirement scheme contributions	5	2
	<u>51</u>	<u>45</u>

The emoluments of the directors and supervisors were all within the band of nil to Rmb1,060,000, equivalent to nil to HK\$1,000,000 (1999: nil to Rmb1,070,000).

None of the directors has waived the right to receive his emoluments (1999: Nil).

#### (ii) FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year do not include any directors (1999: three), whose emoluments are reflected in the analysis presented above. The emoluments payable to the five (1999: remaining two) individuals are as follows:

	2000 Rmb'000	1999 Rmb'000
Salaries and other benefits	49	19
Bonuses	125	30
Retirement scheme contribution	11	2
	<u>185</u>	<u>51</u>

The emoluments of the five highest paid individuals were all within the band of nil to Rmb1,060,000, equivalent to nil to HK\$1,000,000 (1999: nil to Rmb1,070,000).

## Notes to the Accounts

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 6 RETIREMENT BENEFIT COSTS

The retirement benefit costs charged to the profit and loss account represent contributions payable by the Group to the retirement schemes totalling Rmb20,077,000 (1999: Rmb13,997,000), representing 24% (1999: 24%) on the aggregate amount of total salaries that participate in the retirement schemes.

At 31st December 2000, contributions totalling Rmb1,623,000 (1999: Rmb109,000) 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 2000 to reduce future contributions (1999: Nil).

### 7 NET INTEREST EXPENSES

	2000 Rmb'000	1999 Rmb'000
Interest income from banks and a fellow subsidiary	14,137	2,631
Interest expenses on bank loans wholly repayable within 5 years	35,434	24,621
Less: amounts capitalised as construction in progress	(4,640)	(4,042)
	30,794	20,579
Net interest expenses	(16,657)	(17,948)

Interest was capitalised on loans borrowed to finance the construction of fixed assets at rates ranging from 5.94% to 6.53% (1999: 7.30% to 10.98%) per annum.

### 8 TAXATION

No Hong Kong profits tax has been provided as the Group had no taxable profits in Hong Kong for the year (1999: Nil). The Company and its subsidiaries are subject to PRC income tax on their assessable profits.

In accordance with an approval document issued by the State Administration of Taxation of Shanxi Province on 28th September 1995, income tax rate of 15% is applicable to the Company during the year (1999: 15%). The income tax rates of the Company's subsidiaries range from 15% to 27% (1999: 15% to 27%) and one of the Company's subsidiaries enjoyed tax exemption from 1999 to 2004 and will be subject to a preferential income tax rate of 7.5% from 2005 to 2009. In addition, three subsidiaries of the Company enjoyed tax exemption from 1999 to 2000 and will be subject to a preferential tax rate of 15% from 2001 to 2003. Another subsidiary of the Company enjoyed tax exemption from 1999 to 2001 and will be subject to a preferential tax rate of 15% from 2002 onwards.

No deferred taxation has been accounted for during the year as there were no material timing differences.

### 9 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of Rmb60,772,000 (1999: Rmb58,368,000).

### 10 DIVIDENDS

	2000 Rmb'000	1999 Rmb'000
Final, proposed, of Rmb0.11 (1999: Nil) per domestic share	24,200	-
Final, proposed, of Rmb0.11 (1999: Nil) per H share	19,888	-
Final, proposed, of Rmb0.11 (1999: Nil) per A share	22,330	-
	66,418	-

## Notes to the Accounts

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 11 EARNINGS PER SHARE

The calculation of earnings per share is based on the profit attributable to shareholders for the year of Rmb133,875,000 (1999: Rmb87,623,000) and the weighted average number of 532,293,151 (1999: 423,800,000) shares in issue during the year.

No diluted earnings per share is presented as the Group does not have any dilutive potential shares.

### 12 INTANGIBLE ASSETS

	Group and Company	
	2000	1999
	Rmb'000	Rmb'000
<b>Cost</b>		
At 1st January and at 31st December	<u>2,000</u>	<u>2,000</u>
<b>Accumulated amortisation</b>		
At 1st January	875	675
Charge for the year	<u>200</u>	<u>200</u>
At 31st December	<u>1,075</u>	<u>875</u>
<b>Net book value</b>		
At 31st December	<u><u>925</u></u>	<u><u>1,125</u></u>

### 13 FIXED ASSETS

#### Group

	Land and buildings (note a, b) Rmb'000	Machin- ery and equipment Rmb'000	Motor vehicles Rmb'000	Construction in progress (note c) Rmb'000	Total Rmb'000
<b>Cost</b>					
At 1st January 2000	183,583	682,948	13,792	24,237	904,560
Additions	14,884	10,995	7,510	31,866	65,255
Transfer upon completion	-	20,550	3,074	(23,624)	-
Disposals	<u>-</u>	<u>(2,238)</u>	<u>(592)</u>	<u>-</u>	<u>(2,830)</u>
At 31st December 2000	<u>198,467</u>	<u>712,255</u>	<u>23,784</u>	<u>32,479</u>	<u>966,985</u>
<b>Accumulated depreciation</b>					
At 1st January 2000	31,998	324,030	6,298	-	362,326
Charge for the year	4,934	41,456	2,084	-	48,474
Disposals	<u>-</u>	<u>(1,098)</u>	<u>(386)</u>	<u>-</u>	<u>(1,484)</u>
At 31st December 2000	<u>36,932</u>	<u>364,388</u>	<u>7,996</u>	<u>-</u>	<u>409,316</u>
<b>Net book value</b>					
At 31st December 2000	<u><u>161,535</u></u>	<u><u>347,867</u></u>	<u><u>15,788</u></u>	<u><u>32,479</u></u>	<u><u>557,669</u></u>
At 31st December 1999	<u><u>151,585</u></u>	<u><u>358,918</u></u>	<u><u>7,494</u></u>	<u><u>24,237</u></u>	<u><u>542,234</u></u>

## Notes to the Accounts

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 13 FIXED ASSETS (continued)

Company	Land and buildings (note a, b) Rmb'000	Machinery and equipment Rmb'000	Motor vehicles Rmb'000	Construction in progress (note c) Rmb'000	Total Rmb'000
<b>Cost</b>					
At 1st January 2000	177,238	402,085	9,672	23,081	612,076
Additions	371	102	822	30,498	31,793
Transfer upon completion	-	19,554	2,637	(22,191)	-
Disposals	<u>-</u>	<u>(2,001)</u>	<u>-</u>	<u>-</u>	<u>(2,001)</u>
At 31st December 2000	<u>177,609</u>	<u>419,740</u>	<u>13,131</u>	<u>31,388</u>	<u>641,868</u>
<b>Accumulated depreciation</b>					
At 1st January 2000	30,891	176,241	4,371	-	211,503
Charge for the year	4,699	21,020	1,196	-	26,915
Disposals	<u>-</u>	<u>(918)</u>	<u>-</u>	<u>-</u>	<u>(918)</u>
At 31st December 2000	<u>35,590</u>	<u>196,343</u>	<u>5,567</u>	<u>-</u>	<u>237,500</u>
<b>Net book value</b>					
At 31st December 2000	<u>142,019</u>	<u>223,397</u>	<u>7,564</u>	<u>31,388</u>	<u>404,368</u>
At 31st December 1999	<u>146,347</u>	<u>225,844</u>	<u>5,301</u>	<u>23,081</u>	<u>400,573</u>

Notes:

- (a) All of the Group's land and buildings are located in the PRC.
- (b) At 31st December 2000, the cost and accumulated depreciation of the fixed assets held by the Group under operating leases amounted to approximately Rmb4,359,000 (1999: Rmb4,359,000) and Rmb2,455,000 (1999: Rmb2,339,000) respectively.
- (c) At 31st December 2000, construction in progress comprises expenditure incurred, including interest expenses capitalised totalling Rmb4,283,000 (1999: Rmb3,695,000), on land and buildings, machinery and equipment and motor vehicles of the Group and the Company which were not yet commissioned at the balance sheet date.



## Notes to the Accounts

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 14 INVESTMENTS IN SUBSIDIARIES

	2000 Rmb'000	Company 1999 Rmb'000
Unlisted investments, at cost	164,758	134,737
Amounts due from subsidiaries	211,951	39,812
	<u>376,709</u>	<u>174,549</u>

Set out below are particulars of the subsidiaries at 31st December 2000. The subsidiaries are limited liability companies established and operating in the PRC.

Name of company	Date of establishment	Registered capital Rmb	Percentage of equity interest held by the Group      Company %      %		Principal activities
Shanxi Jingwei Computer Technology Development Company Limited*	3rd November 1995	1,600,000	60	60	Distribution of computers and related services
Jinzhong Jingwei Ring Manufacturing Company Limited	23rd November 1995	500,000	100	98	Manufacture of textile machinery components
Jingwei Textile Machinery Yuci Material Company Limited*	9th July 1996	5,000,000	100	99.2	Trading of furnace materials, metals, textile machinery component and charcoal
Taiyuan Jingwei Electrical Company Limited*	18th March 1997	5,000,000	100	98	Manufacturing and sales of transformers and electrical components
Ningbo Daxie and Develop Zone Wu Fang Hongda Limited*	22nd September 1999	2,400,000	100	98	Sale of textile machinery and related components
Qingdao Hongda Textile Machinery Company Limited	16th August 1999	45,508,465	98	98	Manufacturing, sales, repairing and leasing of textile machinery and related components
Tianjin Hongda Textile Machinery Company Limited	17th August 1999	30,349,177	98	98	Provision of technical consultancy services, sales of textile, photocopying, agriculture processing machinery and related components
Zhengzhou Hongda New Textile Machinery Company Limited	11th August 1999	24,696,500	98	98	Developing and manufacturing of textile machinery and related components
Shenyang Hongda Textile Machinery Company Limited	16th August 1999	33,097,770	98	98	Developing, manufacturing and processing of textile machinery and related components and provision of technical consultancy services
Beijing Jingwei Textile New Technology Company Limited	2nd March 2000	20,000,000	92	92	Technical developing and manufacturing textile machinery and computer software and hardware, sales of textile, industrial specialised machinery, agricultural machinery, instruments and panel and automobile components.
Shanghai Weixin Electrical and Machinery Company Limited	30th June 2000	16,000,000	99.2	90	Textile machinery, automobile component and general machinery's developing and manufacturing

\* These subsidiaries are not audited by PricewaterhouseCoopers, Hong Kong. The aggregate net assets of subsidiaries not audited by PricewaterhouseCoopers, Hong Kong amounted to approximately 1.9% (1999: 3.9%) of the Group's total net assets.

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(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 15 INVESTMENTS IN ASSOCIATED COMPANIES

	Group	
	2000	1999
	Rmb'000	Rmb'000
Unlisted investments, at cost	7,100	30,327
Share of retained post-acquisition losses	-	(6,436)
Share of net assets	<u>7,100</u>	<u>23,891</u>

  

	Company	
	2000	1999
	Rmb'000	Rmb'000
Unlisted investments, at cost	6,000	30,327
Provision for permanent diminution in value	-	(6,436)
	<u>6,000</u>	<u>23,891</u>

The Group has invested in the following associated companies established in Beijing and Qingdao, the PRC.

Name of company	Date of establishment	Registered capital Rmb	Attributable equity interest %	Principal activities
Beijing Hongda International Trading Company Limited	8th June 2000	30,000,000	20	Self and agent trading import and export commodities and technology transfer, technology transfer; compensation trade, entrepot trade
Beijing Textile Machinery Automatic Control Technology Company Limited	20th December 2000	2,000,000	36.8	Textile machinery, developing of information technology products, sales of computer software and hardware and machinery electronic equipment
Qingdao Jinyi Pressing and Casting Company Limited	24th March 2000	1,250,000	24.39	Pressing and casting of non-ferrous metal. Design, manufacturing and sales of model

### 16 INVESTMENT SECURITIES

	Group		Company	
	2000	1999	2000	1999
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Unlisted government debentures and others, at cost	<u>1,105</u>	<u>1,105</u>	<u>855</u>	<u>855</u>

## Notes to the Accounts

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 17 INVENTORIES

	Group		Company	
	2000	1999	2000	1999
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Raw materials	206,444	110,227	80,620	62,405
Work in progress	251,552	164,125	130,674	108,218
Finished goods	427,701	174,758	266,102	128,135
	<u>885,697</u>	<u>449,110</u>	<u>477,396</u>	<u>298,758</u>
Less : Provision	<u>(4,316)</u>	<u>(1,397)</u>	<u>(3,700)</u>	<u>(1,100)</u>
	<u>881,381</u>	<u>447,713</u>	<u>473,696</u>	<u>297,658</u>

At 31st December 2000, the carrying amount of inventories of the Group and Company that are carried at net realisable value amounted to approximately Rmb59,745,000 (1999: Rmb173,361,000) and Rmb34,999,000 (1999 : Rmb127,035,000) respectively.

### 18 TRADE AND BILLS RECEIVABLES

	Group		Company	
	2000	1999	2000	1999
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Trade and bill receivables	373,072	451,632	163,987	246,953
Less: Provision	<u>(47,428)</u>	<u>(31,563)</u>	<u>(16,721)</u>	<u>(15,729)</u>
	<u>325,644</u>	<u>420,069</u>	<u>147,266</u>	<u>231,224</u>

At 31st December 2000, the ageing analysis of the gross trade and bill receivables were as follows :

	Group		Company	
	2000	1999	2000	1999
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Less than 1 year	232,617	340,870	78,576	170,690
1-2 years	69,146	60,340	40,581	42,084
2-3 years	36,767	35,220	22,944	23,491
Over 3 years	<u>34,542</u>	<u>15,202</u>	<u>21,886</u>	<u>10,688</u>
Total	<u>373,072</u>	<u>451,632</u>	<u>163,987</u>	<u>246,953</u>

The Group requires advanced deposits from customers. Settlement is normally due on presentation of sales invoices.

### 19 AMOUNTS DUE FROM/TO ULTIMATE HOLDING COMPANY, FELLOW SUBSIDIARIES AND JINGWEI GROUP COMPANY

The amount due from ultimate holding company is unsecured, interest free and has no fixed terms of repayment.

The amounts with fellow subsidiaries are unsecured. Except for deposits placed with China Textile Machinery Group Finance Company totalling Rmb16,687,000 (1999: Rmb20,000,000) which carry interest at a rate of approximately 2.25% (1999: 2.16%) per annum and are repayable within one year, balances with other fellow subsidiaries are interest free and have no fixed terms of repayment.

The amounts with Jingwei Group Company are unsecured, interest free and have no fixed terms of repayment.

## Notes to the Accounts

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 20 TRADE PAYABLES

At 31st December 2000, the ageing analysis of the trade payables were as follows:

	Group		Company	
	2000	1999	2000	1999
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Less than 1 year	294,688	240,891	159,843	126,043
1-2 years	21,223	36,002	15,136	5,092
2-3 years	18,210	15,580	11,553	14,324
Over 3 years	2,356	611	-	-
Total	<u>336,477</u>	<u>293,084</u>	<u>186,532</u>	<u>145,459</u>

### 21 TAXATION RECOVERABLE/PAYABLE

	Group		Company	
	2000	1999	2000	1999
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Income tax payable	14,948	10,488	14,756	10,678
Other taxes (recoverable)/payable	<u>(16,989)</u>	<u>12,373</u>	<u>(9,972)</u>	<u>(924)</u>
Net taxation (recoverable)/payable	<u>(2,041)</u>	<u>22,861</u>	<u>4,784</u>	<u>9,754</u>

Taxation recoverable/payable represent assets/liabilities of the Group in respect of PRC income tax, value added tax, sales tax and government levies.

The Group did not have any material unprovided deferred taxation at the balance sheet date.

### 22 SHARE CAPITAL

	No. of shares	Rmb '000
Registered, issued and fully paid		
Domestic shares of Rmb1.00 each	220,000,000	220,000
H shares of Rmb1.00 each	180,800,000	180,800
A shares of Rmb1.00 each	<u>23,000,000</u>	<u>23,000</u>
At 31st December 1999	<u>423,800,000</u>	<u>423,800</u>
Domestic shares of Rmb1.00 each	220,000,000	220,000
H shares of Rmb1.00 each	180,800,000	180,800
A shares of Rmb1.00 each	<u>203,000,000</u>	<u>203,000</u>
At 31st December 2000	<u>603,800,000</u>	<u>603,800</u>

The domestic shares, H shares and A shares rank pari passu in all respects.

Pursuant to a resolution passed in the general meeting of the Company held on 9th May 2000, additional 180,000,000 A shares of Rmb1.00 each were issued at Rmb7.21 during the period from 26th May 2000 to 31st May 2000. These shares were subsequently listed on the Shenzhen Stock Exchange on 23rd June 2000 in the PRC.

## Notes to the Accounts

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 23 RESERVES

Group	Capital reserve Rmb'000	Statutory surplus reserve (note a) Rmb'000	Statutory public welfare fund (note b) Rmb'000	Discretionary surplus reserve Rmb'000	Retained profit Rmb'000	Total Rmb'000
At 1st January 1999	188,852	16,090	16,090	27,764	61,256	310,052
Surplus arising on assets exchange	6,213	-	-	-	-	6,213
Transfer from profit and loss account (note a, b and c)	-	8,855	8,855	-	-	17,710
Profit for the year retained	-	-	-	-	69,913	69,913
At 31st December 1999	<u>195,065</u>	<u>24,945</u>	<u>24,945</u>	<u>27,764</u>	<u>131,169</u>	<u>403,888</u>
Company and subsidiaries	195,065	24,945	24,945	27,764	137,605	410,324
Associated company	-	-	-	-	(6,436)	(6,436)
At 31st December 1999	<u>195,065</u>	<u>24,945</u>	<u>24,945</u>	<u>27,764</u>	<u>131,169</u>	<u>403,888</u>
As 1st January 2000	195,065	24,945	24,945	27,764	131,169	403,888
Transfer from profit and loss account (note a, b and c)	-	23,855	23,855	-	-	47,710
Issue of new shares	1,054,800	-	-	-	-	1,054,800
Profit for the year retained	-	-	-	-	19,747	19,747
At 31st December 2000	<u>1,249,865</u>	<u>48,800</u>	<u>48,800</u>	<u>27,764</u>	<u>150,916</u>	<u>1,526,145</u>
Company and subsidiaries	1,249,865	48,800	48,800	27,764	150,916	1,526,145
Associated companies	-	-	-	-	-	-
At 31st December 2000	<u>1,249,865</u>	<u>48,800</u>	<u>48,800</u>	<u>27,764</u>	<u>150,916</u>	<u>1,526,145</u>
<b>Company</b>						
At 1st January 1999	184,498	16,090	16,090	27,764	62,188	306,630
Transfer from profit and loss account (note a, b and c)	-	8,852	8,852	-	-	17,704
Profit for the year retained	-	-	-	-	40,664	40,664
At 1st January 2000	184,498	24,942	24,942	27,764	102,852	364,998
Transfer from profit and loss account (note a, b and c)	-	13,331	13,331	-	-	26,662
Issue of new shares	1,054,800	-	-	-	-	1,054,800
Loss for the year retained	-	-	-	-	(32,308)	(32,308)
At 31st December 2000	<u>1,239,298</u>	<u>38,273</u>	<u>38,273</u>	<u>27,764</u>	<u>70,544</u>	<u>1,414,152</u>

Notes:

- (a) The Company and its subsidiaries is required to transfer 10% of profit after taxation to statutory surplus reserve until the statutory surplus reserve reaches 50% of registered capital of respective companies in accordance with the respective Articles of Association.
- (b) The Company and its subsidiaries is required to transfer 10% of profit after taxation to statutory public welfare fund in accordance with the respective Articles of Association.

The statutory public welfare fund can only be used for the collective benefits and facilities of the Group' employees. Employees are only entitled to use these facilities; the title and ownership of the facilities will remain with the Group. The fund forms part of the shareholders' funds and is not distributable other than on liquidation. Any transfer to this fund must be made before the distribution of dividend to shareholders.

## Notes to the Accounts

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 23 RESERVES (continued)

(c) The amounts transferred to statutory surplus reserve and statutory public welfare fund are based on the profit after taxation for the year of the Company prepared in accordance with the PRC accounting rules and regulations.

(d) At 31st December 2000, the distributable reserves of the Company amounted to Rmb70,544,000 (1999 : Rmb102,852,000).

### 24 LONG-TERM BANK LOANS

	Group		Company	
	2000	1999	2000	1999
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Bank loans, unsecured				
Wholly repayable within five years	94,790	75,620	88,790	60,620
Current portion of long-term bank loans	<u>(23,500)</u>	<u>(47,620)</u>	<u>(23,500)</u>	<u>(38,620)</u>
	<u>71,290</u>	<u>28,000</u>	<u>65,290</u>	<u>22,000</u>

At 31st December 2000, the Group's bank loans were repayable as follow :

	Group		Company	
	2000	1999	2000	1999
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Within one year	23,500	47,620	23,500	38,620
In the second year	38,000	22,000	32,000	22,000
In the third to fifth year	<u>33,290</u>	<u>6,000</u>	<u>33,290</u>	<u>-</u>
	<u>94,790</u>	<u>75,620</u>	<u>88,790</u>	<u>60,620</u>

The bank loans carry interest at market rates.

### 25 COMMITMENTS

#### (a) Capital commitments

At 31st December 2000, the following capital commitments, principally for construction and equipment purchases, were outstanding:

	Group		Company	
	2000	1999	2000	1999
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Authorised but not contracted for	<u>486,580</u>	<u>-</u>	<u>107,630</u>	<u>-</u>
Contracted but not provided for	<u>10,937</u>	<u>3,256</u>	<u>3,720</u>	<u>3,256</u>

#### (b) Lease commitments

Operating lease commitments in respect of land and buildings at 31st December 2000, payable in the next twelve months, analysed according to the period in which the lease expires, are as follows:

	Group		Company	
	2000	1999	2000	1999
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Within one year	-	804	-	804
After the fifth year	<u>9,966</u>	<u>9,966</u>	<u>665</u>	<u>665</u>
	<u>9,966</u>	<u>10,770</u>	<u>665</u>	<u>1,469</u>

## Notes to the Accounts

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 26 CONTINGENT LIABILITIES

	Company	
	2000	1999
	Rmb'000	Rmb'000
Guarantees for bank loans and overdraft of subsidiaries	13,650	-

### 27 RELATED PARTY TRANSACTIONS

The following is a summary of significant related party transactions, which in the opinion of the directors, were entered into by the Group in the normal course of business.

	Note	Group	
		2000	1999
		Rmb'000	Rmb'000
<b>Transactions with China National Textile Machinery (Group) Limited ("CTMC")</b>			
Purchase of raw materials and components	(iii)	878	304
Sale of finished goods	(ii)	33,996	41,345
Sale of finished goods	(iii)	8,391	6,946
Interest expenses	(iii)	1,239	298
Bank loan guarantee in favour of the Company	(ii)	19,520	67,830
Subsidy for labour cost	(i)	-	4,500
Consideration for the sale of the New Subsidiaries to and the acquisition of the four ancillary plants from the Company	(iv)	-	266
<b>Transactions with Jingwei Group Company</b>			
Sale of finished goods	(ii)	7,415	12,958
Sale of raw materials and components	(ii)	1,713	1,329
Processing fees received	(ii)	-	144
Fees received for the provision of supporting services	(ii)	2,151	2,792
Rental income	(ii)	576	576
Purchase of tools	(ii)	14,543	7,962
Purchase of raw materials and components	(ii)	6,714	5,264
Fees paid for transportation services	(ii)	3,243	2,410
Fees paid for repairs and maintenance services	(ii)	6,283	5,596
Fees paid for other supporting services	(ii)	14,461	11,647
Bank loan guarantee in favour of the Company	(ii)	384,910	347,280
Sale of raw materials and components	(iii)	12,842	1,560
Fees received for the provision of supporting services	(iii)	10,967	874
Fees paid for processing services	(iii)	62,103	5,005
Interest expenses	(iii)	-	149
Rental expense	(iii)	650	650

## Notes to the Accounts

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 27 RELATED PARTY TRANSACTIONS (continued)

		Group	
		2000	1999
		Rmb'000	Rmb'000
<b>Transactions with other fellow subsidiaries</b>			
Sale of components and special parts	(ii)	69	3
Purchase of raw materials and components	(ii)	28,409	24,092
Sale of finished goods	(iii)	9,878	11,375
Sale of components and special parts	(iii)	11,221	77
Fees paid for other supporting services	(iii)	10,841	1,375
Purchase of raw materials and components	(iii)	-	4,454
Purchase of tools	(iii)	6,797	196
Purchase of casts	(iii)	85,751	4,626
Purchase of package materials	(iii)	1,102	1,807
Purchase of energy	(iii)	10,099	3,133
Purchase of raw material and spare parts	(iii)	38,598	5,332
Fees paid for processing service	(iii)	40,490	1,783
Fees received for processing services	(iii)	838	1,371
Rental expenses	(iii)	14,803	1,513
Interest expenses	(iii)	-	579
Estate administration expenses	(Iii)	677	426
Bank loan guarantee in favour of the Company	(iii)	<u>6,600</u>	<u>10,664</u>
<b>Transactions with an associated company</b>			
<b>of Jingwei Group Company</b>			
Purchase of raw materials	(ii)	22,042	8,160
Sale of raw materials	(ii)	<u>-</u>	<u>1,770</u>

Notes:

- (i) The holding company provided cash support in 1999 to assist the Group in view of the difficulties encountered by the Group due to implementation of the "Spindle Suppression Policy" by the PRC government. These were one-off payments and non-repayable.
- (ii) These transactions were conducted in accordance with the agreement entered into at the time of reorganisation as referred to note 1 to the accounts.
- (iii) These transactions were conducted in accordance with the composite service agreement in connection with the assets exchange agreement as referred to note 1 to the accounts.



## Notes to the Accounts

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 28 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

#### (a) Reconciliation of operating profit to net cash inflow/(outflow) from operating activities

	2000	1999
	Rmb'000	Rmb'000
Operating profit	162,759	115,903
Depreciation	48,474	31,097
Loss/(gain) on disposal of fixed assets	601	(204)
Amortisation of intangibles and deferred assets	200	809
Provision for doubtful debts	16,357	671
Provision for inventories	2,919	-
Investment income	(6,543)	(6,360)
Gain on liquidation of an associated company	(4,467)	-
Decrease in amount due from an associated company	-	59
Increase in inventories	(436,587)	(69,805)
Decrease/(increase) in trade receivables, deposits, other debtors and prepayments	101,655	(157,829)
Increase in time deposits	(40,591)	(13,808)
Increase in amount due from ultimate holding company	(3,605)	(11,410)
Increase in amounts due from fellow subsidiaries	(45,401)	(4,298)
Increase in trade payables, other payables and accruals	387,597	116,544
Increase/(decrease) in amount due to Jingwei Group Company	12,568	(22,454)
Increase in amounts due to fellow subsidiaries	34,263	234
Decrease in other taxes payable	(29,362)	(327)
Net cash inflow/(outflow) from operating activities	<u>200,837</u>	<u>(21,178)</u>

#### (b) Disposal of business

	2000	1999
	Rmb'000	Rmb'000
Net assets disposed of:		
Fixed assets and construction in progress	-	35,342
Inventories	-	38,391
Trade and other receivables	-	25,495
Deferred assets	-	21,548
Bank balances and cash	-	4,226
Trade and other payables	-	(502)
	-	124,500
Surplus arising on assets exchange	-	6,213
	-	<u>130,713</u>
Satisfied by :		
Net assets acquired pursuant to the assets exchange agreement (note 1 and note 28(c))	-	<u>130,713</u>

## Notes to the Accounts

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 28 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

#### (c) Purchase of the New Subsidiaries

	2000 Rmb'000	1999 Rmb'000
Net assets acquired		
Fixed assets and construction in progress	-	135,649
Inventories	-	103,474
Trade and other receivables	-	212,802
Bank balances and cash	-	13,482
Trade and other payables	-	(202,071)
Taxation payable	-	(13,584)
Bank loans	-	(116,100)
Minority interests	-	(2,673)
	<u>-</u>	<u>130,979</u>
Satisfied by :		
Net assets disposed (note 28(b))	-	130,713
Cash	-	266
	<u>-</u>	<u>130,979</u>

#### (d) Analysis of changes in financing during the year

	Share capital (including capital reserves)		Minority interests		Bank loans	
	2000 Rmb'000	1999 Rmb'000	2000 Rmb'000	1999 Rmb'000	2000 Rmb'000	1999 Rmb'000
Balance as 1st January	618,865	612,652	3,845	-	547,484	251,881
Acquisition of subsidiaries	-	-	1,600	2,673	-	116,100
Acquisition of additional interest in a subsidiary	-	-	-	640	-	-
Minority interest in share of profit	-	-	2,283	532	-	-
Surplus arising on assets exchange	-	6,213	-	-	-	-
Net cash inflow/(outflow) from financing	<u>1,234,800</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(36,284)</u>	<u>179,503</u>
Balance as at 31st December	<u>1,853,665</u>	<u>618,865</u>	<u>7,728</u>	<u>3,845</u>	<u>511,200</u>	<u>547,484</u>

## Notes to the Accounts

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 28 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

#### (e) Analysis of the net cash inflow in respect of the purchase of the New Subsidiaries and disposal of business:

	2000	1999
	Rmb'000	Rmb'000
Cash consideration	-	(266)
Bank balances and cash in hand disposed (note 28(b))	-	(4,226)
Bank balances and cash in hand acquired (note 28(c))	-	13,482
Net cash inflow in respect of the purchase of the New Subsidiaries and disposal of business	-	8,990

#### (f) Analysis of the balances of cash and cash equivalents

	2000	1999
	Rmb'000	Rmb'000
Bank balances and cash	1,611,694	236,266
Time deposits with maturity more than three months from the date of deposit	(83,000)	(46,909)
	1,528,694	189,357

### 29 ULTIMATE HOLDING COMPANY

In the opinion of the directors, China National Textile Machinery (Group) Company Limited, a Stated-owned enterprise established in the PRC, is the Company's ultimate holding company.

### 30 APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 9th April 2001.