

VI. FINANCIAL STATEMENTS PREPARED UNDER THE PRC GAAP**1. FINANCIAL STATEMENTS****BALANCE SHEETS****AS AT 30TH JUNE 2001**

		In Rmb	
ASSETS	<i>Notes</i>	Group	Company
		2001.06.30 <i>(Unaudited)</i>	2000.12.31 <i>(Audited)</i>
		2001.06.30 <i>(Unaudited)</i>	2000.12.31 <i>(Audited)</i>
CURRENT ASSETS			
Cash and cash equivalents		1,539,041,412	1,628,381,739
Short term investment		12,000,000	12,000,000
Less: Provision for loss on decrease in market value		—	—
Short term investment-net book value	4	12,000,000	12,000,000
Notes receivable		40,004,168	38,070,181
Accounts receivable	5	413,078,082	366,412,211
Other receivable	6	113,301,455	110,171,166
Less: Provision for bad debts		(53,916,255)	(47,427,904)
Net receivable		472,463,282	429,155,473
Advances to supplier		199,934,591	116,610,966
Subsidy receivable		—	—
Inventories	7	842,045,252	885,697,830
Less: Provision for loss on realization of inventories		(6,677,000)	(4,315,763)
Inventories-net book value		835,368,252	881,382,067
Deferred and prepaid expenses	8	3,052,540	534,085
Long term investment maturing within one year		—	—
Other current assets		—	—
Total current assets		3,101,864,245	3,106,134,511
LONG TERM INVESTMENTS			
Long term equity investments	9	57,146,718	1,836,040
Long term debt investments	9	209,600	854,715
Total long term investment		57,356,318	2,690,755
Less: Provision for permanent diminution in value		—	—
Long term investments – net book value		57,356,318	2,690,755
Including: Consolidation difference	9	(5,203,282)	(5,513,960)
Difference in equity investment		—	—
FIXED ASSETS			
Fixed assets – cost		924,272,563	869,094,994
Less: Accumulated depreciation		(425,743,643)	(403,452,389)
Fixed assets-net book value		498,528,920	465,642,605
Less: Impairment provision of fixed assets	11	(39,537,633)	(39,537,633)
Fixed assets – net value		458,991,287	426,104,972
Construction materials		—	—
Construction in progress	10	47,057,129	32,480,094
Fixed assets pending disposal		261,292	—
Total of fixed assets		506,309,708	458,585,066
INTANGIBLE AND OTHER ASSETS			
Intangible assets		63,825,614	64,294,369
Pre-operating expenses		—	1,807,639
Long term deferred expenses	12	582,477	515,099
Other long term assets		—	—
Total intangible and other assets		64,408,091	66,617,107
DEFERRED TAXES			
Deferred tax charges		—	—
TOTAL ASSETS		3,729,938,362	3,634,027,439



BALANCE SHEETS (CONTINUED)

		In Rmb		
LIABILITIES AND OWNERS' EQUITY		Group	Company	
Notes	2001.06.30 (Unaudited)	2000.12.31 (Audited)	2001.06.30 (Unaudited)	2000.12.31 (Audited)
CURRENT LIABILITIES				
Short term loans	484,920,000	416,410,000	377,200,000	346,910,000
Notes payable	103,450,000	77,587,304	64,250,000	48,000,000
Accounts payable	271,260,589	288,247,098	134,218,113	150,951,350
Advances from customers	452,280,813	543,019,400	227,711,006	202,573,576
Consignment payable	—	—	—	—
Accrued payroll	1,473,765	930,046	—	—
Staff welfare payable	9,403,580	9,010,022	3,392,784	4,062,658
Dividend payable	66,418,142	66,418,142	66,418,142	66,418,142
Taxes payable	34,666,929	(2,040,560)	21,596,419	4,783,660
Other accruals	402,327	1,242,528	—	1,178,495
Other payable	44,617,160	38,979,808	24,377,344	10,983,288
Accrued expenses	16,135,696	2,927,851	4,346,510	1,365,000
Portion of long term liabilities due within one year	23,500,000	23,500,000	23,500,000	23,500,000
Other current liabilities	—	—	—	—
Total current liabilities	1,508,529,001	1,466,231,639	947,010,318	860,726,169
LONG TERM LIABILITIES				
Long term loans	32,000,000	71,290,000	26,000,000	65,290,000
Debentures payable	—	—	—	—
Payable due after one year	—	—	—	—
Housing fund	—	—	—	—
Other long term liabilities	—	—	—	—
Total long term liabilities	32,000,000	71,290,000	26,000,000	65,290,000
DEFERRED TAXES				
Deferred tax credits	—	—	—	—
TOTAL LIABILITIES	1,540,529,001	1,537,521,639	973,010,318	926,016,169
Minority interest	10,144,309	7,728,589	—	—
SHAREHOLDERS' EQUITY				
Share capital	13 603,800,000	603,800,000	603,800,000	603,800,000
Capital surplus	14 1,252,154,114	1,252,154,114	1,252,154,114	1,252,154,114
Accumulated fund	125,356,885	125,356,885	104,309,955	104,309,955
Including: statutory welfare fund	48,796,919	48,796,919	38,273,454	38,273,454
Undistributed profit	197,954,053	107,466,212	221,624,133	131,446,971
Total shareholders' equity	2,179,265,052	2,088,777,211	2,181,888,202	2,091,711,040
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY				
	3,729,938,362	3,634,027,439	3,154,898,520	3,017,727,209

**PROFIT AND LOSS ACCOUNT AND PROFIT APPROPRIATION STATEMENT
FOR THE PERIOD ENDED 30TH JUNE 2001**

		For the interim period of 2001 Rmb (Unaudited)	Group For the interim period of 2000 Rmb (Unaudited)	For the year ended 2000 Rmb (Audited)	For the interim period of 2001 Rmb (Unaudited)	Company For the interim period of 2000 Rmb (Unaudited)	For the year ended 2000 Rmb (Audited)
	Notes						
Sales revenue		1,234,290,247	831,643,196	1,808,124,899	445,382,626	406,710,888	798,128,529
Less: Sales discounts and allowances		—	—	—	—	—	—
NET SALES		1,234,290,247	831,643,196	1,808,124,899	445,382,626	406,710,888	798,128,529
Less: Cost of sales		991,074,060	664,644,893	1,444,004,299	349,768,198	328,440,214	646,674,180
Sales tax		3,222,723	1,403,281	1,710,721	400,000	—	—
GROSS PROFIT ON SALES		239,993,464	165,595,022	362,409,879	95,214,428	78,270,674	151,454,349
Add: Other operating income	15	4,438,012	3,031,848	8,014,670	3,034,376	1,529,647	4,578,759
Less: Provision for loss on realization of inventories		—	—	3,215,763	—	—	2,600,000
Selling expenses		26,785,087	20,441,470	52,825,873	6,664,289	7,506,740	16,263,898
General and administrative expenses		112,357,077	62,982,319	160,787,922	29,809,217	28,535,180	67,051,668
Financial expenses/(income)	16	3,263,105	12,775,363	16,833,921	407,397	7,925,538	9,180,172
OPERATING PROFIT		102,026,207	72,427,718	136,761,070	61,367,901	35,832,863	60,937,370
Add: Investment income	17	1,684,326	670,818	11,169,457	36,495,067	36,096,204	83,558,708
Subsidy income		—	—	622,479	—	—	2,479
Non-operating income	18	535,447	392,992	373,335	431,170	197,696	79,749
Less: Non-operating expenses	19	1,949,592	1,934,616	9,357,976	1,764,223	1,568,039	8,681,732
TOTAL PROFIT		102,296,388	71,556,912	139,568,365	96,529,915	70,558,724	135,896,574
Less: Income tax		11,144,613	5,316,650	9,944,128	6,352,753	5,197,516	9,176,882
Minority interests		663,934	568,376	2,283,189	—	—	—
Net profit		90,487,841	65,671,886	127,341,048	90,177,162	65,361,208	126,719,692
Add: Undistributed profit at the beginning of the year		107,466,212	127,198,411	127,198,411	131,446,971	127,120,168	127,120,168
Less: adjustment for undistributed profit at the beginning of the year according to the new accounting policy		—	32,946,065	32,946,065	—	29,312,637	29,312,637
Adjusted undistributed profit at the beginning of the year		107,466,212	94,252,346	94,252,346	131,446,971	97,807,531	97,807,531
Transfer from statutory surplus reserve		—	—	—	—	—	—
DISTRIBUTABLE PROFIT		197,954,053	159,924,232	221,593,394	221,624,133	163,168,739	224,527,223
Less: Transfer to statutory surplus reserve		—	—	23,854,591	—	—	13,331,126
Transfer to statutory public welfare fund		—	—	23,854,591	—	—	13,331,126
PROFIT AVAILABLE FOR DISTRIBUTION TO SHAREHOLDERS		197,954,053	159,924,232	173,884,212	221,624,133	163,168,739	197,864,971
Less: Dividend for preferred stock		—	—	—	—	—	—
Transfer to discretionary surplus fund		—	—	—	—	—	—
Dividend for common stock		—	—	66,418,000	—	—	66,418,000
Dividend for common stock transferred to shares		—	—	—	—	—	—
UNDISTRIBUTED PROFIT		197,954,053	159,924,232	107,466,212	221,624,133	163,168,739	131,446,971

**CASH FLOW STATEMENT**

		For the six months ended 30th June 2001	
	Group	Company	
	<i>Rmb</i>	<i>Rmb</i>	
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	
1. Cash Flows From Operating Activities			
Cash received from sales of goods or rendering of services	1,222,687,053	385,130,796	
Refund of tax	330,793	—	
Other cash received relating to operating activities	178,368,570	92,298,864	
Sub-total of cash inflows	1,401,386,416	477,429,660	
Cash paid for goods and services	1,029,265,807	296,732,956	
Cash paid to and on behalf of employees	86,206,599	41,473,800	
Taxes paid	39,297,222	12,752,495	
Other cash paid relating to operating activities	268,825,558	36,941,284	
Sub-total of cash outflows	1,423,595,186	387,900,535	
Net cash flow from operating activities	(22,208,770)	89,529,125	
2. Cash Flows from Investing Activities			
Cash received from return on investments	12,500,000	12,500,000	
Cash received for gain on investment	1,602,087	1,508,337	
Net cash received from disposal of fixed assets, intangible assets and other long term assets	405,193	405,193	
Other cash received from relating to investing activities	202,730	202,730	
Sub-total of cash inflows	14,710,010	14,616,260	
Cash paid to acquire fixed assets, intangible assets and other long-term assets	30,585,241	11,346,439	
Cash paid to acquire investments	72,466,416	152,466,416	
Other cash paid relating to investing activities	—	—	
Sub-total of cash outflows	103,051,657	163,812,855	
Net cash flow from investing activities	(88,341,647)	(149,196,595)	
3. Cash Flows from Financing Activities			
Proceeds from issuing shares	—	—	
Proceeds from borrowings	287,180,000	205,180,000	
Other proceeds relating to financing activities	22,025,901	1,951,460	
Sub-total of cash inflows	309,205,901	207,131,460	
Cash repayments of amounts borrowed	275,575,000	214,180,000	
Cash payment for distribution of dividends or profit or interest expenses	1,998,795	—	
Other cash payments relating to financing activities	10,422,016	10,422,017	
Sub-total of cash outflows	287,995,811	224,602,017	
Net cash flow from financing activities	21,210,090	(17,470,557)	
4. Effect of Foreign Exchange Rate Changes on Cash	—	—	
5. Net Increase in Cash and Cash Equivalents	(89,340,327)	(77,138,027)	



		For the six months ended 30th June 2001	
		Group	Company
		<i>Rmb</i>	<i>Rmb</i>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>
Supplementary information			
1.	Reconciliation of Net Profit to Cash Flows from Operating Activities:		
	Net profit	90,487,841	90,177,162
	Add: Provision for diminution in asset value	7,787,128	—
	Depreciation of fixed assets	22,291,254	12,364,482
	Amortization of intangible assets	642,698	642,698
	Amortization of long term defened expenses	—	—
	Decrease in deferred expenses (or deduct: increase)	(2,512,650)	(2,456,407)
	Increase in accrued expenses (or deduct: decrease)	13,207,845	2,981,510
	Loss on disposal of fixed assets, intangible assets and other long term assets (or deduct: gain)	1,452,616	(89,045)
	Loss on scrapping of fixed assets	—	—
	Financial expenses	3,263,105	697,350
	Loss arising from investments (or deduct: gain)	(1,684,327)	(36,495,067)
	Deferred tax credits (or deduct: charges)	—	—
	Decrease in inventories (or deduct: increase)	43,652,578	(10,512,040)
	Decrease in operating receivables (or deduct: increase)	(114,814,696)	(30,179,776)
	Increase in operating payables (or deduct: decrease)	(68,640,864)	(47,253,248)
	Others	(17,341,298)	15,145,010
	Net cash flows from operating activities	(22,208,770)	89,529,125
2.	Net Increase in Cash and Cash Equivalents:		
	Cash at the end of the period	1,539,041,412	1,314,579,305
	Less: Cash at the beginning of the period	1,628,381,739	1,391,717,332
	Add: Cash equivalents at the end of the period	—	—
	Less: Cash equivalents at the beginning of the period	—	—
	Net increase in cash and cash equivalents	(89,340,327)	(77,138,027)



2. Notes to the financial statements

(1) Principal accounting policies

The principal accounting policies adopted in the preparation of the financial statements are consistent with the Accounting Standards for Enterprises and the Accounting Regulations for Joint Stock Company Limited and the supplementary provisions issued by the Ministry of Finance of the People's Republic of China.

(2) Consolidation

The results of the newly established Hong Kong Huaming Company Limited have been included in the unaudited consolidated financial statements of the Group during the reporting period.

(3) The relation between connected parties and related party transactions

a. Related party with control relationship

Name	Main business	Relation with the Company	Nature or type	Legal representative Person
China National Textile Machinery (Group) Co., Ltd ("CTMC")	Manufacturing and trading textile Machinery	Ultimate holding company of the Company	Limited company	Lu Yunliang
Shanxi Jingwei Computer Technology Development Company Limited	Distribution of computers and related services	Subsidiary	Limited company	Ye Maoxin
Jinzhong Jingwei Ring Manufacturing Company Limited	Manufacture of textile machinery components	Subsidiary	Limited company	He Lizhao
Jingwei Textile Machinery Yuci Material Company	Trading of furnace materials, metals textile machinery components and charcoal	Subsidiary	Limited company	Fan Xinmin
Taiyuan Jingwei Electrical Company Limited	Manufacture and sales of transformers and electrical components	Subsidiary	Limited company	Guan Xuefeng
Ningbo Daxie Machinery and Develop Zone Wu Fang Hongda Company Limited	Sales of textile machinery and related components; providing related services	Subsidiary	Limited company	Yao Yuming
Qingdao Hongda Textile Machinery Company Limited	Manufacture, sales, repairing and leasing of textile machinery and related components	Subsidiary	Limited company	Gong Enqing
Tianjin Hongda Textile Machinery Company Limited	Technical development consultation, sales of textile machinery, related components and other machinery	Subsidiary	Limited company	Zhang Jianguo
Zhengzhou New Hongda Textile Machinery Company Limited	Developing and manufacturing textile machinery and related components	Subsidiary	Limited company	Lu Chengye



Name	Main business	Relation with the Company	Nature or type	Legal representative Person
Shenyang Hongda Textile Machinery Company Limited	Developing and processing textile machinery and related components; providing technical consultation	Subsidiary	Limited company	Liu Xianming
Beijing Jingwei Textile Machinery New Technology Company Limited	Technical developing, sales of textile machinery and computer hardware, agricultural machinery equipment instrument automobile components	Subsidiary	Limited company	Liu Shitong
Shanghai Weixin Electrical & Machinery Company Limited	Textile machinery, automobile component and general machinery's developing and manufacturing	Subsidiary	Limited company	Liu Shitong
Hong Kong Huaming Company Limited	Import & export business, normal trading, financial security, investment, consulting service	Subsidiary	Limited company	Yin Shouen

b. *Fellow subsidiaries:*

Name of related party	Relation with the Company
Jingwei Machinery (Group) Company Limited	Fellow subsidiary
China National Textile Machinery Group Finance company	Fellow subsidiary
Changde Textile Machinery Plant	Fellow subsidiary
Weinan Textile Machinery Plant	Fellow subsidiary
Hengyang Textile Machinery Plant	Fellow subsidiary
Qingdao Textile Machinery Plant	Fellow subsidiary
Handan Textile Machinery Plant	Fellow subsidiary
Changzhou Textile Machinery Plant	Fellow subsidiary
Taicang Textile Machinery Plant	Fellow subsidiary
Xianyang Textile Machinery Plant	Fellow subsidiary
Shenyang Textile Machinery Plant	Fellow subsidiary
Tianjin Textile Machinery Plant	Fellow subsidiary
Zhengzhou Textile Machinery Plant	Fellow subsidiary
Wuxi Textile Machinery & Special Parts Plant	Fellow subsidiary

The above fellow subsidiaries other than Jingwei Machinery (Group) Company Limited are collectively referred to as "other fellow subsidiaries".

c. *Associated companies*

Name of enterprise	Principal activities	Equity interest held
Beijing Hongda International Trade Company Limited	Self and agent trading import and export commodities and technology transfer, compensation trade, entrepot trade	20%
Beijing Textile Machinery Automatic Control Technology Company Limited	Textile Machinery, developing of information technology products, sales of computer software & hardware and machinery electronic equipment	36.8%
Qingdao Jinyi Pressing and Casting Company Limited	Pressing and Casting of Non-ferrous metal. Design, manufacturing and sales of model	24.39%



Name of enterprise	Principal activities	Equity interest % held
Shenzhen Bolue Technology Investment Company Limited	Investment for new enterprise, management under authorisation, investment consulting	40.94%
Hongda Research Company Limited	Developing and selling of Textile Machinery and Environment Protective Machine, office equipment, electronics, technical supporting	40%

- d. *The following is a summary of the significant related party transactions entered into by the Group in the normal course of business:*

	For the six months ended 30th June	
	2001 Rmb	2000 Rmb
Transactions with the ultimate holding company		
Purchase of raw materials and components	525,230	6,988,061
Sale of finished goods	1,558,541	39,376,241
Paid interest expenses	—	189,378
Bank loan guarantee in favour of the Company	<u>5,000,000</u>	<u>53,250,000</u>
Transactions with Jingwei (Group) Company		
Purchase of tools	6,012,959	5,873,028
Purchase of raw materials and components	2,675,274	1,902,469
Sale of raw materials and components	5,837,903	7,065,091
Sale of finished goods	22,087,838	8,689,390
Fees paid for transportation services	1,118,198	528,599
Fees paid for repairs and maintenance services	5,284,836	2,638,786
Fees paid for other supporting services	8,144,870	7,842,934
Processing fees paid	34,000,456	29,055,841
Fees received for the provision of supporting services	5,969,027	6,585,813
Rental income	288,000	287,868
Rental expenses	325,000	325,122
Bank loan guarantees in favour of the Company	<u>155,180,000</u>	<u>369,120,000</u>
Transactions with other fellow subsidiaries		
Purchase of raw materials and components	69,447,327	36,814,226
Sale of components and special parts	2,089,139	2,716,935
Interest income	—	668,554
Interest expense	—	173,268
Sale of finished goods	17,796,191	1,758,969
Purchase of tools model	4,740,025	2,749,540
Purchase of castings	24,527,148	30,838,675
Purchase of package	—	387,797
Purchase of energy	7,204,807	6,268,846
Processing fees paid	48,369,860	27,743,604
Fees paid for transportation services	295,170	560,711
Fees paid for repairs and maintenance services	65,193	467,202
Fees paid for other supporting services	5,755,603	1,288,587
Fees received for the provision of supporting services	150,000	387,364
Processing fees received	254,453	611,736
Rental expenses	15,017,839	6,005,219
Bank loan guarantees in favour of the Company	<u>24,600,000</u>	<u>21,663,780</u>
Transactions with subsidiaries and associated companies of Jingwei (Group) Company		
Purchase of raw materials	9,640,765	10,781,206
Sale of raw materials	<u>—</u>	<u>1,699</u>

- e. *All transactions between the Group and its related parties were carried on in the normal course of business of the Group and on normal commercial terms.*

(4) Short term investment

	2001.06.30		2000.12.31	
	Investment	Provision	Investment	Provision
	<i>Rmb</i>	<i>Rmb</i>	<i>Rmb</i>	<i>Rmb</i>
Other investment	<u>12,000,000</u>	<u>—</u>	<u>12,000,000</u>	<u>—</u>

The Company opened a transaction account in China Shanxi Security Company Limited for security investment activity.

(5) Accounts receivable

a. Ageing analysis of accounts receivable is as follows:

	2001.06.30			2000.12.31		
	<i>Rmb</i>	<i>%</i>	Provision	<i>Rmb</i>	<i>%</i>	Provision
			<i>Rmb</i>			<i>Rmb</i>
Within 1 year	270,655,161	66	(2,142,069)	225,957,240	62	(1,784,331)
Within 1 to 2 years	69,034,215	17	(10,024,870)	69,146,048	19	(9,388,424)
Within 2 to 3 years	37,131,437	9	(16,267,624)	36,766,644	10	(13,276,441)
Over 3 years	36,257,269	8	(24,396,880)	34,542,279	9	(21,893,896)
Total	<u>413,078,082</u>	<u>100</u>	<u>(52,831,443)</u>	<u>366,412,211</u>	<u>100</u>	<u>(46,343,092)</u>

b. Accounts receivable from the related companies are as follows:

	2001.06.30	2000.12.31
	<i>Rmb</i>	<i>Rmb</i>
— due from the ultimate holding company	18,552,202	23,953,756
— due from fellow subsidiaries	6,261,273	1,073,283
— due from Jingwei (Group) Company and its subsidiaries and associated companies	<u>12,008,959</u>	<u>6,383,786</u>
Total	<u>36,822,434</u>	<u>31,410,825</u>

(6) Other receivable

a. Ageing analysis of other receivable is as follows:

	2001.06.30			2000.12.31		
	<i>Rmb</i>	<i>%</i>	Provision	<i>Rmb</i>	<i>%</i>	Provision
			<i>Rmb</i>			<i>Rmb</i>
Within 1 year	98,163,238	87	—	101,906,336	92	—
Within 1 to 2 years	13,426,821	11	—	6,553,434	6	—
Within 2 to 3 years	813,032	1	(317,660)	813,032	1	(317,660)
Over 3 years	898,364	1	(767,152)	898,364	1	(767,152)
Total	<u>113,301,455</u>	<u>100</u>	<u>(1,084,812)</u>	<u>110,171,166</u>	<u>100</u>	<u>(1,084,812)</u>

b. Other receivable from the related companies are as follows:

	2001.06.30	2000.12.31
	<i>Rmb</i>	<i>Rmb</i>
— due from the ultimate holding company	26,347,021	23,176,570
— due from fellow subsidiaries	44,186,474	37,394,487
— due from Jingwei (Group) Company and its subsidiaries and associated companies	<u>2,017,781</u>	<u>2,041,345</u>
Total	<u>72,551,276</u>	<u>62,612,402</u>

(7) Inventory and provision for loss on realisation of inventories

	2001.06.30		2000.12.31	
	Cost	Provision	Cost	Provision
	<i>Rmb</i>	<i>Rmb</i>	<i>Rmb</i>	<i>Rmb</i>
Raw materials	185,790,232	(615,763)	195,119,732	(615,763)
Work in progress	183,664,480	—	251,552,262	—
Finished goods	472,590,540	(6,061,237)	427,701,358	(3,700,000)
Goods in transit	—	—	11,324,478	—
Total	<u>842,045,252</u>	<u>(6,677,000)</u>	<u>885,697,830</u>	<u>(4,315,763)</u>

Provision for inventories calculated on the basis of lower of cost and net realisable value of inventories at year end.



(8) Deferred expenses

	2001.06.30 Rmb	2000.12.31 Rmb
Heating expense	24,503	201,460
Insurance	318,545	—
Decoration expense	900,000	—
Railroad rental	130,123	—
Land rental	132,914	131,665
Software expense	231,951	—
Road maintenance expense	67,028	76,554
Others	1,247,476	124,406
Total	3,052,540	534,085

(9) Long term investments

	2000.12.31 Rmb	Provision Rmb	Addition Rmb	Decrease Rmb	2001.06.30 Rmb	Provision Rmb
Investment in associated companies	7,100,000	—	55,000,000	—	62,100,000	—
Consolidation difference	(5,513,960)	—	—	(310,678)	(5,203,282)	—
Other equity investment	250,000	—	—	—	250,000	—
Long term equity investment	1,836,040	—	55,000,000	(310,678)	57,146,718	—
Debenture	854,715	—	—	645,115	209,600	—
Long term debenture investment	854,715	—	—	645,115	209,600	—

a. Investment in associated companies

During the current period, the Company made Rmb55,000,000 of new investment in two associated companies, including Rmb35,000,000 in Shenzhen Bolue Technology Investment Company Limited and Rmb20,000,000 in Hongda Research Company Limited respectively.

b. Consolidation difference

In the course of assets exchange, there is a difference of Rmb6,213,559 between long term investment and the share of the Four Hongda Companies' share capital. This consolidation difference amortises over a period of 10 years on the straight-line basis.

c. Investment in debenture

The company reversed the accumulated interests income amounting to Rmb645,115 for the investment in electricity debenture which stipulated interests rate is higher than the market interests rate according to the conservative principal.

(10) Construction in progress

Projects	2000.12.31 Rmb	Addition Rmb	Deduction Rmb	2001.06.30 Rmb	Source of funds
High precision grinding machine	2,298,254	78,269	—	2,376,523	Loan
Sewage processing station	392,221	4,065,721	—	4,457,942	Loan
Vertical machine centre	8,808	702,060	—	710,868	Loan
Laser incise machine 1	4,408,834	244,647	—	4,653,481	Loan
Laser incise machine 2	635,328	3,230,643	—	3,865,971	Loan
35 tons boiler project	—	2,948,176	—	2,948,176	Loan
Airiness system	—	729,630	—	729,630	Loan
Structure design softening workshop	2,109,505	71,840	—	2,181,345	Loan
六配機床	1,237,800	6,930	—	1,244,730	Loan
Misc. parts for lathe	735,870	25,060	—	760,930	Loan
6 metres grinder	—	900,000	—	900,000	Loan
Others	20,653,474	9,873,264	8,299,205	22,227,533	Loan
Total	32,480,094	22,876,240	8,299,205	47,057,129	

Note:

- Others include projects less than Rmb1,000,000.

(11) Long term deferred expenses

According to the new Accounting Standards for Enterprises and the Accounting Regulations for Joint Stock Company Limited issued by the Ministry of Finance of the People's Republic of China, the Company changed the fixed assets valuation method from book value method to the method of difference between unit net book value and its net realisable value. For the difference between unit net book value and its net realisable value, impairment loss provision for fixed assets was accrued. The change of accounting policy adopt the trace back method. The total impact of impairment loss of fixed assets amounts to Rmb39,537,633 for year 2000 and before.

(12) Long term deferred expenses

	2001.06.30 <i>Rmb</i>	2000.12.31 <i>Rmb</i>
Housing rental expense for sales branch	582,477	515,099
Total	<u>582,477</u>	<u>515,099</u>

(13) Share capital

	2001.06.30	2000.12.31
<i>Share not yet permitted to be traded</i>		
Shares held by promoter	220,000,000	220,000,000
Including: State-owned shares	—	—
Shares owned by domestic legal persons	220,000,000	220,000,000
Total of share not yet permitted to be traded	220,000,000	220,000,000
<i>Shares permitted to be traded</i>		
Domestically listed domestic shares	203,000,000	203,000,000
Overseas listed foreign shares (H shares)	180,800,000	180,800,000
Total shares in market	<u>383,800,000</u>	<u>383,800,000</u>
Total number of shares in issue	<u>603,800,000</u>	<u>603,800,000</u>

There is no changes in the share structure and numbers during the reporting period.

(14) Capital reserve

	2001.06.30 <i>Rmb</i>	2000.12.31 <i>Rmb</i>
Share premium	1,247,952,996	1,247,952,996
Other capital surplus	4,201,118	4,201,118
Total	<u>1,252,154,114</u>	<u>1,252,154,114</u>

(15) Other operating profit

	For the six months ended 30th June	
	2001 <i>Rmb</i>	2000 <i>Rmb</i>
Sales of materials	2,927,635	1,486,804
Transportation expenses	23,893	—
Processing fee	151,479	611,735
Other	1,335,005	933,309
Total	<u>4,438,012</u>	<u>3,031,848</u>

(16) Financial expenses

	For the six months ended 30th June	
	2001 <i>Rmb</i>	2000 <i>Rmb</i>
Interest expense	16,242,205	16,046,232
Less: Interest income	<u>13,276,006</u>	<u>3,523,942</u>
Net interest expense	2,966,199	12,522,290
Exchange loss	164,945	132,463
Others	131,961	120,610
Total	<u>3,263,105</u>	<u>12,775,363</u>

**(17) Investment income**

	For the six months ended 30th June	
	2001 <i>Rmb</i>	2000 <i>Rmb</i>
Amortisation of the difference in stock investment	310,678	310,678
Gain on investment in debenture	(645,115)	—
Gain on investment in associated company	296,480	—
Amortisation of the difference on net assets of investment in subsidiary company	213,946	—
Other	1,508,337	360,140
Total	1,684,326	670,818

(18) Non-operating income

	For the six months ended 30th June	
	2001 <i>Rmb</i>	2000 <i>Rmb</i>
Gain on disposal of fixed assets	401,156	117,947
Proceeds from debt restructuring	51,150	180,494
Others	83,141	94,551
Total	535,447	392,992

(19) Non-operating expenses

	For the six months ended 30th June	
	2001 <i>Rmb</i>	2000 <i>Rmb</i>
School fees	1,451,698	1,700,000
Loss on disposal of fixed assets	386,592	168,039
Donations	43,000	—
Others	68,302	66,577
Total	1,949,592	1,934,616