



Chapter XII Accounts Prepared in Accordance with the PRC Accounting Rules and Regulations

Balance Sheet

(Prepared in accordance with the PRC Accounting Rules and Regulations)

AS AT 31 DECEMBER 2001

ASSETS	GROUP 2001	GROUP 2000	COMPANY 2001	<i>In RMB</i> COMPANY 2000
CURRENT ASSETS				
Cash and bank balances (Note 1, 33)	1,344,655,341	1,628,381,739	1,017,452,531	1,391,717,332
Short term investments (Note 2)	117,871,794	12,000,000	114,002,136	12,000,000
Notes receivable (Note 3)	62,407,426	38,070,181	36,144,917	18,820,000
Dividends receivable	—	—	45,774,046	—
Interest receivable	—	—	—	—
Accounts receivable (Note 4(1))	329,334,838	320,069,119	197,510,080	163,652,049
Other receivables (Note 4(2))	154,582,624	109,086,354	194,465,426	258,621,763
Advances to suppliers (Note 5)	105,278,568	116,610,966	100,964,631	47,895,238
Subsidy receivable	—	—	—	—
Inventories (Note 6)	885,565,519	881,382,067	506,655,744	473,695,762
Deferred and prepaid expenses (Note 7)	3,466,774	534,085	1,748,217	111,101
Long term investments maturing within one year	—	—	—	—
Other current assets	—	—	—	—
Total current assets	<u>3,003,162,884</u>	<u>3,106,134,511</u>	<u>2,214,717,728</u>	<u>2,366,513,245</u>
LONG TERM INVESTMENTS				
Long term equity investments (Note 8)	60,311,269	1,836,040	501,074,239	276,790,981
Long term debenture investments (Note 8)	209,600	854,715	209,600	854,715
Total long term investments	<u>60,520,869</u>	<u>2,690,755</u>	<u>501,283,839</u>	<u>277,645,696</u>
Including: Consolidation difference	<u>(4,892,604)</u>	<u>(5,513,960)</u>	<u>—</u>	<u>—</u>
FIXED ASSETS				
Fixed assets-cost	986,197,608	869,094,994	633,605,760	554,709,119
Less: Accumulated depreciation	<u>(446,794,213)</u>	<u>(403,452,389)</u>	<u>(255,740,021)</u>	<u>(231,635,278)</u>
Fixed assets-net book value (Note 9)	539,403,395	465,642,605	377,865,739	323,073,841
Provision for fixed assets impairment loss (Note 9)	<u>(39,537,633)</u>	<u>(39,537,633)</u>	<u>(35,904,205)</u>	<u>(35,904,205)</u>
Fixed assets-net of provision	499,865,762	426,104,972	341,961,534	287,169,636
Materials for construction in progress (Note 10)	16,752,662	—	7,253,435	—
Construction in progress (Note 11)	362,576,436	32,480,094	347,288,440	31,387,865
Fixed assets pending disposal	—	—	—	—
Total fixed assets	<u>879,194,860</u>	<u>458,585,066</u>	<u>696,503,409</u>	<u>318,557,501</u>
INTANGIBLE AND OTHER ASSETS				
Intangible assets (Note 12)	67,064,414	64,294,369	49,566,207	50,830,809
Long term deferred expenses (Note 13)	2,112,693	2,322,738	1,579,025	546,530
Other long term assets	—	—	—	—
Total intangible and other assets	<u>69,177,107</u>	<u>66,617,107</u>	<u>51,145,232</u>	<u>51,377,339</u>
DEFERRED TAXES				
Deferred tax charges	—	—	—	—
TOTAL ASSETS	<u><u>4,012,055,720</u></u>	<u><u>3,634,027,439</u></u>	<u><u>3,463,650,208</u></u>	<u><u>3,014,093,781</u></u>

The accompanying notes form an integral part of these financial statements

Legal Representative: Ye Maoxin

Person in charge of accounting function: Yao Yuming

Person in charge of accounting department: Mao Faqing

Balance Sheet

(Prepared in accordance with the PRC Accounting Rules and Regulations)

AS AT 31 DECEMBER 2001 (CONTINUED)

				<i>In RMB</i>
LIABILITIES AND OWNERS' EQUITY	GROUP 2001	GROUP 2000	COMPANY 2001	COMPANY 2000
CURRENT LIABILITIES				
Short term loans (Note 14)	693,970,000	416,410,000	583,300,000	346,910,000
Notes payable (Note 15)	85,100,000	77,587,304	55,200,000	48,000,000
Accounts payable (Note 16)	285,117,299	288,247,098	164,421,036	150,951,350
Advances from customers (Note 17)	448,824,424	543,019,400	285,206,773	202,573,576
Accrued payroll	864,528	930,046	—	—
Staff welfare payable	14,310,217	9,010,022	6,003,016	4,062,658
Dividends payable (Note 18)	37,688,616	66,418,142	37,173,500	66,418,142
Taxes payable (Note 19)	20,966,858	(2,040,560)	13,420,698	4,783,660
Other accruals (Note 20)	442,613	1,242,528	—	1,178,495
Other payables (Note 21)	84,198,396	38,979,808	37,008,010	10,983,288
Accrued expenses (Note 22)	3,045,720	2,927,851	1,200,000	1,365,000
Estimated liability	—	—	—	—
Portion of long term liabilities due within one year (Note 23)	29,588,000	23,500,000	23,588,000	23,500,000
Other current liabilities	—	—	—	—
Total current liabilities	1,704,116,671	1,466,231,639	1,206,521,033	860,726,169
LONG TERM LIABILITIES				
Long term loans (Note 24)	93,075,000	71,290,000	83,075,000	65,290,000
Debentures payable	—	—	—	—
Long term payables	—	—	—	—
Specific item liabilities	—	—	—	—
Other long term liabilities	—	—	—	—
Total long term liabilities	93,075,000	71,290,000	83,075,000	65,290,000
DEFERRED TAXES				
Deferred tax credits	—	—	—	—
TOTAL LIABILITIES	1,797,191,671	1,537,521,639	1,289,596,033	926,016,169
Minority interest	39,371,779	7,728,589	—	—
OWNER'S EQUITY				
Share capital (Note 25)	603,800,000	603,800,000	603,800,000	603,800,000
Capital surplus (Note 26)	1,252,154,114	1,252,154,114	1,252,154,114	1,252,154,114
Surplus reserve (Note 27)	151,546,853	116,722,673	120,843,341	96,402,428
Including: statutory welfare fund	61,891,903	44,479,813	46,540,147	34,319,691
Undistributed profit (Note 28)	167,936,262	116,100,424	197,256,720	135,721,070
Foreign exchange difference reserve	55,041	—	—	—
Total shareholders' equity	2,175,492,270	2,088,777,211	2,174,054,175	2,088,077,612
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	4,012,055,720	3,634,027,439	3,463,650,208	3,014,093,781

The accompanying notes form an integral part of these financial statements

Legal Representative: Ye Maoxin

Person in charge of accounting function: Yao Yuming

Person in charge of accounting department: Mao Faqing

**Profit and Loss Account**

(Prepared in accordance with the PRC Accounting Rules and Regulations)

FOR THE YEAR ENDED 31 DECEMBER 2001

ITEMS	In RMB			
	GROUP 2001	GROUP 2000	COMPANY 2001	COMPANY 2000
Sales revenue (Note 29)	2,215,239,270	1,808,124,899	857,234,032	798,128,529
Less: Cost of sales (Note 29)	(1,774,364,421)	(1,444,004,299)	(682,252,790)	(646,674,180)
Sales tax (Note 30)	(6,415,990)	(1,710,721)	(1,462,410)	—
GROSS PROFIT ON SALES	434,458,859	362,409,879	173,518,832	151,454,349
Add: Other operating income	8,476,098	8,014,670	5,691,629	4,578,759
Less: Selling expenses	(60,724,122)	(52,825,873)	(19,137,555)	(16,263,898)
General and administrative expenses	(229,626,298)	(164,003,685)	(77,079,638)	(69,651,668)
Financial expenses (Note 31)	(5,611,997)	(16,833,921)	(1,607,954)	(9,180,172)
OPERATING PROFIT	146,972,540	136,761,070	81,385,314	60,937,370
Add: Investment income (Note 32)	(522,983)	11,169,457	51,435,488	83,558,708
Subsidy income	483,701	622,479	—	2,479
Non-operating income	1,166,028	373,335	625,811	79,749
Less: Non-operating expenses	(3,477,317)	(9,357,976)	(2,735,715)	(8,681,732)
TOTAL PROFIT	144,621,969	139,568,365	130,710,898	135,896,574
Less: Income tax	(20,599,812)	(9,944,128)	(8,506,334)	(9,176,882)
Loss of minority shareholders	(1,134,139)	(2,283,189)	—	—
NET PROFIT	<u>122,888,018</u>	<u>127,341,048</u>	<u>122,204,564</u>	<u>126,719,692</u>

Supplementary Information

ITEMS	2001		2000	
	Group	Company	Group	Company
1. Revenue from sale, disposal or investee company	—	—	—	—
2. Loss due to natural disaster	—	—	—	—
3. Decrease in total profit due to a change in accounting policy	—	—	(6,591,568)	(6,591,568)
4. Increase/(decrease) in total profit due to a change in accounting estimate	—	—	—	—
5. Loss from debt restructuring	—	—	—	—
6. Others	—	—	—	—

The accompanying notes form an integral part of these financial statements

Legal Representative: Ye Maoxin

Person in charge of accounting function: Yao Yuming

Person in charge of accounting department: Mao Faqing

Profit Appropriation Statement

(Prepared in accordance with the PRC Accounting Rules and Regulations)

FOR THE YEAR ENDED 31 DECEMBER 2001

ITEMS	GROUP 2001	GROUP 2000	COMPANY 2001	<i>In RMB</i> COMPANY 2000
Net profit	122,888,018	127,341,048	122,204,564	126,719,692
Add: Undistributed profit at the beginning of the year	116,100,424	101,568,244	135,721,070	100,763,316
Transfer from statutory surplus reserve	—	—	—	—
DISTRIBUTABLE PROFIT	238,988,442	228,909,292	257,925,634	227,483,008
Less: Transfer to statutory surplus reserve	(17,412,090)	(23,195,434)	(12,220,457)	(12,671,969)
Transfer to statutory public welfare fund	(17,412,090)	(23,195,434)	(12,220,457)	(12,671,969)
PROFIT AVAILABLE FOR DISTRIBUTION TO SHAREHOLDERS	204,164,262	182,518,424	233,484,720	202,139,070
Less: Dividend for preferred stock	—	—	—	—
Transfer to discretionary surplus fund	—	—	—	—
Dividend for common stock	(36,228,000)	(66,418,000)	(36,228,000)	(66,418,000)
Dividend for common stock transferred to shares	—	—	—	—
UNDISTRIBUTED PROFIT AT END OF YEAR	<u>167,936,262</u>	<u>116,100,424</u>	<u>197,256,720</u>	<u>135,721,070</u>

The accompanying notes form an integral part of these financial statements

Legal Representative: Ye Maoxin

Person in charge of accounting function: Yao Yuming

Person in charge of accounting department: Mao Faqing

**Cash Flow Statement**

(Prepared in accordance with the PRC Accounting Rules and Regulations)

FOR THE YEAR ENDED 31 DECEMBER 2001

ITEM	GROUP 2001	In RMB COMPANY 2001
1. Cash Flows From Operating Activities		
Cash received from sales of goods or rendering of services	2,503,743,945	1,038,558,219
Refund of tax	2,358,652	—
Other cash received relating to operating activities	9,597,498	5,819,219
Sub-total of cash inflows	2,515,700,095	1,044,377,438
Cash paid for goods and services	(1,963,085,169)	(790,489,968)
Cash paid for operating leases	(193,395,382)	(78,546,562)
Payments of all types of taxes	(103,516,404)	(40,688,845)
Other cash paid relating to operating activities	(164,732,176)	(32,137,346)
Sub-total of cash outflows	(2,424,729,131)	(941,862,721)
Net cash from operating activities	90,970,964	102,514,717
2. Cash Flows from Investing Activities		
Cash received from return on investments	12,645,115	12,645,115
Cash received from return on investments	3,371,894	12,828,194
Net cash received from disposal of fixed assets, intangible assets and other long term assets	2,865,609	1,285,135
Other cash received from relating to investing activities	27,331,783	66,316,265
Sub-total of cash inflows	46,214,401	93,074,709
Cash paid to acquire fixed assets, intangible assets and other long-term assets	(474,205,463)	(408,217,859)
Cash paid to acquire investments	(241,574,126)	(345,452,145)
Other cash paid relating to investing activities	—	—
Sub-total of cash outflows	(715,779,589)	(753,670,004)
Net cash from investing activities	(669,565,188)	(660,595,295)
3. Cash Flows from Financing Activities		
Proceeds from issuing shares	24,589,051	—
Including : Proceed from issuing shares to minority shareholders by subsidiaries	24,589,051	—
Proceeds from borrowings	897,520,000	759,520,000
Other proceeds relating to financing activities	—	—
Sub-total of cash inflows	922,109,051	759,520,000
Cash repayments of amounts borrowed	(592,087,000)	(484,657,000)
Cash payments for interest expenses and distribution of dividends or profits	(96,541,492)	(91,047,223)
Including : cash payments to minority shareholders for distribution of dividends or profit	—	—
Other cash payments relating to financing activities	—	—
Sub-total of cash outflows	(688,628,492)	(575,704,223)
Net cash from financing activities	233,480,559	183,815,777
4. Effect of Foreign Exchange Rate Changes on Cash	55,041	—
5. Net Increase in Cash and Cash Equivalents	<u>(345,058,624)</u>	<u>(374,264,801)</u>

The accompany notes form an integral part of these financial statements

Legal Representative: Ye Maoxin

Person in charge of accounting function: Yao Yuming

Person in charge of accounting department: Mao Faqing

Cash Flow Statement

(Prepared in accordance with the PRC Accounting Rules and Regulations)

FOR THE YEAR ENDED 31 DECEMBER 2001

ITEM	GROUP 2001	In RMB COMPANY 2001
1. Reconciliation of Net Profit to Cash Flows from Operating Activities		
Net profit	122,888,018	122,204,564
Add: Share of profit by minority shareholders	1,134,139	—
Provision or impairment for assets	27,617,767	2,779,359
Depreciation of fixed assets	49,847,119	27,381,486
Amortization of intangible assets	1,617,051	1,285,396
Decrease in deferred expenses	2,489,784	694,916
Increase in prepaid expenses	(2,932,689)	(1,637,116)
Increase in accrued expenses (or deduct: decrease)	117,869	(165,000)
Loss on disposal of fixed assets, intangible assets and other long term assets (or deduct: gain)	136,106	(142,874)
Loss on scrapping of fixed assets	—	—
Financial expenses	5,611,997	1,607,954
Loss arising from investments (or deduct: gain)	522,983	(51,435,488)
Deferred tax credit (or deduct: debit)	—	—
Increase in inventories	(15,568,539)	(32,959,982)
Increase in operating receivables	(83,999,512)	(84,852,299)
Increase in operating payables (or deduct: decrease)	(18,511,129)	117,753,801
Others	—	—
Net cash flows from operating activities	90,970,964	102,514,717
2. Investing and financing activities that do not involve cash receipts and payments		
Conversion of debt into capital	—	—
Reclassify convertible bonds to be expired with one years as current liability	—	—
Fixed assets financed by finance leases	—	—
3. Net Increase in Cash and Cash Equivalents		
Cash at the end of the period	1,283,323,115	1,017,452,531
Less: Cash at the beginning of the period	(1,628,381,739)	(1,391,717,332)
Plus: Cash equivalents at the beginning of the period	—	—
Less: Cash equivalents at the beginning of the period.	—	—
Net increase in cash and cash equivalents	(345,058,624)	(374,264,801)

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

Legal Representative: Ye Maoxin

Person in charge of accounting function: Yao Yuming

Person in charge of accounting department: Mao Faqing



Notes to the Accounts

(Prepared in accordance with the PRC Accounting Rules and Regulations)

I. CORPORATE INFORMATION

Jingwei Textile Machinery Company Limited (the “Company”) was established on 15th August 1995 as a joint stock limited company with China National Textile Machinery Corporation (Group) Company Limited (“CTMC”, or the “ultimate holding company”), formerly known as China National Textile Machinery Corporation as the sole promoter. The Company and its subsidiaries (collectively “Group”) principally engage in the manufacture and sale of textile machinery.

On 15th November 1999, pursuant to the Assets Exchange Agreement between the Company and its ultimate holding company, the Company acquired 98% equity interest of the latter’s subsidiaries namely, 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 (the “New Subsidiaries” or “Four HongDa Companies”) and disposed of the 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 acquisitions of the New Subsidiaries and the consideration receivable by the Company from its ultimate holding company for the disposals of the four ancillary processing plants was settled in cash. The disposals of the four ancillary processing plants did not form part of the core production facilities for the manufacture of the Company’s principal products.

On 26th May 2000, pursuant to the approval Document (2000) No. 35 issued by China Security Regulatory Committee, the Company issued 180,000,000 A shares. Subsequent to this issue, the total share capital of the Company is 603,800,000.

II. ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

(a) Accounting standards and regulations adopted currently by the Company

The financial statements have been prepared in accordance with the Accounting Standards for Business Enterprises and the Accounting Systems for Business Enterprises, promulgated by the Ministry of Finance of the People’s Republic of China.

(b) Accounting period

The accounting period of the Group starts on 1st January and ends on 31st December.

(c) Reporting currency

The Group uses the Renminbi (RMB) as its reporting currency.

(d) Basis of book keeping and valuation

The Group adopts the accrual method of accounting. Except for assets that were accounted for based on value appraised by the State Appraisal Bureau during the reorganisation, all other assets were accounted for on an actual cost basis.

(e) Foreign currency translation

Transactions in foreign currencies are translated into Renminbi at the exchange rates stipulated by the People’s Bank of China on the transaction date. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated into Renminbi at the exchange rates stipulated by the People’s Bank of China at the balance sheet date. Except for the capitalization of foreign exchange differences in relating to funds borrowed to finance the purchase or construction of fixed assets, exchange differences arising from these translations are taken to the profit and loss account.

(f) Translation of financial statements denominated in foreign currency

In respect of foreign subsidiaries, all assets and liabilities are translated into RMB at the exchange rates stipulated by the People’s Bank of China at the balance sheet date. All items in the shareholders’ equity account, with the exception of retained earnings, are translated at the transaction dates the retained earnings figure is taken directly from the profit and loss figure and the results are translated using average monthly rates. The exchange differences arising on the translation of the foreign subsidiaries, and the Group’s share of exchange differences are taken directly to the foreign currency translation reserve.

One of the subsidiaries was registered in Hong Kong, PRC, its recording currency is HK dollar. In the preparation of consolidated financial statements, the financial statements of the subsidiary have been translated according to the above policy.

Notes to the Accounts

(Prepared in accordance with the PRC Accounting Rules and Regulations)

II. ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(g) Cash and cash equivalents

For the purpose of the cash flow statements cash and cash equivalents comprise cash on hand, balances with banks, investments with maturity of not more than three months, which are readily converted to cash and have low risk of changes in the value.

(h) Short term investments

Short term investments are highly liquid securities and futures and have a maturity period of not more than a year. Short term security investments are recorded at cost less declared dividend at the time of purchase. Dividends and interests received during the holding period are recorded in the related dividend or interest account or deducted against the investment cost. Securities are stated at the lower of cost or net realisable value. Provision is made on an individual basis. Investment in futures is initially recorded at cost. A year end, it is valued at the lower of cost and net realisable value.

Entrusted loans refer to loans made through financial institutions and other companies. The related interests are accrued periodically and taken to the profit and loss account. Where the interests ceased to be collectible at due dates, all previously accrued amount will be written off. At year end, should there be evidence that the principle amount of the entrusted loan is higher than the collectible amount, provision will be made for the difference. Provision is made for the uncollectible amount at year end.

(i) Accounts receivable and provision for bad debts

The Group provides an allowance for bad debts.

Bad debt provision is made based on the assessment of the collectibility of the debts.

Where it is evidenced that the accounts receivable are uncollectible, such as the owing parties have closed down their companies, went into bankruptcy, experienced negative working capital situation, bad debt expenses will be recognised and offset against the bad debt provision.

(j) Inventories

Inventories include raw materials, work in progress, finished goods, low valued consumables and packaging materials. Inventories are stated at actual cost. The costs of raw materials and finished goods sold are computed using the weighted average method. Low value consumables and packaging materials are charged to cost when used. Finished goods and work in process comprise material costs, direct labour and an appropriate allocation of all indirect production overhead expenditures.

Provision is made when necessary for obsolete and defective inventories. When the cost is higher than the net realisable value, provision for net realisable value will be made. Net realisable value is the price at which the inventories can be realised in the normal course of business after allowing for the costs of realization and where appropriate, the cost of conversion from their existing state to a finished condition.

(k) Long term investments

Long term investments include equity investments and long term debenture with a maturity period of more than one year.

Long term investment is accounted for on an actual cost basis. For long term equity investments in which the Group have equity interests of 20% and above; and for those in which the equity interests held by the Group are below 20% but for which the Group has significant influence, the equity method of accounting is adopted. For companies whose equity interests held by the Groups are below 20% or for those investments in which the Group holds 20% or more of the equity interests but does not exercise significant influence, the cost method in adopted.

When the equity method is adopted, the difference between the original investment cost and the Company's share of equity in the invested company is recognised as "equity investment difference" and is amortised on a straight line basis over 10 years.

Long term debenture is stated at cost, net of interest due but not received. Interest income is accrued periodically.

Provision for diminution in value is made when the carrying cost of the investment amount is lower than the market value or when there is deterioration in the operation of the entities being invested and this is not expected to be recoverable in the foreseeable future.



Notes to the Accounts

(Prepared in accordance with the PRC Accounting Rules and Regulations)

II. ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(l) Fixed assets and depreciation

Fixed assets refer to plant and buildings and other operating machinery and equipment with useful life of more than one year. Other non-operating machinery and equipment of more than RMB2,000 with useful life of more than two years are being capitalised as fixed assets.

Fixed assets are recorded at the original purchase or set up cost. Fixed assets being revalued during reorganisation are recorded at the revalued amount approved by State Assets Management Bureau.

Depreciation of fixed assets is calculated to write off the cost or revalued amount of the assets, less the estimated 5% residual value on a straight line basis over their estimated useful lives.

The applicable useful lives and residual value of fixed assets are as follows:

	Years	Residual Value
Plant and buildings	9 – 50	5%
Machinery and equipment	7 – 22	5%
Motor vehicles	9	5%

As at year end, the fixed assets are recorded at the lower of net book value and net realizable value. Should the ability of the fixed assets to generate economic benefits be severely affected, provision for fixed assets impairment will be made based on the difference between the net book value and net realizable value. When the fixed assets can no longer generate economic benefits, full provision will be made.

(m) Construction in progress

Construction in progress (“CIP”) represents capital assets under construction and is stated at cost. Cost comprises equipment cost, installation expenses, construction cost and other direct costs including interest accrued arising from borrowings to finance the projects during the construction period. When CIP has been completed and put into use, the CIP will be transferred to fixed assets.

Impairment provision is individually provided when the CIP is discontinued for a long time and not expected to be continued in the foreseeable future or when the recoverable amount of the CIP is lower than the carrying amount due to technology obsolescence.

(n) Borrowing costs

Borrowing costs are interest incurred, amortisation of discounts or premiums, ancillary costs incurred, and exchange differences in connection with the specific borrowings pertaining to the acquisition or construction of fixed assets. Borrowing costs are capitalized if they meet the following criteria for capitalization:

1. Expenditure for the asset are being incurred;
2. Borrowing costs are being incurred;
3. Activities that are necessary to prepare the asset for its intended use have commenced.

Borrowing costs ceased to be capitalised when the construction in progress have reached their expected usable conditions. Borrowing costs incurred thereafter are recognized as expenses in the periods in which they are incurred.

The borrowing costs include interest calculated based on the weighted average cost of fixed assets purchased or constructed and the weighted average cost of related borrowings during the period. The amount of borrowing costs capitalized during the period should not exceed the amount of borrowing costs actually incurred during that period.

All other borrowing costs are expensed when incurred.

(o) Intangible assets and amortisation

Intangible assets refer to the land use rights, trademarks, patents.

Land use rights

- Land use rights are stated at cost and amortisation is calculated to write off the land use rights evenly over the estimated useful life of 50 years.

Commencing 1st January 2001, land use right purchased or obtained through payment of land use fee by the Group are initially recorded at cost and transferred to construction in progress when the land is being developed for internal projects.

Trademarks and patents

- Trademarks and patents are stated at cost and amortisation is calculated to write off the trademarks and patents evenly over the estimated useful life of 10 years.

Provision is made when the book value of the intangible assets is lower than the net realisable value. When the intangible assets could no longer bring any economic benefits for the Group, the assets will be written off.

Notes to the Accounts

(Prepared in accordance with the PRC Accounting Rules and Regulations)

II. ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(p) Long term deferred expenses

Long-term deferred expenses refer to those expenses which have been paid and will be amortised over one year.

All other long term deferred expenses are amortised on a straight line basis over their beneficial period.

All expenses incurred during the pre-operation stage are included in the “long term deferred expenses” account and are written off to the profit and loss account when the enterprise starts operation.

Should there be no economic benefits from the long term deferred expenses, the remaining amount will be written off to the profit and loss account.

(q) Revenue recognition

Sale of goods

Sales revenue is recognised when the risk and rewards of ownership have been transferred to the purchaser and the seller no longer manages or controls these goods, or the receipts have been received and the cost could be readily calculated.

Cash discount is charged as finance expenses whilst sales discount is offset against revenue in the period it occurs.

Leasing income

Interest and leasing income is recognised when the economic and relevant cash flows and amount to the Company can be reliably determined.

(r) Income tax

The method adopted by the Group for the income tax is tax liability method.

(s) Changes in accounting policies

In accordance with the Notification (2000) No.25 on “Accounting Regulations” issued by the Ministry of Finance and (2001) No.7 regarding “Accounting Regulations – Intangible assets, etc – 8 accounting standards notification”, the Group has adopted these new accounting regulations in place of the “Accounting regulations for Joint Stock Company” effective from 1st January 2001. At the same time, in accordance with the requirement of the Ministry of Finance’s document (2001) No.17, the Group has made the following adjustments retrospectively:

- 1) Provision of impairment loss for the Group’s fixed assets;
- 2) The above adjustment has been made retrospectively, and the opening equity and related accounts, profit and loss account and profit appropriation of profit account have been adjusted and restated. The impact of the provision for impairment loss of fixed asset is RMB39,537,633, the net profit for 2000 has been reduced by RMB6,591,568, the opening equity for 2000 was reduced by RMB32,946,065, out of which the retained earnings was reduced by RMB26,356,852 and the statutory surplus reserve was reduced by RMB7,315,898.

(t) Basis of preparation of consolidated financial statement

Consolidated financial statements are prepared in accordance with the Document [1995] No. 11 “Provisional Regulations for Consolidated Financial Statements” issued by the Ministry of Finance of the People’s Republic of China.

Consolidated financial statements include the financial statements of the Company and its subsidiaries as at 31 December 2001.

A subsidiary refers to a company in which the Company holds voting rights of over 50% and in which the Company is in a position to exercise significant control in its finance and operation policies and Company could obtain an economic benefit from it.

All significant inter-company balances and transactions between the Company and its subsidiaries have been eliminated in the preparation of the consolidated financial statements.

In consolidated financial statements, minority interests refers to the portion of equity interest which is not owned by the Company.



Notes to the Accounts

(Prepared in accordance with the PRC Accounting Rules and Regulations)

II. ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(t) Basis of preparation of consolidated financial statement (continued)

New subsidiaries acquired during the year are as follows:

Name of enterprise	Date of establishment	Equity	
		Company	Group
Beijing Garden Automobile Lease Company Limited ("Beijing Garden")	21st April 2001	—	80%
Beijing Ximen Information Technology Company Limited ("Beijing Ximen")	7th June 2001	—	50%
Hongkong Huaming Company Limited ("Hongkong Huaming")	31st December 2000	100%	100%
Beijing Jingpeng Investment Management Company Limited ("Beijing Jinpeng")	30th July 2001	80%	95%
Jintu Information Technology Company Limited ("Jintu Technology")	9th August 2001	58.9%	58.9%
Shanghai Chuangan Trade Company Limited ("Shanghai Chuangan")	29th September 2001	90%	90%
Jinan Jin Hongda Textile Machinery Company Limited ("Jinan Jin Hongda")	13th December 2001	—	94%
Shanghai Jingwei Dongxing Blowing-carding Machinery Company Limited ("Shanghai Dongxing")	5th September 2001	78%	88%

The 2001 consolidated financial statements include the financial positions, results of operations and cash flows for the year ended 31 December 2001 of Beijing Garden, Beijing Ximen, Hongkong Huaming, Beijing Jinpeng, Jintu Technology, Shanghai Chuangan, Jinan Jin Hongda and Shanghai Dongxin.

III. TAXATION

The major taxes of the Group are listed as follows:

Category	Rate	Note
Value Added Tax	17%	17% of sales revenue of textile machinery and spare parts less deductible input VAT
Business tax	5%	Rental income
Income tax	15-33%	Taxable income

Pursuant to the approval Document [1995] No. 48 issued by Shanxi State Tax Bureau on 28th September 1995, the Company enjoys a preferential tax rate of 15%.

Pursuant to the approval Document [2001] No. 2 issued by Beijing State Tax Bureau Development Zone Branch on 17th January 2001, Beijing Jingwei Textile Machinery New Technology Company Limited enjoys the preferential tax policy for new technology enterprises and is exempted from income tax from 1st April 2000 to 31st December 2002.

Pursuant to the approval Document [2000] No.67 issued by State Tax Bureau of Tianjin New Technology Industry Zone on 3rd July 2000, Tianjin Hongda Textile Machinery Company Limited is exempted from income tax from January 2000 to December 2001.

Notes to the Accounts

(Prepared in accordance with the PRC Accounting Rules and Regulations)

IV. SUBSIDIARIES AND ASSOCIATED COMPANIES**(a) Subsidiaries**

Name of enterprise	Country of Incorporation	Principal activities	Registered capital	Equity Interest % held	
				Company	Group
Shanxi Jingwei Computer Technology Development Company Limited	PRC	Distribution of computers and related services	RMB1,600,000	60%	60%
Jinzhong Jingwei Ring Manufacturing Company Limited	PRC	Manufacture of textile machinery components	RMB500,000	98%	100%
Jingwei Textile Machinery Yuci Material Company	PRC	Trading of furnace materials, metals textile machinery components and charcoal	RMB5,000,000	99.2%	100%
Taiyuan Jingwei Electrical Company Limited	PRC	Manufacture and sales of transformers and electrical components	RMB5,000,000	98%	100%
Ningbo Daxie Machinery and Develop Zone Wu Fang Hongda Company Limited	PRC	Sales of textile machinery and related components	RMB2,400,000	98%	100%
Qingdao Hongda Textile Machinery Company Limited	PRC	Manufacture, sales, repairing and leasing of textile machinery and related components	RMB45,508,465	98%	98%
Tianjin Hongda Textile Machinery Company Limited	PRC	Provision of technology consultation, sales of textile and agriculture processing machinery, related components	RMB30,349,177	98%	98%
Zhengzhou New Hongda Textile Machinery Company Limited	PRC	Developing and manufacturing textile machinery and related components	RMB24,696,500	98%	98%
Shenyang Hongda Textile Machinery Company Limited	PRC	Develop and manufacture textile machinery and related components, provision of technical consultation	RMB33,097,770	98%	98%
Beijing Jingwei Textile Machinery New Technology Company Limited (Note 1)	PRC	Develop, manufacture, and sales of textile machinery and computer hardware, agricultural machinery, equipment, instrument, automobile components	RMB100,000,000	98.4%	98.4%
Shanghai Weixin Electrical & Machinery Company Limited	PRC	Develop and manufacture Textile machinery, automobile component and general machinery	RMB16,000,000	90%	100%

**Notes to the Accounts**

(Prepared in accordance with the PRC Accounting Rules and Regulations)

IV. SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED)**(a) Subsidiaries (continued)**

Name of enterprise	Country of Incorporation	Principal activities	Registered capital	Equity Interest % held	
				Company	Group
Beijing Garden Automobile Lease Company Limited (Note 2)	PRC	Leasing of automobile and construction tools	RMB2,000,000	—	80%
Beijing Ximen Information Technology Company Limited (Note 3)	PRC	Manufacture, wholesale and retail	RMB6,600,000	—	50%
Hongkong Huaming Company Limited (Note 4)	PRC Hong Kong	Import and export, general trading, investing and consulting services	USD600,000	100%	100%
Jintu Information Technology Company Limited (Note 5)	PRC	Wholesale, retail and consulting service	RMB50,920,000	58.9%	58.9%
Beijing Jingpeng Investment Management Company Limited (Note 6)	PRC	Investment management, sale of electronic & chemical products (other than dangerous products), machinery, construction materials, wood, automotive parts, local products, fashion and exhibitions and provision of technology information	RMB20,000,000	80%	95%
Shanghai Chuangan Trade Company Limited (Note 7)	PRC	Sale of textile, electronic, chemical products (other than dangerous products), metal construction materials, wood, cement, mining-related sub-products	RMB2,000,000	90%	90%
Jinan Jin Hongda Textile Machinery Company Limited (Note 8)	PRC	Research of electronics and general machinery technology and production, consultation and services, processing and sales of textile industry equipment, switch control equipment, agriculture equipment, general equipment, component and parts	RMB5,000,000	—	94%
Shanghai Jingwei Dongxing Blowing-carding Machinery Company Limited (Note 9)	PRC	Manufacturing and sales of blowing – carding machinery and related components	RMB50,000,000	78%	88%

Note 1: The Company increased its share in Beijing Jingwei Textile Machinery New Technology Company Limited to 98.4% on 14th June 2001.

Note 2: The Group invested in Beijing Garden Automobile Lease Company Limited on 21st April 2001.

Note 3: Beijing Ximen Information Technology was established on 7th June 2001.

Note 4: Hong Kong Huaming Company Limited was established on 31st December 2000.

Note 5: Jintu Information Technology Company Limited was established on 9th August 2001.

Note 6: Beijing Jingpeng Investment Management Company Limited was established on 30th July 2001.

Note 7: Shanghai Chuangan Trade Company Limited was established on 29th September 2001.

Note 8: Jinan Jin Hongda Textile Machinery Company Limited was established on 13th December 2001.

Note 9: Shanghai Jingwei Dongxing Blowing-Carding Machinery Company Limited was established on 5th September 2001.

Notes to the Accounts

(Prepared in accordance with the PRC Accounting Rules and Regulations)

IV. SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED)**(b) Associated companies**

Name of enterprise	Country of Incorporation	Principal activities	Registered capital	Equity Interest % held	
				Company	Group
Hongda International Trading Company Limited	PRC	Self and agent, trading, import and export of commodities, technology transfer and entrepot trade	RMB30,000,000	20%	20%
Beijing Textile Machinery Automatic Control Technology Company Limited	PRC	Textile machinery, developing of information technology products, sales of computer software and hardware and machinery electronic equipment	RMB2,000,000	—	40%
Qingdao Jinyi Pressing and Casting Company Limited	PRC	Pressing and casting of non-ferrous metal. Design, manufacturing and sales of model.	RMB1,250,000	—	24.39%
Shenzhen Bolue Technology Investment Company Limited (Note 1)	PRC	Investing, setting up and management of new enterprises and investment consultation	RMB85,500,000	40.94%	40.94%
Hongda Research Company Limited (Note 2)	PRC	Sale and development of environmental protective machine Textile machine, office equipment, electronics and provision of technical support	RMB50,000,000	40%	40%
Beijing Hongda Fangji Enterprise's Management Consulting Company Limited (Note 3)	PRC	Provision of management consultation and corporate image services, technology research, transfer, training and consultation services, computer design, organisation of cultural activities and exhibitions	RMB3,800,000	—	47.37%

Note1: Shenzhen Bolue Technology Investment Company Limited was established on 11th April 2001.

Note 2: Hongda Research Company Limited was established on 8th May 2001.

Note 3: Beijing Hongda Fangji Enterprise's Management Consulting Company Limited was established on 24th September 2001.

**Notes to the Accounts**

(Prepared in accordance with the PRC Accounting Rules and Regulations)

V NOTES TO THE FINANCIAL STATEMENTS**1. CASH AND BANK BALANCES**

	31st December 2001	31st December 2000
	<i>RMB</i>	<i>RMB</i>
Cash in hand	278,888	367,886
Cash at bank	1,267,422,321	1,602,386,596
Other cash equivalents:		
– Deposits in CTMC Finance Company	15,121,906	16,687,257
– Bank drafts	–	8,940,000
– Other deposits	500,000	–
– Time deposits over three months	61,332,226	–
	<u>1,344,655,341</u>	<u>1,628,381,739</u>

Deposits in China National Textile Machinery Group (“CTMC”) Finance Company carry an interest rate of 1.71% per annum (2000: 2.25%).

Cash and bank balances at 31st December 2001 include foreign currencies as follows:

Type of foreign currencies	Foreign Currencies	Exchange rate	RMB equivalent
USD	2,727,494	8.2766	22,574,377
HKD	29,279,968	1.0600	31,036,766
SFR	87,393	4.9466	432,298

2. SHORT TERM INVESTMENTS

	31st December 2000		31st December 2001
	<i>RMB</i>		<i>RMB</i>
Investment cost-			
Trading securities	–		28,515,083
Entrusted loans	–		93,000,000
Futures	–		1,537,623
Others	12,000,000		–
Total	<u>12,000,000</u>		<u>123,052,706</u>
Provision-			
	<i>RMB</i>	Addition	Write back
		<i>RMB</i>	<i>RMB</i>
Trading securities			
Sinopec	–	(4,389,646)	–
Yaxing Chemical	–	(791,266)	–
	–	(5,180,912)	–
	<u>12,000,000</u>		<u>117,871,794</u>

Provision for trading securities is made after comparing the purchase cost and the closing price listed in the Shanghai Stock Exchange on 31st December 2001.

Entrusted loans relate to loans to CTMC via CTMC Finance Company. The principal amount is RMB93,000,000 and it bears interest of 5.58% per annum.

Notes to the Accounts

(Prepared in accordance with the PRC Accounting Rules and Regulations)

V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. NOTES RECEIVABLE

The Group's notes receivable as at 31st December 2001 amount to RMB62,407,426 (2000: RMB38,070,181) and are bank drafts. As at year end, RMB10,358,000 (2000: nil) of the notes receivable are pledged with the banks as a security for notes payable issued by the Group.

Notes receivable pledged and discounted are as follows:

Issuer	Issue Date	Due Date	Amount	Nature
Handan Hongyuan Textile Company Limited	11th October 2001	10th April 2002	5,000,000	pledged
Shandong Textile Machinery Company Limited	20th September 2001	20th February 2002	2,000,000	pledged
Wuxi Textile Machinery Materials Company Limited	26th October 2001	26th March 2002	1,000,000	pledged
Wuxi Textile Machinery Materials Company Limited	30th October 2001	30th March 2002	1,650,000	pledged
Anhui Yuzhong Textile Company Limited	14th November 2001	14th March 2002	308,000	pledged
Haian Huaqiang Textile Company Limited	17th October 2001	17th April 2002	200,000	pledged
Jiangyin Textile Machinery Company Limited	17th October 2001	17th April 2002	200,000	pledged

4. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

(1) Accounts receivable

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

	31st December 2001			31st December 2000		
	RMB			RMB		
Accounts receivable			391,910,610			366,412,211
Less: Bad debt provision			(62,575,772)			(46,343,092)
			<u>329,334,838</u>			<u>320,069,119</u>
	31st December 2001			31st December 2000		
	Amount	%	Bad debt provision	Amount	%	Bad debt provision
	RMB		RMB	RMB		RMB
Ageing:						
Within 1 year	214,240,195	55	(2,424,497)	225,957,240	62	(1,784,331)
Within 1 to 2 years	77,083,620	20	(7,026,479)	69,146,048	19	(9,388,424)
Within 2 to 3 years	49,718,716	12	(17,117,529)	36,766,644	10	(13,276,441)
Over 3 years	50,868,079	13	(36,007,267)	34,542,279	9	(21,893,896)
	<u>391,910,610</u>	<u>100</u>	<u>(62,575,772)</u>	<u>366,412,211</u>	<u>100</u>	<u>(46,343,092)</u>

Receivables from shareholders holding 5% and above of the Company's equity interest and related parties are as follows:

	31st December 2001	31st December 2000
	RMB	RMB
– Due from the ultimate holding company	21,658,738	23,953,756
– Due from fellow subsidiaries	5,259,641	1,073,283
– Due from Jingwei Group and its subsidiaries and associates	–	6,383,786
	<u>26,918,379</u>	<u>31,410,825</u>

The five largest accounts receivable at the year end amount to RMB81,703,279 and account for 21% of the total accounts receivable.

**Notes to the Accounts**

(Prepared in accordance with the PRC Accounting Rules and Regulations)

V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**4. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES (CONTINUED)****(2) Other receivables**

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

	31st December 2001			31st December 2000		
	<i>RMB</i>			<i>RMB</i>		
Other receivables	155,667,436			110,171,166		
Less: Bad debt provision	(1,084,812)			(1,084,812)		
	<u>154,582,624</u>			<u>109,086,354</u>		

	31st December 2001			31st December 2000		
	<i>Amount</i>	<i>%</i>	<i>Bad debt provision</i>	<i>Amount</i>	<i>%</i>	<i>Bad debt provision</i>
	<i>RMB</i>		<i>RMB</i>	<i>RMB</i>		<i>RMB</i>
Ageing:						
Within 1 year	122,753,305	78	–	101,906,336	92	–
Within 1 to 2 years	26,343,012	17	–	6,553,434	6	–
Within 2 to 3 years	5,265,648	4	–	813,032	1	(317,660)
Over 3 years	1,305,471	1	(1,084,812)	898,364	1	(767,152)
	<u>155,667,436</u>	<u>100</u>	<u>(1,084,812)</u>	<u>110,171,166</u>	<u>100</u>	<u>(1,084,812)</u>

Receivables from shareholders holding 5% and above of the Company's equity interest and related parties are as follows:

	31st December 2001	31st December 2000
	<i>RMB</i>	<i>RMB</i>
– Due from the ultimate holding company	22,858,301	23,176,570
– Due from fellow subsidiaries	53,842,362	37,394,487
– Due from Jingwei Group and its subsidiaries and associates	3,516,327	2,041,345
	<u>80,216,990</u>	<u>62,612,402</u>

The five largest other receivables at the year end amount to RMB71,461,918 and account for 46% of the total other receivables.

5. ADVANCES TO SUPPLIERS

	31st December 2001		31st December 2000	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
	<i>RMB</i>		<i>RMB</i>	
Ageing:				
Within 1 year	90,175,830	86	108,092,741	93
Within 1 to 2 years	8,937,983	8	2,966,981	2
Within 2 to 3 years	2,060,376	2	5,551,244	5
Over 3 years	4,104,379	4	–	–
	<u>105,278,568</u>	<u>100</u>	<u>116,610,966</u>	<u>100</u>

Advances to shareholders holding 5% and above of the Company's equity interest and related parties are as follows:

	31st December 2001	31st December 2000
	<i>RMB</i>	<i>RMB</i>
– Ultimate holding company	6,009,668	6,385,918
– Fellow subsidiaries	30,914,515	18,806,089
– Jingwei Group and its subsidiaries and associates	2,381,991	–
	<u>39,306,174</u>	<u>25,192,007</u>

Notes to the Accounts

(Prepared in accordance with the PRC Accounting Rules and Regulations)

V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**6. INVENTORIES**

	31st December 2000		31st December 2001
	<i>RMB</i>		<i>RMB</i>
Goods in transit	11,324,478		1,665,410
Raw materials	195,119,732		184,750,053
Work in progress	251,552,262		243,900,369
Finished goods	427,701,358		470,950,537
	<u>885,697,830</u>		<u>901,266,369</u>
Provision-			
		Addition	Reclassification
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Goods in transit	(615,763)	–	615,763
Raw materials	–	(4,195,513)	(615,763)
Work in progress	–	(2,712,054)	–
Finished goods	(3,700,000)	(4,477,520)	–
	<u>(4,315,763)</u>	<u>(11,385,087)</u>	<u>–</u>
	<u>881,382,067</u>		<u>885,565,519</u>

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

7. DEFERRED AND PREPAID EXPENSES

	1st January 2001	Addition	Amortization	31st December 2001
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Rental	131,666	744,541	(436,063)	440,144
VAT input pending deduction	–	6,229,706	(4,929,322)	1,300,384
Heating fee	201,460	1,989,589	(1,358,521)	832,528
Others	200,959	2,591,648	(1,898,889)	893,718
	<u>534,085</u>	<u>11,555,484</u>	<u>(8,622,795)</u>	<u>3,466,774</u>

8. LONG TERM EQUITY INVESTMENTS

	1st January 2001	Addition	Disposal	31st December 2001
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Investment in associated companies	(1) 7,100,000	57,464,679	–	64,564,679
Other equity investment	250,000	389,194	–	639,194
Consolidation difference	(2) (5,513,960)	–	621,356	(4,892,604)
Long term equity investment	<u>1,836,040</u>	<u>57,853,873</u>	<u>621,356</u>	<u>60,311,269</u>
Debenture	(3) 854,715	–	(645,115)	209,600
Long term debenture investment	<u>854,715</u>	<u>–</u>	<u>(645,115)</u>	<u>209,600</u>



Notes to the Accounts

(Prepared in accordance with the PRC Accounting Rules and Regulations)

V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. LONG TERM EQUITY INVESTMENTS (CONTINUED)

(1) Associated companies

Name of investee	Investment period	Equity Interest % Held		Investment Cost		Movement in equity		Balance	
		1st	31st	1st	31st	1st	31st	1st	31st
		January 2001	December 2001	January 2001 RMB	December 2001 RMB	January 2001 RMB	December 2001 RMB	January 2001 RMB	December 2001 RMB
Hongda Research Company Limited	8th May 2001 to 7th May 2101	0%	40%	-	20,000,000	-	(197,503)	-	19,802,497
Shenzhen Bolue Technology Investment Company Limited	11th April 2001 to 11th April 2031	0%	40.94%	-	35,000,000	-	828,041	-	35,828,041
Beijing Hongda Fangji Enterprise's Management Consulting Company Limited	21st September 2001 to 23rd September 2021	0%	47%	-	1,800,000	-	-	-	1,800,000
Beijing Hongda International Trading Company Limited	8th June 2000 to 8th June 2010	20%	20%	6,000,000	6,000,000	-	-	6,000,000	6,000,000
Beijing Textile Machinery Automatic Control Technology Company Limited	20th December 2000 to 19th December 2030	40%	40%	800,000	800,000	-	34,141	800,000	834,141
Qingdao Jinyi Pressing and Casting Company Limited	24th March 2000 to 28th February 2010	24.39%	24.39%	300,000	300,000	-	-	300,000	300,000
				<u>7,100,000</u>	<u>63,900,000</u>	<u>-</u>	<u>664,679</u>	<u>7,100,000</u>	<u>64,564,679</u>

(2) Consolidation difference

On 15th November 1999, pursuant to the Assets Exchange Agreement between the Company and its ultimate holding company, the Company acquired 98% equity interest of the latter's 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 (the "New Subsidiaries" or "Four HongDa Companies") and disposed the four ancillary processing plants of the Company to its ultimate holding company. 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 is amortised over a period of 10 years on the straight-line basis.

(3) Investment in debenture

Debenture type	Face value	Annual interest rate	Purchase price	Maturity date	Book Value
	Amount RMB		Amount RMB		Amount RMB
Electricity debenture	<u>209,600</u>	20%	<u>209,600</u>	31st October, 2002	<u>209,600</u>

Notes to the Accounts

(Prepared in accordance with the PRC Accounting Rules and Regulations)

V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**9. FIXED ASSETS AND ACCUMULATED DEPRECIATION**

	Land use right, plant and buildings RMB	Machinery and equipment RMB	Motor vehicles RMB	Total RMB
Cost				
At 1st January 2001	133,056,725	712,253,904	23,784,365	869,094,994
Additions	44,707,343	19,092,138	15,297,993	79,097,474
Transfer from CIP	3,554,279	43,957,871	—	47,512,150
Disposals	(19,214)	(5,880,997)	(3,606,799)	(9,507,010)
At 31st December 2001	<u>181,299,133</u>	<u>769,422,916</u>	<u>35,475,559</u>	<u>986,197,608</u>
Accumulated depreciation				
At 1st January 2001	31,068,130	364,388,412	7,995,847	403,452,389
Charge for the year	4,847,959	41,547,008	3,452,152	49,847,119
Disposals	(16,693)	(4,982,982)	(1,505,620)	(6,505,295)
At 31st December 2001	<u>35,899,396</u>	<u>400,952,438</u>	<u>9,942,379</u>	<u>446,794,213</u>
Net book value				
At 31st December 2001	<u>145,399,737</u>	<u>368,470,478</u>	<u>25,533,180</u>	<u>539,403,395</u>
At 31st December 2000	<u>101,988,595</u>	<u>347,865,492</u>	<u>15,788,518</u>	<u>465,642,605</u>

As at 31st December 2001, the net book value of fixed assets pledged amounted to RMB37,355,091. (2000: RMB2,350,000)

As at 31st December 2001, the net book value of leased fixed assets amounted to RMB12,626,667. (2000: RMB4,359,000)

Fixed Assets Impairment Provision

	Land use right, plant and buildings RMB	Machinery and equipment RMB	Motor vehicles RMB	Total RMB
At 1st January 2001 and at 31st December 2000	<u>—</u>	<u>(39,537,633)</u>	<u>—</u>	<u>(39,537,633)</u>

In accordance with the new accounting regulations on fixed assets impairment provision, the Group has made a provision for fixed assets whose net book value is lower than the realisable value. As the impairment was evidenced prior to 2001, provision for impairment loss was made and adjusted retrospectively to the prior year profit. For the impact on prior year, please refer to (II), (s) changes in accounting policies.

10. MATERIALS FOR CONSTRUCTION IN PROGRESS

	31st December 2001 RMB	31st December 2000 RMB
Prepayment for equipment	<u>16,752,662</u>	<u>—</u>

**Notes to the Accounts**

(Prepared in accordance with the PRC Accounting Rules and Regulations)

V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**11. CONSTRUCTION IN PROGRESS**

Projects	Budget	1st January 2001 Amount RMB	Addition Amount RMB	Transfer to fixed assets Amount RMB	Other decrease Amount RMB	31st December 2001 Amount RMB	Source of funds	Project status
Pentahedral Machining Workshop		1,766,986	71,841	(1,838,827)	—	—	Loan	—
Design expenses for sewage treatment and recycling projects		3,918,903	—	(3,918,903)	—	—	Loan	—
Laser cutting machine		4,408,834	244,647	(4,653,481)	—	—	Loan	—
High precision grinding machine		2,298,254	78,269	(2,376,523)	—	—	Loan	—
Machine tools		1,237,800	2,023,150	—	—	3,260,950	Loan	—
Commercial building for leasing	322,294,900	—	322,294,900	—	—	322,294,900	Self-financing and loan	100%
Beijing Jingwei Machinery New Technology Company Limited 1st phase construction of production ground	32,388,573	—	11,134,893	—	—	11,134,893	Self-financing	34%
35T boiler	5,000,000	—	3,994,015	—	—	3,994,015	Loan	80%
CNC (Computer numerical control) lathe	2,000,000	—	1,939,616	—	—	1,939,616	Loan	97%
Others		18,849,317	36,375,769	(34,724,416)	(548,608)	19,952,062	Self-financing and loan	—
Total		32,480,094	378,157,100	(47,512,150)	(548,608)	362,576,436		
Including: capitalised interest expense		<u>4,283,000</u>	<u>3,958,048</u>	<u>(5,634,468)</u>	<u>—</u>	<u>2,606,580</u>		

Notes:

- Others include projects less than RMB1,000,000.
- Construction in progress includes capitalised interest expense of RMB2,606,580 (2000: RMB4,283,000), capitalized interest rate ranges from 5.85% to 6.53%.

Notes to the Accounts

(Prepared in accordance with the PRC Accounting Rules and Regulations)

V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**12. INTANGIBLE ASSETS**

	Cost	1st January 2001	Addition for the year	Amortisation for the year	31 December 2001	Remaining years of amortisation
	RMB	RMB	RMB	RMB	RMB	
Land use rights	73,434,431	63,369,370	3,823,951	(1,381,185)	65,812,136	44.5-45
Trademark and patents	2,009,000	924,999	9,000	(200,149)	733,850	4.5
Others	554,145	–	554,145	(35,717)	518,428	
Total	75,997,576	64,294,369	4,387,096	(1,617,051)	67,064,414	

Land use rights refer to the land presently occupied by the Company based on the land use rights agreement signed with Yuci Land Administration Bureau. The land use right is amortised on a straight line basis over 50 years commencing on 15th August 1995.

Land use rights of the Group comprises the above and the land use rights presently occupied by the subsidiaries. Based on agreement signed with Taiyuan Land Administration Bureau and Shanghai Land Administration Bureau, the land use rights are amortised on a straight line basis over 50 years, commencing on 27th January 1997 and 1st January 2001 respectively.

As the subsidiary occupying the land in Shanghai acquired the land use rights from an associated company which was liquidated, the registration for the transfer of the land use rights is still in process.

Pursuant to the reorganisation agreement, the Company acquired the trademark “Jingwei” and the related patents from Jingwei Plant for a consideration of RMB2,000,000. The trademark and patents are amortised on a straight line basis over 10 years commencing on 15th August 1995.

13. LONG TERM DEFERRED EXPENSES

	1st January 2001	Addition	Amortisation	31st December 2001
	RMB	RMB	RMB	RMB
Pre-operating expenses	1,807,639	–	(1,807,639)	–
Other long term deferred expenses	515,099	2,279,739	(682,145)	2,112,693
Total	2,322,738	2,279,739	(2,489,784)	2,112,693

14. SHORT TERM LOANS

	31st December 2001	31st December 2000
	RMB	RMB
Guaranteed	688,750,000	408,630,000
Unsecured	5,220,000	5,380,000
Secured	–	2,400,000
Total	693,970,000	416,410,000

The guarantors and the guaranteed amount are as follows:

Guarantor	Guaranteed loans Amount RMB
Jingwei Machinery (Group) Company Limited	533,300,000
China National Textile Machinery (Group) Company Limited	16,000,000
Beijing Hualian Composite Supermarket Company Limited	60,000,000
Jingwei Textile Machinery Company Limited	44,520,000
Qingdao Haijing Chemical (Group) Company Limited	10,330,000
Zhengzhou Textile Machinery Plant	20,000,000
Shenyang Textile Machinery Plant	4,600,000
Total	688,750,000

As at 31st December 2001, the overdue loans of RMB5,000,000 are working capital loans from China Textile Association. The interest rate for the loan is 6.39% per annum. The amount is not repaid as China Textile Association is undergoing a restructuring exercise.

**Notes to the Accounts**

(Prepared in accordance with the PRC Accounting Rules and Regulations)

V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**15. NOTES PAYABLE**

Included in the notes payable are payable to the related companies as follows:

	31st December 2001 <i>RMB</i>	31st December 2000 <i>RMB</i>
Due to fellow subsidiaries	1,100,000	—
Due to Jingwei (Group) Company and its subsidiaries and associated companies	—	3,500,000
	<u> </u>	<u> </u>

16. ACCOUNTS PAYABLE

Included in accounts payable are payable to the related companies as follows:

	31st December 2001 <i>RMB</i>	31st December 2000 <i>RMB</i>
Due to the ultimate holding company	803,492	56,440
Due to fellow subsidiaries	24,633,078	23,572,906
Due to Jingwei (Group) Company and its subsidiaries and associated company	29,437,761	2,229,406
	<u> </u>	<u> </u>
Total	<u>54,874,331</u>	<u>25,858,752</u>

17. ADVANCES FROM CUSTOMERS

Included in advances from customers are related companies as follows:

	31st December 2001 <i>RMB</i>	31st December 2000 <i>RMB</i>
Due to ultimate holding company	489,772	22,911,447
Due to fellow subsidiaries	24,745,021	10,924,270
Due to Jingwei Group Company and its subsidiaries and associated company	—	3,314,614
	<u> </u>	<u> </u>
Total	<u>25,234,793</u>	<u>37,150,331</u>

18. DIVIDENDS PAYABLE

	31st December 2001 <i>RMB</i>	31st December 2000 <i>RMB</i>
Due to the ultimate holding company	13,200,000	24,202,771
Due to A share investors	12,180,000	22,781,423
Due to H share investors	10,848,000	19,433,948
Due to minority shareholders	1,460,616	—
	<u> </u>	<u> </u>
Total	<u>37,688,616</u>	<u>66,418,142</u>

19. TAXES PAYABLE

	31st December 2001 <i>RMB</i>	31st December 2000 <i>RMB</i>
Value added tax payable/(recoverable)	3,034,522	(16,878,103)
Business tax payable	39,431	43,436
City construction tax payable	501,841	(257,931)
Income tax payable	17,250,732	14,948,365
Others	140,332	103,673
	<u> </u>	<u> </u>
Total	<u>20,966,858</u>	<u>(2,040,560)</u>

20. OTHER ACCRUALS

	31st December 2001 <i>RMB</i>	31st December 2000 <i>RMB</i>
Education fee levy	410,823	1,242,528
Others	31,790	—
	<u> </u>	<u> </u>
Total	<u>442,613</u>	<u>1,242,528</u>

Education fee levy is accrued based on 3% of value added tax and business tax paid.

Notes to the Accounts

(Prepared in accordance with the PRC Accounting Rules and Regulations)

V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**21. OTHER PAYABLES**

Included in the other payables are payable to the related companies as follows:

	31st December 2001 <i>RMB</i>	31st December 2000 <i>RMB</i>
Payable to the ultimate holding company	1,478,620	1,165,000
Payable to Jingwei (Group) Company and its subsidiaries and associated company	—	10,801,485
	<u>1,478,620</u>	<u>11,966,485</u>

22. ACCRUED EXPENSES

	31st December 2001 <i>RMB</i>	31st December 2000 <i>RMB</i>
Interest expense	927,748	662,851
Audit fee	1,700,000	2,265,000
Others	417,972	—
Total	<u>3,045,720</u>	<u>2,927,851</u>

23. LONG TERM LOANS – DUE WITHIN ONE YEAR

	31st December 2001 <i>RMB</i>	31st December 2000 <i>RMB</i>
Secured	3,588,000	—
Guaranteed	26,000,000	23,500,000
Total	<u>29,588,000</u>	<u>23,500,000</u>

Name of banks	Principle <i>RMB</i>	Maturity date	Annual Rate	Guarantor	Terms
Industrial & Commercial Bank	6,000,000	26th October 2002	5.94%	Ultimate holding company	Guaranteed
Industrial & Commercial Bank	15,000,000	15th December 2002	5.94%	Jingwei Group Company	Guaranteed
Industrial & Commercial Bank	5,000,000	21st February 2002	5.94%	Jingwei Group Company	Guaranteed
Bank of China*	3,588,000	Quarterly repayment in 2002	6.03%	—	Mortgage
	<u>29,588,000</u>				

* The above loan due within one year is secured by a mortgage of buildings of net book value RMB37,355,091.

As at the audit report date, loan of RMB5,000,000 due on 21st February 2002 has already been repaid.



Notes to the Accounts

(Prepared in accordance with the PRC Accounting Rules and Regulations)

V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. LONG TERM LOANS

			31st December 2001 RMB	31st December 2000 RMB
Secured			13,455,000	—
Guaranteed			79,620,000	71,290,000
Total			<u>93,075,000</u>	<u>71,290,000</u>

Name of banks	Principle RMB	Maturity date	Annual Rate	Guarantor	Terms
Industrial & Commercial Bank	36,620,000	3rd September, 2004	5.940%	Jingwei Group Company	Guaranteed
Industrial & Commercial Bank	26,000,000	25th January, 2003	6.534%	Jingwei Group Company	Guaranteed
Industrial & Commercial Bank	10,000,000	31st July, 2004	6.030%	Qingdao Haijin Chemical Co.	Guaranteed
China Construction Bank	7,000,000	12th November, 2004	5.850%	Jingwei Group Company	Guaranteed
Bank of China*	13,455,000	24th September, 2006	6.030%	—	Mortgage
	<u>93,075,000</u>				

* The above loan is secured by a mortgage of buildings with a net book value of RMB37,355,091.

25. SHARE CAPITAL

	1st January 2001 RMB	Rights issues RMB	Bonus issues RMB	Shares transfer from reserve funds RMB	Others RMB	Sub-total RMB	31st December 2001 RMB
Share not yet permitted to be traded							
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
Domestically listed domestic shares	203,000,000	—	—	—	—	—	203,000,000
Overseas listed foreign shares	180,800,000	—	—	—	—	—	180,800,000
Total shares in market	383,800,000	—	—	—	—	—	383,800,000
Total number of shares in issue	603,800,000	—	—	—	—	—	603,800,000

Notes to the Accounts

(Prepared in accordance with the PRC Accounting Rules and Regulations)

V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**26. CAPITAL RESERVE**

	1st January 2001 RMB	Transfer in RMB	Transfer out RMB	31st December 2001 RMB
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>—</u>	<u>—</u>	<u>1,252,154,114</u>

27. SURPLUS RESERVE

	Statutory surplus fund RMB	Discretionary surplus fund RMB	Statutory public welfare RMB	Total RMB
Balance at 1st January 2001	48,796,919	27,763,047	48,796,919	125,356,885
Fixed assets impairment loss	(4,317,106)	—	(4,317,106)	(8,634,212)
Adjusted balance at 1st January 2001	44,479,813	27,763,047	44,479,813	116,722,673
Addition	17,412,090	—	17,412,090	34,824,180
Transfer out	—	—	—	—
Balance at 31st December 2001	<u>61,891,903</u>	<u>27,763,047</u>	<u>61,891,903</u>	<u>151,546,853</u>

- (a) According to their respective Articles of Association, each of the Company and its subsidiaries is required to transfer 10% of its profit after taxation to its statutory surplus reserve until the reserve reaches 50% of its registered capital.
- (b) According to their respective Articles of Association, each of the Company and its subsidiaries is required to transfer 10% of its profit after taxation to its statutory public welfare fund. The statutory public welfare fund can only be used for the collective benefits and facilities of the Group's 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 upon liquidation. The transfer to this fund must be made before the distribution of dividend to shareholders.
- (c) According to the respective Articles of Association, each of the Company and its subsidiaries can transfer the amount, which is determined by the shareholders' general meeting, from its profit after taxation to discretionary surplus reserve.

After the transfer of the above reserves, profit available for distribution to shareholders is the lower of the profit after taxation prepared in accordance with the PRC Accounting Rules and Regulations and prepared in accordance with accounting principles generally accepted in Hong Kong.

28. UNDISTRIBUTED PROFIT

	RMB
Balance at 1st January 2001	147,003,845
Less: Fixed assets impairment loss	(39,537,633)
Add: Over accrual of surplus funds as a result of the retrospective adjustment on fixed assets impairment loss	<u>8,634,212</u>
Adjusted balance at 1st January 2001	116,100,424
Add: Net profit for the year	122,888,018
Less: Transfer to statutory surplus reserve	(17,412,090)
Transfer to statutory public welfare fund	(17,412,090)
Proposed dividends	<u>(36,228,000)</u>
Balance at 31st December 2001	<u>167,936,262</u>

The Group has made a provision for fixed assets impairment loss and has adjusted the opening undistributed profit.

**Notes to the Accounts**

(Prepared in accordance with the PRC Accounting Rules and Regulations)

V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**29. SALES REVENUE AND COST OF GOODS SOLD**

The Group's principal activities are the manufacture and sale of textile machinery. Revenue from other operations is less than 10%

Location	2001		2000	
	Sales Revenue RMB	Cost of Goods Sold RMB	Sales Revenue RMB	Cost of Goods Sold RMB
China	1,921,408,662	1,537,528,405	1,624,789,882	1,302,904,091
Africa	38,306,917	30,979,130	24,097,359	19,036,914
Asia	200,813,619	161,956,447	131,752,530	101,449,448
Others	54,710,072	43,900,439	27,485,128	20,613,846
Total	<u>2,215,239,270</u>	<u>1,774,364,421</u>	<u>1,808,124,899</u>	<u>1,444,004,299</u>

30. SALES TAX

	2001 RMB	2000 RMB
Business tax	115,186	49,269
City construction tax	4,837,885	1,157,843
Education levy	1,462,919	503,609
Total	<u>6,415,990</u>	<u>1,710,721</u>

31. FINANCIAL EXPENSES

	2001 RMB	2000 RMB
Interest expense	32,183,966	30,794,002
Less: Interest income	(27,331,784)	(14,136,956)
Exchange loss	11,829	196,983
Others	747,986	(20,108)
Total	<u>5,611,997</u>	<u>16,833,921</u>

32. INVESTMENT INCOME

	2001 RMB	2000 RMB
Share of associated companies' income	1,238,682	—
Provision for short term investment loss	(5,180,912)	—
Amortization of consolidation difference	621,356	621,356
Income from the liquidation of an associated company	—	4,005,459
Interest income from entrusted loans	1,000,000	—
Others	1,797,891	6,542,642
Total	<u>(522,983)</u>	<u>11,169,457</u>

33. CASH AND CASH EQUIVALENTS

	31st December 2001 RMB	31st December 2000 RMB
Cash in bank	1,344,655,341	1,628,381,739
Less: Time deposits with maturity of more than 3 months	(61,332,226)	—
Total	<u>1,283,323,115</u>	<u>1,628,381,739</u>

Notes to the Accounts

(Prepared in accordance with the PRC Accounting Rules and Regulations)

VI NOTES TO FINANCIAL STATEMENTS – COMPANY**1. ACCOUNTS RECEIVABLES AND OTHER RECEIVABLES****(1) Accounts receivables**

	31st December 2001			31st December 2000		
	<i>RMB</i>			<i>RMB</i>		
Accounts receivables			217,010,440			180,373,050
Less: bad debt provision			(19,500,360)			(16,721,001)
Total			<u>197,510,080</u>			<u>163,652,049</u>

	31st December 2001			31st December 2000		
	Amount	%	Provision	Amount	%	Provision
	<i>RMB</i>		<i>RMB</i>	<i>RMB</i>		<i>RMB</i>
Within 1 year	120,835,574	56	–	94,961,999	53	–
1 to 2 years	38,135,331	18	–	40,581,184	22	–
2 to 3 years	30,261,637	14	(2,800,000)	22,943,588	13	(5,041,252)
Over 3 years	27,777,898	12	(16,700,360)	21,886,279	12	(11,679,749)
Total	<u>217,010,440</u>	<u>100</u>	<u>(19,500,360)</u>	<u>180,373,050</u>	<u>100</u>	<u>(16,721,001)</u>

Amount due from shareholders holding 5% or more of the Company's equity and related companies are as follows:

	31st December 2001	31st December 2000
	<i>RMB</i>	<i>RMB</i>
– Due from the ultimate holding company	21,460,558	23,129,008
– Due from fellow subsidiaries	–	6,397
– Due from Jingwei Group Company and its subsidiaries and associated companies	–	6,293,986
Total	<u>21,460,558</u>	<u>29,429,391</u>

The total amount of the five largest accounts receivables is RMB55,382,400 and this accounts for 25% of the total accounts receivables balance.

(2) Other receivables

	31st December 2001			31st December 2000		
	<i>RMB</i>			<i>RMB</i>		
Other receivables			194,465,426			258,621,763
Less: bad debt provision			–			–
Total			<u>194,465,426</u>			<u>258,621,763</u>

	31st December 2001			31st December 2000		
	Amount	%	Provision	Amount	%	Provision
	<i>RMB</i>		<i>RMB</i>	<i>RMB</i>		<i>RMB</i>
Within 1 year	163,339,212	84	–	251,564,827	97	–
1 to 2 years	25,620,087	13	–	6,309,969	2	–
2 to 3 years	5,253,048	3	–	746,967	1	–
Over 3 years	253,079	–	–	–	–	–
Total	<u>194,465,426</u>	<u>100</u>	<u>–</u>	<u>258,621,763</u>	<u>100</u>	<u>–</u>

Amount due from shareholders holding 5% or more of the Company's equity and companies are as follows:

	31st December 2001	31st December 2000
	<i>RMB</i>	<i>RMB</i>
– Due from the ultimate holding company	10,619,857	23,176,570
– Due from fellow subsidiaries	5,000,000	–
– Due from Jingwei Group Company and its subsidiaries and associated companies	3,516,327	1,841,345
Total	<u>19,136,184</u>	<u>25,017,915</u>

The total amount of the five largest other receivables is RMB23,707,322 and this accounts for 12% of the total other receivables balance.



Notes to the Accounts

(Prepared in accordance with the PRC Accounting Rules and Regulations)

VI NOTES TO FINANCIAL STATEMENTS – COMPANY (CONTINUED)

2. LONG TERM EQUITY INVESTMENT/LONG TERM DEBENTURE INVESTMENT

		1st January 2001 RMB	Addition RMB	Disposal RMB	31st December 2001 RMB
Investment in associated companies	(1)	6,000,000	55,630,538	–	61,630,538
Investment in subsidiaries	(2)	270,790,981	224,543,886	(55,891,166)	439,443,701
Long term equity investments		<u>276,790,981</u>	<u>280,174,424</u>	<u>(55,891,166)</u>	<u>501,074,239</u>
Debenture	(3)	854,715	–	(645,115)	209,600
Long term debenture investment		<u>854,715</u>	<u>–</u>	<u>(645,115)</u>	<u>209,600</u>

(1) Investment in associated companies

Name of investee	Investment period	Percentage of registered capital in investees		Investment Amount		Accumulated Equity Movement		Book Value	
		1st January	31st December	1st January	31st December	1st January	31st December	1st January	31st December
		2001	2001	2001	2001	2001	2001	2001	2001
				RMB	RMB	RMB	RMB	RMB	RMB
Hongda Research Company Limited	8th May 2001 to 7th May 2101	0%	40%	–	20,000,000	–	(197,503)	–	19,802,497
Shenzhen Bolue Technology Co., Ltd.	11th April 2001 to 11th April 2031	0%	40.94%	–	35,000,000	–	828,041	–	35,828,041
Hongda International Trade Limited	8th June 2000 to 8th June 2010	20%	20%	6,000,000	6,000,000	–	–	6,000,000	6,000,000
				<u>6,000,000</u>	<u>61,000,000</u>	<u>–</u>	<u>630,538</u>	<u>6,000,000</u>	<u>61,630,538</u>

Notes to the Accounts

(Prepared in accordance with the PRC Accounting Rules and Regulations)

VI NOTES TO FINANCIAL STATEMENTS – COMPANY (CONTINUED)**2. LONG TERM EQUITY INVESTMENT/LONG TERM DEBENTURE INVESTMENT (CONTINUED)****(2) Investment in subsidiaries**

Name of investee	Investment period	Percentage of registered capital in investees		Investment Amount		Accumulated Equity Movement			Book Value	
		1st	31st	1st	31st	1st	31st		1st	31st
		January 2001	December 2001	January 2001	December 2001	January 2001	Changes in equity	December 2001	January 2001	December 2001
				RMB	RMB	RMB	RMB	RMB	RMB	RMB
Beijing Jingpeng Investment Management Company Limited	30th July 2001 to 29th July 2051	0%	80%	–	16,000,000	–	15,218	15,218	–	16,015,218
Jintu Information Technology Company Limited	9th August 2001 to 8th August 2031	0%	58.9%	–	30,000,000	–	(292,614)	(292,614)	–	29,707,386
Shanghai Chuangan Trade Company Limited	29th September 2001 to 28th September 2011	0%	90%	–	1,800,000	–	–	–	–	1,800,000
Hongkong Huaming Company Limited	31st December 2000 to 31st December 2030	0%	100%	–	4,966,416	–	2,450	2,450	–	4,968,866
Beijing Jingwei Textile Machinery New Technology Company Limited	2nd March 2000 to 1st March 2050	92%	98.4%	18,407,084	98,407,084	12,646,400	(10,050,121)	2,596,279	31,053,484	101,003,363
Tianjin Hongda Textile Machinery Company Limited	17th August 1999 to 16th August 2009	98%	98%	24,202,600	24,202,600	16,485,117	4,056,010	20,541,127	40,687,717	44,743,727
Shenyang Hongda Textile Machinery Company Limited	16th August 1999 to 15th August 2009	98%	98%	44,598,465	44,598,465	3,512,091	(5,833,669)	(2,321,578)	48,110,556	42,276,887
Zhengzhou New Hongda Textile Machinery Company Limited	11th August 1999 to 11th August 2009	98%	98%	32,435,770	32,435,770	9,360,456	1,959,590	11,320,046	41,796,226	43,755,816
Qingdao Hongda Textile Machinery Company Limited	16th August 1999 to 1st August 2009	98%	98%	29,742,077	29,742,077	51,164,168	1,356,407	52,520,575	80,906,245	82,262,652
Jinzhong Jingwei Ring Manufacturing Company Limited	8th June 1993 to 17th June 2003	98%	98%	500,000	500,000	342,984	19,186	362,170	842,984	862,170
Jingwei Textile Machinery Yuci Material Company	9th July 1996 to 20th March 2003	99.2%	99.2%	5,000,000	5,000,000	(71,098)	95,316	24,218	4,928,902	5,024,218
Taiyuan Jingwei Electrical Company Limited	14th March 1997 to 13th March 2047	98%	98%	9,412,000	9,412,000	(3,492,790)	(585,288)	(4,078,078)	5,919,210	5,333,922
Shanghai Jingwei Dongxing Blowing-Carding Machinery Company Limited	5th September 2001 to 4th September 2011	0%	78%	–	39,000,000	–	3,335,957	3,335,957	–	42,335,957
Shanxi Jingwei Computer Technology Development Company Limited	7th November 1995 Ending date is not stated in the business licence and Articles of Association	60%	60%	640,000	640,000	419,913	(38,424)	381,489	1,059,913	1,021,489
Ningbo Daxie Machinery and Develop Zone Wu Fang Hongda Company Limited	22nd September 1999 to 21st September 2009	98%	98%	2,352,000	2,352,000	4,947,303	3,927,994	8,875,297	7,299,303	11,227,297
Shanghai Weixin Electrical & Machinery Company Limited	30th June 2000 to 30th June 2050	90%	90%	14,400,000	14,400,000	–	(1,081,708)	(1,081,708)	14,400,000	13,318,292
Consolidation difference due to the purchase of the four Hongda companies		–	–	(6,213,559)	(6,213,559)	–	–	–	(6,213,559)	(6,213,559)
				175,476,437	347,242,853	95,314,544	(3,113,696)	92,200,848	270,790,981	439,443,701

**Notes to the Accounts**

(Prepared in accordance with the PRC Accounting Rules and Regulations)

VI NOTES TO FINANCIAL STATEMENTS – COMPANY (CONTINUED)**2. LONG TERM EQUITY INVESTMENT/LONG TERM DEBENTURE INVESTMENT (CONTINUED)****(3) Investment in debenture**

Type of debenture	Face value Amount RMB	Annual interest rate	Purchase price Amount RMB	Maturity date	Book Value Amount RMB
Electricity debenture	209,600	20%	209,600	31st October, 2002	209,600

3. REVENUE AND TURNOVER

	2001 RMB	2000 RMB
Mainland China	677,865,298	699,807,529
Africa	17,972,850	4,177,542
Asia	114,461,310	94,018,757
Others	46,934,574	124,701
Total	857,234,032	798,128,529

4. COST OF GOODS SOLD

	2001 RMB	2000 RMB
Mainland China	538,757,807	561,220,954
Africa	14,378,232	3,550,911
Asia	91,569,098	81,796,319
Others	37,547,653	105,996
Total	682,252,790	646,674,180

5. INVESTMENT INCOME

	2001 RMB	2000 RMB
Share of associated companies' income	833,269	—
Adjustment for the changes in the equity of subsidiaries and associated companies	52,777,473	73,010,607
Provision for short term investment loss	(4,683,591)	—
Interest income from entrusted loans	1,000,000	—
Liquidation income of an associated company	—	4,005,459
Other investment income	1,508,337	6,542,642
Total	51,435,488	83,558,708

Notes to the Accounts

(Prepared in accordance with the PRC Accounting Rules and Regulations)

VII RELATED PARTIES AND RELATED PARTY TRANSACTIONS**(1) Related parties with controlling relationships**

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

**Notes to the Accounts**

(Prepared in accordance with the PRC Accounting Rules and Regulations)

VII RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)**(1) Related parties with controlling relationships (continued)**

Name	Registered Address	Main business	Relation with the Company	Nature or type	Legal representative
Shanghai Weixin Electrical & Machinery Company Limited	PRC	Textile machinery, automobile component and general machinery's developing and manufacturing	Subsidiary	Limited company	Liu Shitong
Beijing Garden Automobile lease Company Limited	PRC	Leasing of automobile	Subsidiary	Limited company	Lin Jianwang
Beijing Ximen Information Technology Company Limited	PRC	Consulting services	Subsidiary	Limited company	Liu Shitong
Hong Kong Huaming Company Limited	HK	Imports and exports, general trading and consulting services	Subsidiary	Limited company	Yin Shouen
Beijing Jingpeng Investment Management Company Limited	PRC	Investment management, sale of electronic & chemical products (other than dangerous products, machinery, construction materials, wood, automotive parts, local products, fashion and exhibitions and provision of technology information	Subsidiary	Limited company	Lu Yunliang
Jintu Information Technology Company Limited	PRC	Consulting services	Subsidiary	Limited company	Pan Shunqun
Shanghai Chuangan Trade Company Limited	PRC	Sale of textile, electronic, chemical products (other than dangerous products), metal construction materials, wood, cement, mining-related sub-products	Subsidiary	Limited company	Yao Yuming
Jinan Jin Hongda Textile Machinery Company Limited	PRC	Research of electronics and general machinery technology and production consultation and services, processing and sales of textile industry equipment switch control equipment, agriculture equipment, general equipment component and parts	Subsidiary	Limited company	Li Xiangjie
Shanghai Jingwei Dongxin Bowing-Carding Machinery Company Limited	PRC	Manufacturing and sales of blowing-carding machinery and related components	Subsidiary	Limited company	Guan Xuefeng

Notes to the Accounts

(Prepared in accordance with the PRC Accounting Rules and Regulations)

VII RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)**(2) Changes in the registered capital of related party with controlling relationship**

Name of enterprise	Beginning balance RMB	Increase RMB	Decrease RMB	Year end balance RMB
China National Textile Machinery (Group) Co., Ltd (“CTMC”)	2,065,890,000	—	—	2,065,890,000
Shanxi Jingwei Computer Technology Development Company Limited	1,600,000	—	—	1,600,000
Jinzhong Jingwei Ring Manufacturing Company Limited	500,000	—	—	500,000
Jingwei Textile Machinery Yuci Material Company	5,000,000	—	—	5,000,000
Taiyuan Jingwei Electrical Company Limited	5,000,000	—	—	5,000,000
Ningbo Daxie Machinery and Develop Zone Wu Fang Hongda Company Limited	2,400,000	—	—	2,400,000
Qingdao Hongda Textile Machinery Company Limited	45,508,465	—	—	45,508,465
Tianjin Hongda Textile Machinery Company Limited	30,349,177	—	—	30,349,177
Zhengzhou New Hongda Textile Company Limited	24,696,500	—	—	24,696,500
Shenyang Hongda Textile Machinery Company Limited	33,097,770	—	—	33,097,770
Beijing Jingwei Textile Machinery New Technology Company Limited	20,000,000	80,000,000	—	100,000,000
Shanghai Weixin Electrical & Machinery Company Limited	16,000,000	—	—	16,000,000
Beijing Garden Automobile Lease Company Limited	2,000,000	—	—	2,000,000
Beijing Ximen Information Technology Company Limited	—	6,600,000	—	6,600,000
Hong Kong Huaming Company Limited	—	4,966,416	—	4,966,416
Jintu Information Technology Company Limited	—	50,920,000	—	50,920,000
Beijing Jingpeng Investment Management Company Limited	—	20,000,000	—	20,000,000
Shanghai Chuangan Trade Company Limited	—	2,000,000	—	2,000,000
Jinan Jin Hongda Textile Machinery Company Limited	—	5,000,000	—	5,000,000
Shanghai Jingwei Dongxing Blowing- Carding Machinery Company Limited	—	50,000,000	—	50,000,000

(3) Changes in the stock or owner's equity of the related party which controls the Company

Name	Beginning balance		Increase		Decrease		Year end balance	
	Amount RMB	%	Amount RMB	%	Amount RMB	%	Amount RMB	%
China National Textile Machinery (Group) Co., Ltd (“CTMC”)	220,000,000	36.44	—	—	—	—	220,000,000	36.44

For changes in the equity of those subsidiaries in which the Company has control, please see notes to the accounts (VI) (2).

**Notes to the Accounts**

(Prepared in accordance with the PRC Accounting Rules and Regulations)

VII RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)**(4) Changes in the registered capital of associated companies**

Name	Beginning balance		Increase		Decrease		Year end balance	
	Amount RMB	%	Amount RMB	%	Amount RMB	%	Amount RMB	%
Hongda International Trade Limited	6,000,000	20	—	—	—	—	6,000,000	20
Beijing Textile Machinery Automatic Control Technology Company Ltd.	800,000	40	—	—	—	—	800,000	40
Qingdao Jinyi Pressing and Casting Company Limited	300,000	24.39	—	—	—	—	300,000	24.39
Shenzhen Bolue Technology Co., Ltd.	—	—	35,000,00	40.94	—	—	35,000,00	40.94
Hongda Research Company Limited	—	—	20,000,000	40	—	—	20,000,000	40
Beijing Hongda Fangji Enterprise's Management Consulting Company Limited	—	—	1,800,000	47.37	—	—	1,800,000	47.37

(5) Fellow subsidiaries:

Name of related party	Relation with the Company
Tianjin Textile Machinery Plant	Fellow subsidiaries
Jingwei Machinery (Group) Company Limited	Fellow subsidiaries
Hengyang Textile Machinery Plant	Fellow subsidiaries
Shenyang Textile Machinery Plant	Fellow subsidiaries
Wuxi Textile Machinery & Special Parts Plant	Fellow subsidiaries
Changde Textile Machinery Plant	Fellow subsidiaries
Changzhou Textile Machinery Plant	Fellow subsidiaries
Taichang Textile Machinery Plant	Fellow subsidiaries
Qingdao Textile Machinery Plant	Fellow subsidiaries
Zhengzhou Textile Machinery Plant	Fellow subsidiaries
Weinan Textile Machinery Plant	Fellow subsidiaries
China National Textile Machinery (Group) Company Limited	
— Guangzhou branch office	Fellow subsidiaries
— Zhengzhou branch office	Fellow subsidiaries
Hongda Investment Company	Fellow subsidiaries
China National Textile Machinery Group Finance Company	Fellow subsidiaries
China National Textile Machinery Group Sale Company	Fellow subsidiaries
Trading Committee of CTMC	Fellow subsidiaries

Related companies include the ultimate holding company, the subsidiaries and associated companies, Jingwei Machinery (Group) Co., Ltd. (herewith known as Jingwei Group Company), its subsidiaries and associated companies.

Jingwei Group Company was formerly known as Jingwei Textile Machinery Plant.

The above fellow subsidiaries other than Jingwei Group Company are collectively referred to as “fellow subsidiaries”.

Notes to the Accounts

(Prepared in accordance with the PRC Accounting Rules and Regulations)

VII RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)**(6) Related party transactions**

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

Transactions with CTMC	2001 Amount RMB	2000 Amount RMB
Sale of finished goods	8,486,385	42,387,109
Interest income	1,000,000	—
Purchase of raw materials and components	1,401,308	877,781
Bank loan guarantee in favour of the Company	16,000,000	19,520,000
Loans to CTMC	93,000,000	—
Paid interest expenses	—	1,239,244
Transactions with Jingwei Group Company		
Sale of finished goods	—	7,415,182
Sale of raw materials and components	11,224,605	14,555,026
Fees received for the provision of supporting services	15,412,974	13,117,900
Rental income	—	576,000
Purchase of tools	15,254,798	14,543,010
Purchase of raw materials and components	85,088	6,714,349
Processing fees paid	60,110,410	62,103,394
Fees paid for transportation services	3,704,930	3,243,421
Fees paid for repairs and maintenance services	11,645,809	6,282,886
Fees paid for other supporting services	14,285,717	14,461,465
Rental expenses	605,028	650,000
Bank loan guarantees in favour of the Company	533,300,000	384,910,000
Transactions with an associated company of Jingwei Group Company		
Purchase of raw materials	21,464,808	22,042,069
Transactions with other fellow subsidiaries		
Sale of finished goods	90,479,637	9,946,747
Sale of components and special parts	6,608,037	11,220,740
Processing fees received	439,743	837,632
Provision of services	300,000	—
Interest income	8,964,540	—
Purchase of tools model	7,820,864	6,797,008
Purchase of castings	87,207,717	85,750,754
Purchase of package	4,084,833	1,102,160
Purchase of energy	14,939,466	10,099,442
Purchase of raw materials and components	114,885,485	67,006,550
Processing fees paid	62,801,898	40,490,051
Fees paid for other supporting services	9,140,767	10,617,155
Rental expenses	29,577,365	14,802,694
Building maintenance fees paid	460,380	676,887
Bank loan guarantees in favour of the Company	24,600,000	6,600,000
Others	—	4,083,132

(b) Pricing policy

The terms of these transactions with related parties follow normal commercial terms arranged in the ordinary course of the Group's business.

**Notes to the Accounts**

(Prepared in accordance with the PRC Accounting Rules and Regulations)

VIII CONTINGENT LIABILITIES

	Company	
	31st December 2001	31st December 2000
	Amount	Amount
	<i>RMB</i>	<i>RMB</i>
Guarantees for bank loans and overdraft of subsidiaries	<u>44,520,000</u>	<u>13,650,000</u>
	Group	
	31st December 2001	31st December 2000
	Amount	Amount
	<i>RMB</i>	<i>RMB</i>
Guarantees for bank loans of third party	15,000,000	—
Guarantees for bank drafts of third party	<u>27,700,000</u>	<u>—</u>

IX CAPITAL AND LEASE COMMITMENTS

As at 31st December 2001, the following capital commitments and leasing commitments, principally for construction and equipment purchases, were outstanding:

Capital commitments

	31st December 2001	31st December 2000
	Amount	Amount
	<i>RMB</i>	<i>RMB</i>
Authorised but not contracted for	<u>24,737,644</u>	<u>486,580,000</u>
Contracted but not provided for	<u>13,958,312</u>	<u>10,937,206</u>

Lease commitments

	31st December 2001	31st December 2000
	Amount	Amount
	<i>RMB</i>	<i>RMB</i>
Lease in respect of land		
Within 1 year	1,915,430	3,246,548
2-5 years	7,661,720	12,525,357
5 years and above	<u>7,340,778</u>	<u>12,908,527</u>
	<u>16,917,928</u>	<u>28,680,432</u>

Lease in respect of estate

	31st December 2001	31st December 2000
	Amount	Amount
	<i>RMB</i>	<i>RMB</i>
Lease in respect of buildings		
Within 1 year	15,593,406	11,179,565
2-5 years	50,655,855	38,088,800
5 years and above	<u>46,360,785</u>	<u>47,539,719</u>
	<u>112,610,046</u>	<u>96,808,084</u>

Notes to the Accounts

(Prepared in accordance with the PRC Accounting Rules and Regulations)

X SUBSEQUENT EVENTS

Subsequent to the year end, there were the following events:

- a. Based on the meeting of the Board of Directors held on 5th February 2002, it was resolved that the Company will acquire 95% of the equity interest of RMB40,232,000 in Changde Textile Machinery Company Limited and 64.38% of the equity interest of RMB41,207,600 in Yichang Textile Machinery Co Ltd from its ultimate holding company.
- b. The Company will also purchase fixed assets amounting to RMB20,927,800 from Jingwei (Group) Company. Its subsidiaries, Qingdao Hongda Textile Machinery Company Limited will purchase fixed assets of RMB17,472,800 from Qingdao Textile Machinery Plant, Zhengzhou Hongda Textile Machinery Company Limited will purchase fixed assets of RMB12,103,700 from Zhengzhou Textile Machinery Plant, Tianjin Hongda Textile Machinery Company Limited will purchase fixed assets of RMB12,075,100 from Tianjin Textile Machinery Plant and Shenyang Hongda Textile Machinery Company Limited will purchase fixed assets of RMB9,710,100 from Shenyang Textile Machinery Plant.
- c. The Company, together with its ultimate holding company, will set up two new companies – Wuxi Textile Technology Testing Company Limited and Hongda Non-woven Fabric Engineering Technology Company Limited.
- d. The Company will dispose the related assets and liabilities of its chemical fibre textile machinery production line to its ultimate holding company. The gross assets and total liabilities of the chemical fibre textile machinery production line are RMB131,011,700 and RMB101,785,500 respectively whilst its net assets are RMB29,226,200.

Based on the approval obtained from the shareholders at the extraordinary general meeting held on 28 March 2002, the Company will use the proceeds from the increase in the A Share issue to finance the above projects.

XI DEBT RESTRUCTURING

The Group does not have any major debts restructuring during the year.

XII COMPARATIVE FIGURES

Certain prior year figures have been reclassified to conform with the requirements of “Accounting Regulations” and “Listed Companies Disclosure Rules No.15 – Normal requirements of Finance Report” implemented on 1st January 2001.