

Chapter XV Accounts Prepared in Accordance with Accounting Principles Generally Accepted in Hong Kong

Consolidated Profit and Loss Account

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

FOR THE YEAR ENDED 31ST DECEMBER 2001

	Note	2001 RMB'000	2000 RMB'000
Turnover	3	2,215,239	1,808,125
Cost of sales		(1,774,364)	(1,444,005)
Gross profit		440,875	364,120
Other revenues	3	6,743	15,134
Distribution expenses		(67,140)	(54,537)
Administrative expenses		(222,174)	(161,657)
Other operating expenses, net		(51,125)	(301)
Operating profit	4	107,179	162,759
Net interest expenses	7	(3,852)	(16,657)
Share of profit of associated companies		1,174	—
Profit before taxation		104,501	146,102
Taxation	8	(20,746)	(9,944)
Profit after taxation		83,755	136,158
Minority interests		(1,061)	(2,283)
Profit attributable to shareholders	9	82,694	133,875
Dividends	10	36,228	66,418
Basic earnings per share	11	0.14	0.25

**Consolidated Balance Sheet**

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

AS AT 31ST DECEMBER 2001

	<i>Note</i>	2001 <i>RMB '000</i>	As restated 2000 <i>RMB '000</i>
Non-current assets			
Intangible assets	12	1,250	925
Fixed assets	13	958,992	557,669
Investments in associated companies	15	64,954	7,100
Investment securities	16	460	1,105
		<u>1,025,656</u>	<u>566,799</u>
Current assets			
Inventories	17	885,565	881,381
Trade and bills receivables	18	359,139	325,644
Prepayment to suppliers		65,972	91,542
Amount due from ultimate holding company	19	140,755	29,383
Amounts due from fellow subsidiaries	19	109,698	73,961
Taxation recoverable	20	—	2,041
Deposits, other receivables and prepayments		81,030	62,401
Short-term investments	16	24,872	—
Bank balances and cash	28(c)	1,329,574	1,611,694
		<u>2,996,605</u>	<u>3,078,047</u>
Current liabilities			
Trade payables	21	230,243	336,477
Advances from customers		423,590	505,869
Amounts due to fellow subsidiaries	19	50,478	34,497
Amount due to Jingwei Group Company	19	23,539	11,542
Other payables and accruals		187,040	41,170
Current portion of long-term bank loans	24	29,588	23,500
Taxation payable	20	20,967	—
Bank loans and overdrafts			
– secured		—	2,400
– unsecured		693,970	414,010
		<u>1,659,415</u>	<u>1,369,465</u>
Net current assets		<u>1,337,190</u>	<u>1,708,582</u>
Total assets less current liabilities		<u><u>2,362,846</u></u>	<u><u>2,275,381</u></u>
Financed by:			
Share capital	22	603,800	603,800
Reserves	23	1,590,371	1,526,145
Proposed final dividends	23	36,228	66,418
		<u>2,230,399</u>	<u>2,196,363</u>
Shareholders' funds		<u>2,230,399</u>	<u>2,196,363</u>
Minority interests		39,372	7,728
Non-current liabilities			
Long-term bank loans	24	93,075	71,290
		<u><u>2,362,846</u></u>	<u><u>2,275,381</u></u>

Ye Maoxin
*Director***Yao Yuming**
Director

Balance Sheet

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

AS AT 31ST DECEMBER 2001

		2001	As restated
	<i>Note</i>	<i>RMB '000</i>	<i>2000</i>
			<i>RMB '000</i>
Non-current assets			
Intangible assets	12	725	925
Fixed assets	13	763,050	404,368
Investments in subsidiaries	14	515,814	376,709
Investments in associated companies	15	61,631	6,000
Investment securities	16	210	855
		<u>1,341,430</u>	<u>788,857</u>
Current assets			
Inventories	17	506,656	473,696
Trade and bills receivables	18	176,899	147,266
Prepayment to suppliers		44,647	29,996
Amount due from ultimate holding company	19	130,367	41,450
Amounts due from fellow subsidiaries	19	39,258	17,944
Deposits, other receivables and prepayment		61,138	46,892
Short-term investments	16	21,002	—
Bank balances and cash		1,002,413	1,376,677
		<u>1,982,380</u>	<u>2,133,921</u>
Current liabilities			
Trade payables	21	115,936	186,532
Advances from customers		251,823	181,995
Amounts due to fellow subsidiaries	19	22,115	11,912
Amounts due to Jingwei Group Company	19	23,539	11,864
Other payables and accruals		79,156	5,621
Current portion of long-term bank loans	24	23,588	23,500
Taxation payable	20	13,421	4,784
Bank loans and overdrafts, unsecured		583,300	346,910
		<u>1,112,878</u>	<u>773,118</u>
Net current assets		<u>869,502</u>	<u>1,360,803</u>
Total assets less current liabilities		<u>2,210,932</u>	<u>2,149,660</u>
Financed by:			
Share capital	22	603,800	603,800
Reserves	23	1,487,829	1,414,152
Proposed final dividends	23	36,228	66,418
Shareholders' funds		<u>2,127,857</u>	<u>2,084,370</u>
Non-current liabilities			
Long-term bank loans	24	83,075	65,290
		<u>2,210,932</u>	<u>2,149,660</u>

Ye Maoxin
DirectorYao Yuming
Director

**Consolidated Cash Flow Statement**

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

FOR THE YEAR ENDED 31ST DECEMBER 2001

	<i>Note</i>	2001 <i>RMB '000</i>	2000 <i>RMB '000</i>
NET CASH INFLOW FROM OPERATING ACTIVITIES	28(a)	50,430	200,837
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Dividends paid		(66,418)	—
Interest received		28,332	14,137
Interest paid		(36,142)	(36,190)
Investment income received		1,798	6,543
Dividend paid to minority shareholders		(1,460)	—
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(73,890)	(15,510)
TAXATION			
PRC income tax paid		(18,297)	(7,493)
INVESTING ACTIVITIES			
Purchase of intangible assets		(561)	—
Purchase of short-term investments		(29,814)	—
Purchase of associated companies		(56,826)	(7,100)
Purchase of fixed assets		(469,330)	(45,839)
Proceeds on liquidation of an associated company		—	13,581
Sale of short-term investments and investment securities		646	—
Proceeds on disposal of fixed assets		5,579	745
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(550,306)	(38,613)
NET CASH (OUTFLOW)/INFLOW BEFORE FINANCING		(592,063)	139,221
FINANCING			
Issue and listing of new shares		—	1,234,800
Capital contribution from minority shareholders		26,123	1,600
New bank loans		897,520	484,020
Repayment of bank loans		(592,087)	(520,304)
NET CASH INFLOW FROM FINANCING	28(b)	331,556	1,200,116
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(260,507)	1,339,337
CASH AND CASH EQUIVALENTS AT 1ST JANUARY		1,528,694	189,357
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		55	—
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER	28(c)	<u>1,268,242</u>	<u>1,528,694</u>

Consolidated Statement of Recognised Gains and Losses
(Prepared in accordance with Generally Accepted Accounting Principles in Hong Kong)

FOR THE YEAR ENDED 31ST DECEMBER 2001

	<i>Note</i>	2001 <i>RMB '000</i>	2000 <i>RMB '000</i>
Revaluation surplus on an investment property	23	17,705	—
Exchange differences arising on translation of a subsidiary	23	55	—
Net gains not recognised in the profit and loss account		17,760	—
Profit attributable to shareholders		82,694	133,875
Total recognised gains		<u>100,454</u>	<u>133,875</u>



Notes to the Accounts

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

1 BACKGROUND INFORMATION

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

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

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

2 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, investment property and certain investments in securities are stated at fair value.

In the current year, the Group adopted the following Statements of Standard Accounting Practice (“SSAPs”) issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2001:

SSAP 9 (revised)	: Events after the balance sheet date
SSAP 14 (revised)	: Leases (effective for accounting periods commencing on or after 1st July 2000)
SSAP 26	: Segment reporting
SSAP 28	: Provisions, contingent liabilities and contingent assets
SSAP 29	: Intangible assets
SSAP 30	: Business combinations
SSAP 31	: Impairment of assets
SSAP 32	: Consolidated financial statements and accounting for investments in subsidiaries

The effect of adopting these new accounting standards is set out in the accounting policies below.

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

Notes to the Accounts

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

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(b) Group accounting (continued)

(ii) Subsidiaries

Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(iii) Associated companies

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

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and also goodwill (net of accumulated amortisation) on acquisition.

In the Company's balance sheet, the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

(iv) Translation of foreign currencies

The companies within the Group maintain their books and records in either Renminbi or Hong Kong dollars.

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss accounts are translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(c) Fixed assets

(i) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods of greater than 20 years are valued annually by independent valuer. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

(ii) Construction in progress

Construction in progress is carried at cost less accumulated impairment losses. No depreciation is provided on construction in progress.



Notes to the Accounts

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

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(c) Fixed assets (continued)

(iii) Other fixed assets

Other fixed assets, comprising land and buildings, machinery and equipment and motor vehicles are stated at cost less accumulated depreciation and accumulated impairment losses.

Other fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

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

(iv) Capitalisation of fixed assets

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

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

(v) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in properties, machinery and equipments are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the balance on revaluation reserve for that same asset, in which case it is treated as a decrease in that revaluation reserve.

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

(d) Intangibles

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiaries at the date of acquisition.

In accordance with SSAP 30, goodwill arising on acquisitions occurring on or after 1st January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Prior to 1st January 2001, goodwill arising on consolidation is taken directly to reserves in the year of acquisition. Where the fair value of the Group's share of net assets acquired exceed the cost of an acquisition, such differences are taken directly to reserves. This accounting policy has been changed to conform with SSAP 30. The Group has taken advantage of transitional provisions in SSAP 30 and such change has no effect to the accounts for the year.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of or, for pre 1st January 2001 acquisitions, the related goodwill taken directly to reserves to the extent it has not previously been realised in the profit and loss account.

Where an indication of impairment exists, the carrying amount of goodwill, including those previously taken directly to reserves, is assessed and written down immediately to its recoverable amount.

(ii) Patent and trademark

On the adoption of SSAP 29, expenditure on acquired patents and trademarks is capitalised and amortised using the straight-line method over their useful lives of ten years. Patents and trademarks are not revalued as there is no active market for trading of these assets.

(iii) Research and development costs

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

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

Notes to the Accounts

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

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(e) Investments in securities

(i) Investment securities

Investment securities are held for the long-term and are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amount. When a decline other than temporary has occurred, the carrying amount of such investment will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(ii) Short-term investments

Short-term investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of short-term investments are recognised in the profit and loss account. Profits or losses on disposal of short-term investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in profit and loss account as they arise.

(f) Inventories

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

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

(g) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(h) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise bank balances and cash and time deposits with maturity within three months from the date of placement.

(i) Borrowing costs

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

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

(j) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

Comparative figures were restated to comply with the SSAP 14 (revised), issued by the HKSA, which is effective for accounting periods commencing on or after 1st July 2000.



Notes to the Accounts

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

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(k) Retirement benefit costs

The companies within the Group, which were established in the PRC, contribute to a retirement scheme established by the relevant local Municipal Government who undertakes the retirement benefit obligations of all existing and future retired employees employed by the Group in the PRC. Contributions to the schemes are charged to the profit and loss accounts as incurred.

A subsidiary of the Group, which was incorporated in Hong Kong, operates a defined contribution scheme for employees employed in Hong Kong. Contributions to this scheme are calculated based on certain percentage of the employee's monthly salary. The assets of this scheme are held separately from the subsidiary in an independently administered fund. Contributions to this scheme are charged to the profit and loss account as incurred.

(l) Dividends

In accordance with the revised SSAP 9, the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparatives presented have been restated to conform to the new policy.

As detailed in note 23, this change has resulted in an increase in opening retained profits at 1st January 2001 by RMB66,418,000 which is the reversal of the provision for the 2000 proposed final dividend previously recorded as a liability as at 31st December 2000 although not declared until after the balance sheet date. The current liabilities for 31st December 2000 have been reduced accordingly by RMB66,418,000.

(m) Provisions

In accordance with SSAP 28, provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(n) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

(o) Deferred taxation

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

(p) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments are presented as the primary reporting format and geographical segments as the secondary reporting format.

Unallocated costs represent operating expenses which cannot be identified to specific segment. Segment assets consists primarily of intangible assets, fixed assets, inventories, receivables and operating cash, and mainly exclude investment properties and investments in securities. Capital expenditures comprises additions to fixed assets.

In respect of geographical segment reporting, sales are based on the country in which the ultimate customer is located. Total assets and capital expenditure are where the assets are located.

(q) Revenue recognition

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

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

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

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

Notes to the Accounts

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

3 TURNOVER, REVENUE AND SEGMENT INFORMATION

Turnover represents the value of goods sold, net of value added tax (“VAT”). VAT represents sales tax which was assessed on the Group’s sales at the statutory rate of 17% (2000: 17%).

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

	2001 RMB'000	2000 RMB'000
Turnover		
Sale of goods	2,215,239	1,808,125
Other revenues		
Rental income from Jingwei Group Company, net of outgoings	–	576
Investment income	1,798	6,543
Others	4,945	8,015
	6,743	15,134
Total revenues	2,221,982	1,823,259

In accordance with the Group’s internal financial reporting, the Group has determined that business segments are presented as the primary reporting format.

Primary reporting format – business segments

The Group’s segment revenues, expenses and results are primarily attributable to manufacture and sale of textile machinery.

Other operations of the Group include sale of textile machinery components, special parts and other products, neither of which are of a sufficient size to be reported separately.

Secondary reporting format – geographical segments

	Turnover		Trading results		Total assets		Capital expenditure	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
China	1,921,409	1,624,790	383,880	321,886	3,641,051	3,643,741	479,170	65,255
Other countries	293,830	183,335	56,995	42,234	15,878	–	38	–
	2,215,239	1,808,125	440,875	364,120	3,656,929	3,643,741	479,208	65,255
Unallocated costs			(333,696)	(201,361)				
Operating profit			107,179	162,759				
Unallocated assets					365,332	1,105		
Total assets					4,022,261	3,644,846		

**Notes to the Accounts**

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

4 OPERATING PROFIT

	2001 <i>RMB '000</i>	2000 <i>RMB '000</i>
Operating profit is stated after crediting and charging the following:		
<u>Crediting</u>		
Gain on disposal of fixed assets	653	—
Gain on liquidation of an associated company	—	4,467
Realised and unrealised gain on short-term investments	<u>239</u>	<u>—</u>
<u>Charging</u>		
Auditors' remuneration	2,400	2,380
Amortisation of patents and trademarks (note 12)	236	200
Cost of inventories sold	1,774,364	1,444,005
Depreciation	51,126	48,474
Loss on disposal of fixed assets	—	601
Net exchange losses	12	197
Operating lease expenses - land and buildings	17,900	12,350
Provision for doubtful debts	16,232	16,357
Provision for impairment of machinery and equipment (included in other operating expenses, net) (note 13)	39,538	—
Provision for inventories	11,385	2,919
Repairs and maintenance expenses	26,636	24,538
Retirement benefit costs (note 6)	26,759	20,077
Research and development costs	14,650	5,978
Staff costs (including directors's emoluments)	189,945	159,810
Unrealised losses on short-term investments	<u>5,180</u>	<u>—</u>

5 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**(i) EMOLUMENTS OF DIRECTORS AND SUPERVISORS**

	2001 <i>RMB '000</i>	2000 <i>RMB '000</i>
Directors' emoluments		
Salaries and other benefits	167	57
Bonuses	—	43
Retirement scheme contributions	<u>44</u>	<u>13</u>
	<u>211</u>	<u>113</u>
Supervisors' emoluments		
Salaries and other benefits	58	21
Bonuses	—	25
Retirement scheme contributions	<u>15</u>	<u>5</u>
	<u>73</u>	<u>51</u>

The emoluments of the directors and supervisors were all within the band of Nil to RMB1,060,000, equivalent to Nil to HK\$1,000,000 (2000: Nil to RMB1,060,000).

None of the directors has waived the right to receive his emoluments (2000: Nil).

Notes to the Accounts

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

5 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (CONTINUED)**(ii) FIVE HIGHEST PAID INDIVIDUALS**

The five individuals whose emoluments were the highest in the Group for the year include four directors (2000: Nil), whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2000: five) individual are as follows:

	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
Salaries and other benefits	45	49
Bonuses	—	125
Retirement scheme contribution	12	11
	<u>57</u>	<u>185</u>

The emoluments of the five highest paid individuals were all within the band of Nil to RMB1,060,000, equivalent to Nil to HK\$1,000,000 (2000: Nil to RMB1,060,000).

During the year, no emoluments had been paid by the Group to the directors or the five highest paid individuals as inducement to join or upon joining the Group, or as compensation for loss of office.

6 RETIREMENT BENEFIT COSTS

The retirement benefit costs charged to the profit and loss account represent contributions payable by the Group to the retirement schemes operated in the PRC and Hong Kong totalling RMB26,759,000 (2000: RMB20,077,000), representing 24% (2000: 24%) on the aggregate amount of total salaries that participate in the retirement schemes.

At 31st December 2001, contributions totalling RMB2,531,000 (2000: RMB1,623,000) were payable to the retirement schemes and were included in other payables and accruals. There were no forfeited contributions utilised during the year or available at 31st December 2001 to reduce future contributions (2000: Nil).

7 NET INTEREST EXPENSES

	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
Interest income from banks, a fellow subsidiary and ultimate holding company	28,332	14,137
Interest expenses on bank loans wholly repayable within 5 years	36,142	35,434
Less: amounts capitalised as construction in progress (<i>note</i>)	<u>(3,958)</u>	<u>(4,640)</u>
	32,184	30,794
Net interest expenses	<u>(3,852)</u>	<u>(16,657)</u>

Note:

Interest was capitalised on loans borrowed to finance the construction of fixed assets at rates ranging from 5.850% to 6.534% (2000: 5.94% to 6.53%) per annum.

**Notes to the Accounts**

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

8 TAXATION

No Hong Kong profits tax has been provided as the Group had no taxable profits in Hong Kong for the year (2000: Nil). The Company and its subsidiaries are subject to PRC income tax on their assessable profits.

The amount of taxation charged to the consolidated profit and loss account represents:

	2001 <i>RMB '000</i>	2000 <i>RMB '000</i>
Company and subsidiaries		
– PRC taxation	20,600	9,944
Share of taxation attributable to associated companies	146	–
	<u>20,746</u>	<u>9,944</u>

In accordance with an approval document issued by the State Administration of Taxation of Shanxi Province on 28th September 1995, income tax rate of 15% (2000: 15%) is applicable to the Company during the year. The income tax rates of the Company's subsidiaries range from 15% to 33% (2000: 15% to 27%) and one of the Company's subsidiaries is enjoying tax exemption from 1999 to 2004 and will be subject to a preferential income tax rate of 7.5% from 2005 to 2009. In addition, three subsidiaries of the Company enjoyed tax exemption from 1999 to 2000 and are subject to a preferential tax rate of 15% from 2001 to 2003. Another two subsidiaries enjoy tax exemption from 2000 to 2001 and 2001 to 2002 and will be subject to a preferential tax rate of 15% from 2002 and 2003 onwards respectively.

No deferred taxation has been accounted for during the year as there were no material timing differences (2000: Nil).

Deferred taxation on the revaluation surplus of the investment property has not been quantified as this does not constitute a timing difference for deferred taxation purposes.

9 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of RMB92,200,000 (2000: RMB60,772,000).

10 DIVIDENDS

	2001 <i>RMB '000</i>	2000 <i>RMB '000</i>
Final, proposed, of RMB0.06 (2000: RMB0.11) per domestic share	13,200	24,200
Final, proposed, of RMB0.06 (2000: RMB0.11) per A share	12,180	22,330
Final, proposed, of RMB0.06 (2000: RMB0.11) per H share	10,848	19,888
	<u>36,228</u>	<u>66,418</u>

Notes:

- (i) The previously recorded final dividends proposed and declared after the balance sheet date but accrued in the accounts for the year ended 31st December 2000 were RMB66,418,000. Under the Group's new accounting policy as described in note 2(1), these have been written back against opening retained profits as at 1st January 2001 in note 23 and are now charged in the period in which they were proposed.
- (ii) At a meeting held on 28th March 2002, the directors have proposed a final dividend of RMB0.06 per share. This proposed dividend is not reflected as dividend payable as at 31st December 2001, but will be reflected as an appropriation of retained profits for the year ending 31st December 2002.

11 BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of RMB82,694,000 (2000: RMB133,875,000) and the weighted average number of 603,800,000 (2000: 532,293,151) shares in issue during the year.

No diluted earnings per share is presented as the Company does not have any dilutive potential shares as at 31st December 2001 (2000: Nil).

Notes to the Accounts

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

12 INTANGIBLE ASSETS**Patent and trademark**

	Group	
	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
Cost		
At 1st January	2,000	2,000
Additions	561	—
At 31st December	<u>2,561</u>	<u>2,000</u>
Accumulated amortisation		
At 1st January	1,075	875
Charge for the year	236	200
At 31st December	<u>1,311</u>	<u>1,075</u>
Net book value		
At 31st December	<u>1,250</u>	<u>925</u>
	Company	
	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
Cost		
At 1st January and 31st December	<u>2,000</u>	<u>2,000</u>
Accumulated amortisation		
At 1st January	1,075	875
Charge for the year	200	200
At 31st December	<u>1,275</u>	<u>1,075</u>
Net book value		
At 31st December	<u>725</u>	<u>925</u>

**Notes to the Accounts**

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

13 FIXED ASSETS**Group**

	Investment property (notes a,b) RMB'000	Land and buildings (note b) RMB'000	Machinery and equipment (note c) RMB'000	Motor vehicles RMB'000	Construction in progress (note e) RMB'000	Total RMB'000
Cost or valuation						
At 1st January 2001	–	198,467	712,255	23,784	32,479	966,985
Additions	322,295	48,530	19,158	15,232	73,993	479,208
Transfer upon completion	–	3,555	43,958	–	(47,513)	–
Disposals	–	(19)	(5,881)	(3,607)	(1,924)	(11,431)
Revaluation	17,705	–	–	–	–	17,705
At 31st December 2001	<u>340,000</u>	<u>250,533</u>	<u>769,490</u>	<u>35,409</u>	<u>57,035</u>	<u>1,452,467</u>
Accumulated depreciation and impairment losses						
At 1st January 2001	–	36,932	364,388	7,996	–	409,316
Charge for the year	–	6,127	41,547	3,452	–	51,126
Impairment loss (note d)	–	–	39,538	–	–	39,538
Disposals	–	(17)	(4,982)	(1,506)	–	(6,505)
At 31st December 2001	<u>–</u>	<u>43,042</u>	<u>440,491</u>	<u>9,942</u>	<u>–</u>	<u>493,475</u>
Net book value						
At 31st December 2001	<u>340,000</u>	<u>207,491</u>	<u>328,999</u>	<u>25,467</u>	<u>57,035</u>	<u>958,992</u>
At 31st December 2000	<u>–</u>	<u>161,535</u>	<u>347,867</u>	<u>15,788</u>	<u>32,479</u>	<u>557,669</u>

The analysis of the cost or valuation at 31st December 2001 and 2000 of the above assets is as follows:

	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At cost	–	250,533	769,490	35,409	57,035	1,112,467
At 2001 valuation	<u>340,000</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>340,000</u>
At 31st December 2001	<u>340,000</u>	<u>250,533</u>	<u>769,490</u>	<u>35,409</u>	<u>57,035</u>	<u>1,452,467</u>
At cost	–	198,467	712,255	23,784	32,479	966,985
At 31st December 2000	<u>–</u>	<u>198,467</u>	<u>712,255</u>	<u>23,784</u>	<u>32,479</u>	<u>966,985</u>

Notes to the Accounts

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

13 FIXED ASSETS (CONTINUED)**Company**

	Investment property (notes a,b) RMB '000	Land and buildings (note b) RMB '000	Machinery and equipment (note c) RMB '000	Motor vehicles RMB '000	Construction in progress (note e) RMB '000	Total RMB '000
Cost or valuation						
At 1st January 2001	–	177,609	419,740	13,131	31,388	641,868
Additions	322,295	42,153	–	6,824	45,537	416,809
Transfer upon completion	–	3,554	40,754	–	(44,308)	–
Disposals	–	(19)	(12,592)	(1,757)	(370)	(14,738)
Revaluation	17,705	–	–	–	–	17,705
At 31st December 2001	<u>340,000</u>	<u>223,297</u>	<u>447,902</u>	<u>18,198</u>	<u>32,247</u>	<u>1,061,644</u>
Accumulated depreciation and impairment losses						
At 1st January 2001	–	35,590	196,343	5,567	–	237,500
Charge for the year	–	5,477	21,035	1,955	–	28,467
Impairment loss (note d)	–	–	35,904	–	–	35,904
Disposals	–	(17)	(2,175)	(1,085)	–	(3,277)
At 31st December 2001	–	<u>41,050</u>	<u>251,107</u>	<u>6,437</u>	–	<u>298,594</u>
Net book value						
At 31st December 2001	<u>340,000</u>	<u>182,247</u>	<u>196,795</u>	<u>11,761</u>	<u>32,247</u>	<u>763,050</u>
At 31st December 2000	–	<u>142,019</u>	<u>223,397</u>	<u>7,564</u>	<u>31,388</u>	<u>404,368</u>

The analysis of the cost or valuation at 31st December 2001 and 2000 of the above assets is as follows:

	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>
At cost	–	223,297	447,902	18,198	32,247	721,644
At 2001 valuation	<u>340,000</u>	–	–	–	–	<u>340,000</u>
At 31st December 2001	<u>340,000</u>	<u>223,297</u>	<u>447,902</u>	<u>18,198</u>	<u>32,247</u>	<u>1,061,644</u>
At cost	–	177,609	419,740	13,131	31,388	641,868
At 31st December 2000	–	<u>177,609</u>	<u>419,740</u>	<u>13,131</u>	<u>31,388</u>	<u>641,868</u>

Notes:

- Investment property was revalued by Greater China Appraisal Limited, an independent professional valuer, on the basis of open market value as at 31st December 2001.
- All of the Group's land and buildings and investment property are located in the PRC with lease terms of between 10 to 50 years.
- At 31st December 2000, the cost and accumulated depreciation of machinery and equipment held by the Group under operating leases amounted to approximately RMB4,359,000 and RMB2,455,000 respectively. The Group had no fixed assets under operating leases at 31st December 2001.
- In accordance with SSAP 31, the Group made a provision for impairment loss of RMB39,538,000 on certain machinery and equipment in 2001. The impairment was provided primarily for those machinery and equipment which are no longer used for production as a result of technical obsolescence. This impairment loss was recognised in the profit and loss account.
- At 31st December 2001, construction in progress comprises expenditure incurred, including interest expenses capitalised totalling RMB3,958,000 (2000: RMB4,283,000), on land and buildings, machinery and equipment and motor vehicles of the Group and the Company which were not yet commissioned at the balance sheet date.

**Notes to the Accounts**

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

14 INVESTMENTS IN SUBSIDIARIES

	2001 <i>RMB '000</i>	Company 2000 <i>RMB '000</i>
Unlisted investments, at cost	339,311	164,758
Amounts due from subsidiaries	176,503	211,951
	<u>515,814</u>	<u>376,709</u>

The following is list of subsidiaries as at 31st December 2001.

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

Notes to the Accounts

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

14 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of company	Date of establishment	Registered capital RMB	Percentage of equity interest held by the		Principal Activities
			Group %	Company %	
Beijing Jingwei Textile New Technology Company Limited	2nd March 2000	100,000,000	98.4	98.4	Technical developing and manufacturing of textile machinery and computer software and hardware, sales of textile, industrial specialised machinery, agricultural machinery, instruments and panel and automobile components.
Shanghai Weixin Electrical and Machinery Company Limited	30th June 2000	16,000,000	100	90	Textile machinery, automobile component and general machinery's developing and manufacturing
Beijing Jingpeng Investment Management Company Limited * #	30th July 2001	20,000,000	95	80	Investment management, sales of electronic & chemical products (other than dangerous products), machinery, construction materials, wood, automotive parts, local products, fashion and exhibitions and provision of technology information
Jintu Information Technology Company Limited * #	9th August 2001	50,920,000	58.9	58.9	Wholesale, retail and consulting services
Shanghai Chuangan Trade Company Limited * #	29th September 2001	2,000,000	90	90	General trading sales of textile, electronic, chemical products (other than dangerous products), metal construction materials, wood, cement, mining-related sub-products
Hong Kong Huaming Company Limited *	31st December 2000	4,966,416	100	100	Imports and exports, general trading and consulting services
Shanghai Jingwei Dongxing Blowing-Carding Machinery Company Limited * #	5th September 2001	50,000,000	88	78	Manufacturing and sales of blowing-carding machinery and related components
Beijing Garden Automobile Lease Company Limited *	21st April 1995	2,000,000	80	—	Leasing of automobile.
Beijing Ximen Information Technology Company Limited * #	7th June 2001	6,600,000	50	—	Consulting services

**Notes to the Accounts**

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14 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of company	Date of establishment	Registered capital RMB	Percentage of equity interest held by the		Principal Activities
			Group %	Company %	
Jinan Jin Hongda Textile Machinery Company Limited * #	13th December 2001	5,000,000	94	—	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

* These subsidiaries were not audited by PricewaterhouseCoopers, Hong Kong. The aggregate net assets of the subsidiaries not audited by PricewaterhouseCoopers, Hong Kong amounted to approximately 4.5% (2000: 1.9%) of the Group's total net assets.

These subsidiaries were newly established in 2001.

Except for Hong Kong Huaming Company Limited which was incorporated in Hong Kong with limited liabilities, all other subsidiaries are limited liability companies established and operating in the PRC.

15 INVESTMENTS IN ASSOCIATED COMPANIES

	Group	
	2001 RMB '000	2000 RMB '000
Unlisted investments, at cost	63,926	7,100
Share of post-acquisition profits	1,028	—
Share of net assets	<u>64,954</u>	<u>7,100</u>
	Company	
	2001 RMB '000	2000 RMB '000
Unlisted investments, at cost	<u>61,631</u>	<u>6,000</u>

Notes to the Accounts

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

15 INVESTMENTS IN ASSOCIATED COMPANIES (CONTINUED)

The following is a list of associated companies, all of which were established in the PRC, as at 31st December 2001.

Name of company	Date of establishment	Registered capital RMB	Attributable equity interest %	Principal activities
Beijing Hongda International Trading Company Limited	8th June 2000	30,000,000	20	Self and agent, trading import and export of commodities, technology transfer and entrepot trade
Beijing Textile Machinery Automatic Control Technology Company Limited	20th December 2000	2,000,000	40	Textile machinery, developing of information technology products, sales of computer software and hardware and machinery electronic equipment
Qingdao Jinyi Pressing and Casting Company Limited	24th March 2000	1,250,000	24	Pressing and casting of non-ferrous metal. Design, manufacturing and sales of model.
Shenzhen Bolue Technology Investment Company Limited #	11th April 2001	85,500,000	40.94	Investing, setting up and management of new enterprises and investment consultation
Hongda Research Company Limited #	8th May 2001	50,000,000	40	Sale and development of environmental protective machine Textile machine, office equipment, electronics and provision of technical support
Beijing Hongda Fangji Enterprise's Management Consulting Company Limited #	24th September 2001	3,800,000	47.37	Provision of management consultation and corporate image services, technology research, transfer, training and consultation services, computer design, organisation of cultural activities and exhibitions

These associated companies were newly established in 2001.

**Notes to the Accounts**

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

16 INVESTMENTS IN SECURITIES**(a) Investment securities**

	Group		Company	
	2001	2000	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted government debentures and others, at cost	460	1,105	210	855

(b) Short-term investments

	Group		Company	
	2001	2000	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Equity securities, at fair value				
– listed outside Hong Kong	23,334	–	21,002	–
Financial derivatives, at fair value				
– listed outside Hong Kong	1,538	–	–	–
	24,872	–	21,002	–
Market value of listed investments	24,872	–	21,002	–

17 INVENTORIES

	Group		Company	
	2001	2000	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	186,415	206,444	71,366	80,620
Work in progress	243,900	251,552	158,000	130,674
Finished goods	470,951	427,701	280,990	266,102
	901,266	885,697	510,356	477,396
Less: Provision	(15,701)	(4,316)	(3,700)	(3,700)
	885,565	881,381	506,656	473,696

At 31st December 2001, the carrying amount of inventories of the Group and Company that are carried at net realisable value amounted to approximately RMB64,323,000 (2000: RMB59,745,000) and RMB33,249,000 (2000: RMB34,999,000) respectively.

18 TRADE AND BILL RECEIVABLES

	Group		Company	
	2001	2000	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade and bill receivables	422,799	373,072	196,399	163,987
Less: Provision	(63,660)	(47,428)	(19,500)	(16,721)
	359,139	325,644	176,899	147,266

At 31st December 2001, the ageing analysis of the trade and bill receivables were as follows:

	Group		Company	
	2001	2000	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	245,128	232,617	100,224	78,576
1-2 years	77,084	69,146	38,135	40,581
2-3 years	49,719	36,767	30,262	22,944
Over 3 years	50,868	34,542	27,778	21,886
Total	422,799	373,072	196,399	163,987

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

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

The amount due from the ultimate holding company is unsecured. Except for a deposit of RMB93,000,000 (2000: Nil) which carries interest at a rate of approximately 5.58% (2000: Nil) per annum and is repayable within one year, the remaining balances are interest free and have no fixed terms of repayment.

The amounts with fellow subsidiaries are unsecured. Except for deposits placed with China Textile Machinery Group Finance Company totalling RMB15,122,000 (2000: RMB16,687,000) which carry interest at a rate of 1.71% (2000: 2.25%) per annum and are repayable within one year, balances with other fellow subsidiaries are interest free and have no fixed terms of repayment.

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

20 TAXATION RECOVERABLE/PAYABLE

	Group		Company	
	2001	2000	2001	2000
	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>
Income tax payable	17,251	14,948	12,221	14,756
Other taxes payable/(recoverable)	3,716	(16,989)	1,200	(9,972)
Net taxation payable/(recoverable)	<u>20,967</u>	<u>(2,041)</u>	<u>13,421</u>	<u>4,784</u>

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

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

21 TRADE PAYABLES

At 31st December 2001, the ageing analysis of the trade payables were as follows:

	Group		Company	
	2001	2000	2001	2000
	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>
Within 1 year	196,789	294,688	95,574	159,843
1-2 years	10,794	21,223	5,227	15,136
2-3 years	11,582	18,210	7,048	11,553
Over 3 years	11,078	2,356	8,087	—
Total	<u>230,243</u>	<u>336,477</u>	<u>115,936</u>	<u>186,532</u>

22 SHARE CAPITAL

	Registered, issued and fully paid	
	<i>No. of shares</i>	<i>RMB '000</i>
Registered, issued and fully paid		
Domestic shares of RMB1.00 each	220,000,000	220,000
H shares of RMB1.00 each	180,800,000	180,800
A shares of RMB1.00 each	203,000,000	203,000
At 31st December 2000 and 2001	<u>603,800,000</u>	<u>603,800</u>

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

Pursuant to a resolution passed at the general meeting of the Company held on 9th May 2000, additional 180,000,000 A shares of RMB1.00 each were issued at RMB7.21 per share during the period from 26th May 2000 to 31st May 2000. These shares were subsequently listed on the Shenzhen Stock Exchange on 23rd June 2000 in the PRC.



Notes to the Accounts

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23 RESERVES

Group

	Capital reserve RMB '000	Investment property revaluation reserve RMB '000	Statutory surplus reserve (notes a,c) RMB '000	Statutory Public welfare fund (notes b,c) RMB '000	Discretionary surplus reserve RMB '000	Exchange difference RMB '000	Retained profit RMB '000	Total RMB '000
At 1st January 2000	195,065	–	24,945	24,945	27,764	–	131,169	403,888
Transfer from profit and loss account (note a, b and c)	–	–	23,855	23,855	–	–	(47,710)	–
Issue of new shares	1,054,800	–	–	–	–	–	–	1,054,800
Profit for the year	–	–	–	–	–	–	133,875	133,875
At 31st December 2000	<u>1,249,865</u>	<u>–</u>	<u>48,800</u>	<u>48,800</u>	<u>27,764</u>	<u>–</u>	<u>217,334</u>	<u>1,592,563</u>
Representing:								
Reserves	1,249,865	–	48,800	48,800	27,764	–	150,916	1,526,145
2000 proposed final dividend	–	–	–	–	–	–	66,418	66,418
At 31st December 2000	<u>1,249,865</u>	<u>–</u>	<u>48,800</u>	<u>48,800</u>	<u>27,764</u>	<u>–</u>	<u>217,334</u>	<u>1,592,563</u>
Company and subsidiaries	1,249,865	–	48,800	48,800	27,764	–	217,334	1,592,563
At 31st December 2000	<u>1,249,865</u>	<u>–</u>	<u>48,800</u>	<u>48,800</u>	<u>27,764</u>	<u>–</u>	<u>217,334</u>	<u>1,592,563</u>
At 1st January 2001								
As previously reported	1,249,865	–	48,800	48,800	27,764	–	150,916	1,526,145
Effect of adopting SSAP 9 (revised) (note 2(l))	–	–	–	–	–	–	66,418	66,418
Effect of adopting new PRC accounting policy (note e)	–	–	(4,317)	(4,317)	–	–	8,634	–
As restated	1,249,865	–	44,483	44,483	27,764	–	225,968	1,592,563
Transfer from profit and loss account (note a, b and c)	–	–	17,412	17,412	–	–	(34,824)	–
Surplus on revaluation of investment property	–	17,705	–	–	–	–	–	17,705
Exchange difference	–	–	–	–	–	55	–	55
2000 payment of final dividend	–	–	–	–	–	–	(66,418)	(66,418)
Profit for the year	–	–	–	–	–	–	82,694	82,694
At 31st December 2001	<u>1,249,865</u>	<u>17,705</u>	<u>61,895</u>	<u>61,895</u>	<u>27,764</u>	<u>55</u>	<u>207,420</u>	<u>1,626,599</u>
Representing:								
Reserves	1,249,865	17,705	61,895	61,895	27,764	55	171,192	1,590,371
2001 proposed final dividend	–	–	–	–	–	–	36,228	36,228
At 31st December 2001	<u>1,249,865</u>	<u>17,705</u>	<u>61,895</u>	<u>61,895</u>	<u>27,764</u>	<u>55</u>	<u>207,420</u>	<u>1,626,599</u>
Company and subsidiaries	1,249,865	17,705	61,895	61,895	27,764	55	206,392	1,625,571
Associated companies	–	–	–	–	–	–	1,028	1,028
At 31st December 2001	<u>1,249,865</u>	<u>17,705</u>	<u>61,895</u>	<u>61,895</u>	<u>27,764</u>	<u>55</u>	<u>207,420</u>	<u>1,626,599</u>

Notes to the Accounts

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

23 RESERVES (CONTINUED)**Company**

	Capital reserve RMB'000	Investment property revaluation reserve RMB'000	Statutory surplus reserve (note a, c) RMB'000	Statutory public welfare fund (note b, c) RMB'000	Discretionary surplus reserve RMB'000	Retained profit RMB'000	Total RMB'000
At 1st January 2000	184,498	–	24,942	24,942	27,764	102,852	364,998
Transfer from profit and loss account (note a, b and c)	–	–	13,331	13,331	–	(26,662)	–
Issue of new shares	1,054,800	–	–	–	–	–	1,054,800
Profit for the year	–	–	–	–	–	60,772	60,772
At 31st December 2000	<u>1,239,298</u>	<u>–</u>	<u>38,273</u>	<u>38,273</u>	<u>27,764</u>	<u>136,962</u>	<u>1,480,570</u>
Representing:							
Reserves	1,239,298	–	38,273	38,273	27,764	70,544	1,414,152
2000 proposed final dividend	–	–	–	–	–	66,418	66,418
At 31st December 2000	<u>1,239,298</u>	<u>–</u>	<u>38,273</u>	<u>38,273</u>	<u>27,764</u>	<u>136,962</u>	<u>1,480,570</u>
At 1st January 2001							
As previously reported	1,239,298	–	38,273	38,273	27,764	70,544	1,414,152
Effect of adopting SSAP 9 (revised) (note 2(l))	–	–	–	–	–	66,418	66,418
Effect of adopting new PRC accounting policy (note e)	–	–	(3,954)	(3,954)	–	7,908	–
As restated	<u>1,239,298</u>	<u>–</u>	<u>34,319</u>	<u>34,319</u>	<u>27,764</u>	<u>144,870</u>	<u>1,480,570</u>
Transfer from profit and loss account (note a, b and c)	–	–	12,220	12,220	–	(24,440)	–
Surplus on revaluation of investment property	–	17,705	–	–	–	–	17,705
2000 payment of final dividend	–	–	–	–	–	(66,418)	(66,418)
Profit for the year	–	–	–	–	–	92,200	92,200
At 31st December 2001	<u>1,239,298</u>	<u>17,705</u>	<u>46,539</u>	<u>46,539</u>	<u>27,764</u>	<u>146,212</u>	<u>1,524,057</u>
Representing:							
Reserves	1,239,298	17,705	46,539	46,539	27,764	109,984	1,487,829
2001 proposed final dividend	–	–	–	–	–	36,228	36,228
At 31st December 2001	<u>1,239,298</u>	<u>17,705</u>	<u>46,539</u>	<u>46,539</u>	<u>27,764</u>	<u>146,212</u>	<u>1,524,057</u>

Notes:

- (a) Pursuant to the Articles of Association, the Company and its subsidiaries are required to transfer 10% of profit after taxation to statutory surplus reserve until the statutory surplus reserve reaches 50% of the registered capital of the respective companies.
- (b) Pursuant to the respective Articles of Association, the Company and its subsidiaries are required to transfer 10% of profit after taxation to the 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 on liquidation. Any transfer to this fund must be made before the distribution of dividend to shareholders.
- (c) The amounts transferred to statutory surplus reserve and statutory public welfare fund are based on the profit after taxation for the year as calculated by respective companies in the Group in accordance with the PRC accounting rules and regulations.
- (d) At 31st December 2001, the distributable reserves of the Company amounted to RMB 146,212,000(2000: RMB136,962,000).
- (e) The transfer of reserves is restated as a result of adjustments made to the retained profits as at 1st January 2001 upon adoption of new PRC accounting policy.

**Notes to the Accounts**

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

24 LONG-TERM BANK LOANS

	Group		Company	
	2001	2000	2001	2000
	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>
Bank loans, unsecured				
Wholly repayable within five years	122,663	94,790	106,663	88,790
Current portion of long-term bank loans	(29,588)	(23,500)	(23,588)	(23,500)
	<u>93,075</u>	<u>71,290</u>	<u>83,075</u>	<u>65,290</u>

At 31st December 2001, the Group's bank loans were repayable as follow:

	Group		Company	
	2001	2000	2001	2000
	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>
Within one year	29,588	23,500	23,588	23,500
In the second year	—	38,000	—	32,000
In the third to fifth year	93,075	33,290	83,075	33,290
	<u>122,663</u>	<u>94,790</u>	<u>106,663</u>	<u>88,790</u>

25 COMMITMENTS**(a) Capital commitments**

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

	Group		Company	
	2001	2000	2001	2000
	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>
Authorised but not contracted for	24,738	486,580	10,200	107,630
Contracted but not provided for	13,958	10,937	3,580	3,720
	<u>38,696</u>	<u>497,517</u>	<u>13,780</u>	<u>111,350</u>

(b) Lease commitments

At 31st December 2001, the Group and the Company had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group		Company	
	2001	(Restated) 2000	2001	(Restated) 2000
	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>
Land and buildings				
Not later than one year	17,509	14,426	630	—
Later than one year and not later than five years	58,318	50,614	—	—
Later than five years	53,702	60,488	—	665
	<u>129,529</u>	<u>125,528</u>	<u>630</u>	<u>665</u>

At 31st December 2001, the Group and the Company had future aggregate minimum lease payments receivable under non-cancellable operating leases as follows:

	Group and Company	
	2001	2000
	<i>RMB '000</i>	<i>RMB '000</i>
Investment Property		
Not later than one year	<u>30,000</u>	<u>—</u>

Notes to the Accounts

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

26 CONTINGENT LIABILITIES

	Group	
	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>
Guarantees for bank loans of third party	15,000	—
Guarantees for bank bills of third party	27,700	—
	<u>42,700</u>	<u>—</u>
	Company	
	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>
Guarantees for bank loans and overdraft of subsidiaries	<u>44,520</u>	<u>13,650</u>

Management anticipates that no material liabilities will arise from the above bank guarantees.

27 RELATED PARTY TRANSACTIONS

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

		Group	
		2001	2000
		<i>RMB'000</i>	<i>RMB'000</i>
Transactions with China National Textile Machinery (Group) Limited ("CTMC")			
Sale of finished goods	(i)	4,531	33,996
Sale of finished goods	(ii)	3,955	8,391
Interest Income	(ii)	1,000	—
Purchase of raw materials and components	(ii)	1,401	878
Bank loan guarantee in favour of the Company	(iii)	16,000	19,520
Interest expenses	(ii)	<u>—</u>	<u>1,239</u>
Transactions with Jingwei Group Company			
Sale of finished goods	(i)	—	7,415
Sale of raw materials and components	(i)	1,355	1,713
Sale of raw materials and components	(ii)	9,870	12,842
Fees received for the provision of supporting services	(i)	3,831	2,151
Fees received for the provision of supporting services	(ii)	11,582	10,967
Rental income	(i)	—	576
Purchase of tools	(i)	15,255	14,543
Purchase of raw materials and components	(i)	85	6,714
Fees paid for processing services	(ii)	60,110	62,103
Fees paid for transportation services	(i)	3,705	3,243
Fees paid for repairs and maintenance services	(i)	11,646	6,283
Fees paid for other supporting services	(i)	14,286	14,461
Rental expense	(ii)	605	650
Bank loan guarantee in favour of the Company	(iii)	<u>533,300</u>	<u>384,910</u>
Transactions with associated companies of Jingwei Group Company			
Purchase of raw materials and components	(i)	<u>21,465</u>	<u>22,042</u>

**Notes to the Accounts**

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

27 RELATED PARTY TRANSACTIONS (CONTINUED)

		2001	Group	2000
	<i>Note</i>	<i>RMB '000</i>		<i>RMB '000</i>
Transactions with other fellow subsidiaries				
Sale of finished goods	(i)	10,286		69
Sale of finished goods	(ii)	80,194		9,878
Sale of raw materials and spare parts	(ii)	6,608		11,221
Fees received for processing services	(ii)	440		838
Fees received for the provision of supporting services	(ii)	300		—
Interest Income	(ii)	8,965		—
Purchase of tools	(ii)	7,821		6,797
Purchase of casts	(ii)	87,208		85,751
Purchase of package materials	(ii)	4,085		1,102
Purchase of energy	(ii)	14,939		10,099
Purchase of raw material and spare parts	(i)	15,997		28,409
Purchase of raw material and spare parts	(ii)	98,888		38,598
Fees paid for processing service	(ii)	62,802		40,490
Fees paid for other supporting services	(ii)	9,141		10,841
Rental expenses	(ii)	29,577		14,803
Estate administrative expenses	(ii)	460		677
Bank loan guarantee in favour of the Company	(iii)	24,600		6,600

Notes:

- (i) These transactions were conducted in accordance with the agreement entered into at the time of reorganisation as referred to note 1 to the accounts.
- (ii) These transactions were conducted in accordance with the composite service agreement in connection with the assets exchange agreement as referred to note 1 to the accounts.
- (iii) Bank loans guarantee granted by CTMC, Jingwei Group Company and other fellow subsidiaries in favour of the Company were executed in accordance with the related guarantee agreements.

28 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**(a) Reconciliation of operating profit to net cash inflow from operating activities**

	2001	2000
	<i>RMB '000</i>	<i>RMB '000</i>
Operating profit	107,179	162,759
Depreciation	51,126	48,474
(Gain)/loss on disposal of fixed assets	(653)	601
Amortisation of patents and trademarks	236	200
Realised and unrealised gain on short-term investments	(239)	—
Unrealised losses on short-term investments	5,180	—
Investment income	(1,798)	(6,543)
Provision for impairment of machinery and equipment	39,538	—
Gain on liquidation of an associated company	—	(4,467)
Increase in inventories	(4,184)	(433,668)
(Increase)/decrease in trade receivables, deposits, other debtors and prepayments	(26,554)	118,012
Decrease/(increase) in time deposits	21,668	(40,591)
Increase in amount due from ultimate holding company	(111,372)	(3,605)
Increase in amounts due from fellow subsidiaries	(35,737)	(45,401)
(Decrease)/increase in trade payables, other payables and accruals	(42,643)	387,597
Increase in amount due to Jingwei Group Company	11,997	12,568
Increase in amounts due to fellow subsidiaries	15,981	34,263
Increase/(decrease) in other taxes payable	20,705	(29,362)
Net cash inflow from operating activities	50,430	200,837

Notes to the Accounts

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

28 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)**(b) Analysis of changes in financing during the year**

	Share capital (including capital reserves)		Minority interests		Bank loans	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Balance as at 1st January	1,853,665	618,865	7,728	3,845	511,200	547,484
Capital contribution from minority shareholders	—	—	32,043	1,600	—	—
Minority interest in share of profit	—	—	1,061	2,283	—	—
Dividends to minority interest	—	—	(1,460)	—	—	—
Net cash inflow/(outflow) from financing	—	1,234,800	—	—	305,433	(36,284)
Balance as at 31st December	<u>1,853,665</u>	<u>1,853,665</u>	<u>39,372</u>	<u>7,728</u>	<u>816,633</u>	<u>511,200</u>

(c) Analysis of the balances of cash and cash equivalents

	2001 RMB'000	2000 RMB'000
Bank balances and cash	1,329,574	1,611,694
Time deposits with maturity more than three months from the date of deposit	(61,332)	(83,000)
	<u>1,268,242</u>	<u>1,528,694</u>

29 ULTIMATE HOLDING COMPANY

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

30 SUBSEQUENT EVENTS

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

- Based on the meeting of the Board of Directors held on 5 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.
- 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.
- The Company, together with its ultimate holding company, will set up two new companies - Wuxi Textile Technology Experiment Company Limited and Hongda New Textile Manufacturing Technology Company Limited.
- The Company will dispose the related assets and liabilities of its fibre machinery production line to its ultimate holding company. The gross assets and liabilities of the fibre 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 funds obtained from the additional issue of A shares in May 2000 to finance the above projects.

31 APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 28th March 2002.