

Chapter XII Accounts Prepared in Accordance with the PRC Accounting Standards and System

Balance Sheet

(Prepared in accordance with the PRC Accounting Standards and System)

AS AT 31ST DECEMBER 2002

ASSETS		In RMB			
	NOTE	GROUP 2002	GROUP 2001	COMPANY 2002	COMPANY 2001
CURRENT ASSETS					
Cash	V1	967,504,852	1,344,655,341	646,487,786	1,017,452,531
Short-term investments	V2	72,950,088	117,871,794	22,980,463	114,002,136
Notes receivable	V3	147,418,744	62,407,426	36,530,980	36,144,917
Dividends receivable		—	—	14,542,746	45,774,046
Interest receivable		—	—	—	—
Accounts receivable	V4(1), V11(1)	457,714,246	329,334,838	270,019,593	197,510,080
Other receivables	V4(2), V11(2)	267,350,067	154,582,624	258,746,150	194,465,426
Advances to suppliers	V5	225,125,985	105,278,568	109,570,422	100,964,631
Subsidy receivable		—	—	—	—
Inventories	V6	1,308,194,135	885,565,519	633,522,474	506,655,744
Prepaid expenses	V7	2,731,681	3,466,774	551,651	1,748,217
Long term investments maturing within one year		—	—	—	—
Other current assets		—	—	—	—
Total current assets		3,448,989,798	3,003,162,884	1,992,952,265	2,214,717,728
LONG-TERM INVESTMENTS					
Long-term equity investments	V8 V12	64,989,165	60,311,269	886,582,422	495,662,828
Long-term debt investments	V8	—	209,600	—	209,600
Total long-term investments		64,989,165	60,520,869	886,582,422	495,872,428
Including: Consolidation difference		(4,271,248)	(4,892,604)	—	—
FIXED ASSETS					
Fixed assets-cost		1,787,662,147	986,197,608	1,003,542,413	633,605,760
Less: Accumulated depreciation		(736,711,344)	(446,794,213)	(278,796,967)	(255,740,021)
Fixed assets-net amount	V9	1,050,950,803	539,403,395	724,745,446	377,865,739
Less: fixed assets impairment provision	V9	(40,639,006)	(39,537,633)	(32,300,577)	(35,904,205)
Fixed assets-net book value		1,010,311,797	499,865,762	692,444,869	341,961,534
Construction supplies	V10	27,119,527	16,752,662	7,490,007	7,253,435
Construction in progress	V11	96,089,906	362,576,436	19,120,045	347,288,440
Fixed assets pending disposal		—	—	—	—
Total fixed assets		1,133,521,230	879,194,860	719,054,921	696,503,409
INTANGIBLE AND OTHER ASSETS					
Intangible assets	V12	124,798,605	67,064,414	47,874,148	49,566,207
Long term deferred expenses	V13	1,881,272	2,112,693	1,329,030	1,579,025
Other long term assets		—	—	—	—
Total intangible and other assets		126,679,877	69,177,107	49,203,178	51,145,232
DEFERRED TAXES					
Deferred tax debits		—	—	—	—
TOTAL ASSETS		4,774,180,070	4,012,055,720	3,647,792,786	3,458,238,797

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

Legal representative: Ye Maixin

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 Standards and System)

AS AT 31ST DECEMBER 2002 (CONTINUED)

		In RMB			
LIABILITIES AND OWNERS' EQUITY	NOTE	GROUP 2002	GROUP 2001	COMPANY 2002	COMPANY 2001
CURRENT LIABILITIES					
Short term loans	V14	314,720,000	693,970,000	209,400,000	583,300,000
Notes payable	V15	309,717,420	85,100,000	208,385,703	55,200,000
Accounts payable	V16	543,453,837	285,117,299	337,787,468	164,421,036
Advances from customers	V17	923,485,087	448,824,424	488,065,483	285,206,773
Accrued payroll		3,195,739	864,528	—	—
Welfare benefits payable		36,068,235	14,310,217	13,312,079	6,003,016
Dividends payable	V18	36,426,831	37,688,616	36,239,607	37,173,500
Interest payable		—	—	—	—
Taxes payable	V19	16,818,185	20,966,858	6,954,216	13,420,698
Other accruals	V20	1,314,218	442,613	568	—
Other payables	V21	179,328,800	89,697,797	16,053,701	37,008,010
Accrued expenses	V22	7,697,110	3,045,720	3,036,000	1,200,000
Provision for foreseeable liabilities		—	—	—	—
Portion of long term liabilities due within one year	V23	14,208,000	29,588,000	14,208,000	23,588,000
Other current liabilities		—	—	—	—
Total current liabilities		2,386,433,462	1,709,616,072	1,333,442,825	1,206,521,033
LONG-TERM LIABILITIES					
Long-term loans	V24	65,667,000	93,075,000	42,867,000	83,075,000
Debentures payable		—	—	—	—
Long-term payables		—	—	—	—
Government grants payable		—	—	—	—
Other long-term liabilities		—	—	—	—
Total long-term liabilities		65,667,000	93,075,000	42,867,000	83,075,000
DEFERRED TAXES					
Deferred tax credits		—	—	—	—
TOTAL LIABILITIES		2,452,100,462	1,802,691,072	1,376,309,825	1,289,596,033
Minority interest		50,530,543	39,283,789	—	—
OWNER'S EQUITY					
Share capital	V25	603,800,000	603,800,000	603,800,000	603,800,000
Capital surplus	V26	1,252,154,114	1,252,154,114	1,252,154,114	1,252,154,114
Surplus reserve	V27	193,783,720	149,382,289	147,574,699	119,761,059
Including: statutory public welfare fund		83,010,336	60,809,621	59,905,826	45,999,006
Undistributed profit	V28	221,745,127	164,689,415	267,954,148	192,927,591
Foreign exchange difference reserve		66,104	55,041	—	—
Total shareholders' equity		2,271,549,065	2,170,080,859	2,271,482,961	2,168,642,764
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		4,774,180,070	4,012,055,720	3,647,792,786	3,458,238,797

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

Legal representative: Ye Maixin

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 Standards and System)

FOR THE YEAR ENDED 31ST DECEMBER 2002

ITEMS	NOTE	<i>In RMB</i>			
		GROUP 2002	GROUP 2001	COMPANY 2002	COMPANY 2001
Revenue from operations	V29, VI3	2,828,438,025	2,215,239,270	1,110,491,564	857,234,032
Less: Cost of main operations	V29, VI4	(2,238,672,057)	(1,774,364,421)	(923,603,322)	(682,252,790)
Tax and levies on main operations	V30	(9,337,418)	(6,415,990)	(1,766,485)	(1,462,410)
Profit from main operations		580,428,550	434,458,859	185,121,757	173,518,832
Add: Profit from other operations	V31	43,273,371	8,476,098	36,107,077	5,691,629
Less: Selling expenses		(89,640,284)	(60,724,122)	(30,739,043)	(19,137,555)
General and administrative expenses		(336,807,750)	(229,626,298)	(107,584,295)	(77,079,638)
Financial expenses-net	V32	(27,788,252)	(5,611,997)	(20,249,084)	(1,607,954)
OPERATING PROFIT		169,465,635	146,972,540	62,656,412	81,385,314
Add: Income/(loss) from investment	V33, VI5	(559,349)	(522,983)	88,870,292	51,435,488
Subsidy income		694,245	483,701	—	—
Non-operating income		2,268,713	1,166,028	575,215	625,811
Less: Non-operating expenses		(11,734,245)	(3,477,317)	(4,304,196)	(2,735,715)
TOTAL PROFIT		160,134,999	144,621,969	147,797,723	130,710,898
Less: Income tax		(19,967,758)	(20,599,812)	(8,729,526)	(8,506,334)
Loss of minority shareholders		(2,482,098)	(1,134,139)	—	—
NET PROFIT		137,685,143	122,888,018	139,068,197	122,204,564

Supplementary Information

ITEMS	2002		2001	
	GROUP	COMPANY	GROUP	COMPANY
1. Profit/(Loss) from sale, disposal of a business unit or investments	(71,467)	(37,326)	—	—
2. Loss due to natural disaster	—	—	—	—
3. Increase/(decrease) in total profit/(loss) as a result of changes in accounting policies	—	—	—	—
4. Increase/(decrease) in total profit/(loss) as a result of changes in accounting estimates	—	—	—	—
5. Losses from debt restructuring	—	—	—	—
6. Other	—	—	—	—

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

Legal representative: Ye Maixin 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 Standards and System)

FOR THE YEAR ENDED 31ST DECEMBER 2002

ITEMS	<i>In RMB</i>			
	GROUP 2002	GROUP 2001	COMPANY 2002	COMPANY 2001
NET PROFIT	137,685,143	122,888,018	139,068,197	122,204,564
Add: Undistributed profit at the beginning of the year	164,689,415	112,853,577	192,927,591	131,391,941
Other transfers	—	—	—	—
DISTRIBUTABLE PROFIT	302,374,558	235,741,595	331,995,788	253,596,505
Less: Transfer to statutory surplus reserve	(22,200,716)	(17,412,090)	(13,906,820)	(12,220,457)
Transfer to statutory public welfare fund	(22,200,715)	(17,412,090)	(13,906,820)	(12,220,457)
Transfer to employee bonus and welfare fund	—	—	—	—
PROFIT AVAILABLE FOR DISTRIBUTION TO SHAREHOLDERS	257,973,127	200,917,415	304,182,148	229,155,591
Less: Dividend for preferred stock	—	—	—	—
Transfer to discretionary surplus fund	—	—	—	—
Dividend for common stock	(36,228,000)	(36,228,000)	(36,228,000)	(36,228,000)
Dividend for common stock transferred to shares	—	—	—	—
UNDISTRIBUTED PROFIT AT THE END OF YEAR	<u>221,745,127</u>	<u>164,689,415</u>	<u>267,954,148</u>	<u>192,927,591</u>

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

Legal representative: Ye Maixin

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 Standards and System)

FOR THE YEAR ENDED 31ST DECEMBER 2002

ITEMS	GROUP	<i>In RMB</i> COMPANY
1. Cash flows from operating activities		
Cash received from sales of goods or rendering of services	3,629,922,852	1,433,004,712
Refund of tax	2,562,849	2,562,849
Cash received relating to other operating activities	38,505,978	32,614,061
Sub-total of cash inflows	3,670,991,679	1,468,181,622
Cash paid for goods and services	(2,499,459,148)	(903,468,349)
Cash paid to and on behalf of employees	(315,968,675)	(115,423,735)
Payments of all types of taxes	(149,007,556)	(50,003,305)
Cash paid relating to other operating activities	(249,720,436)	(80,269,165)
Sub-total of cash outflows	(3,214,155,815)	(1,149,164,554)
Net cash from operating activities	456,835,864	319,017,068
2. Cash flows from investing activities		
Cash received from disposal of investments	120,056,009	120,200,394
Cash received from returns on investments	929,433	39,308,806
Net cash received from disposal of fixed assets, intangible assets and other long term assets	2,516,945	555,217
Cash received relating to other investing activities	19,145,933	15,938,776
Sub-total of cash inflows	142,648,320	176,003,193
Cash paid to acquire fixed assets, intangible assets and other long-term assets	(263,474,837)	(77,592,398)
Cash paid to acquire investments	(154,648,092)	(339,095,929)
Cash paid relating to other investing activities	(2,458,926)	(2,458,926)
Sub-total of cash outflows	(420,581,855)	(419,147,253)
Net cash from investing activities	(277,933,535)	(243,144,060)
3. Cash flows from financing activities		
Cash received from capital contribution	8,764,656	—
Including : Cash received from issuing shares to minority shareholders by subsidiaries	8,764,656	—
Cash received from borrowings	297,720,000	245,600,000
Cash received relating to other financing activities	—	—
Sub-total of cash inflows	306,484,656	245,600,000
Cash repayments of amounts borrowed	(784,063,000)	(619,088,000)
Cash payments for interest expenses and distribution of dividends or profits	(82,721,409)	(73,349,753)
Including : cash payments to minority shareholders for distribution of dividends or profits	—	—
Cash payments relating to other financing activities	—	—
Including : cash payments to minority shareholders for distribution of capital	—	—
Sub-total of cash outflows	(866,784,409)	(692,437,753)
Net cash from financing activities	(560,299,753)	(446,837,753)
4. Effect of foreign exchange rate changes on cash	11,063	—
5. Net decrease in cash and cash equivalents	(381,386,361)	(370,964,745)

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

Legal representative: Ye Maixin

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 Standards and System)

FOR THE YEAR ENDED 31ST DECEMBER 2002

ITEMS	GROUP	In RMB COMPANY
1. Reconciliation of Net Profit to Cash Flows from Operating Activities		
Net profit	137,685,143	139,068,197
Add: Share of profit by minority shareholders	2,482,098	—
Provision for assets impairment	28,286,239	5,222,042
Depreciation of fixed assets	68,248,663	35,831,950
Amortisation of intangible assets	3,022,726	2,388,612
Amortisation of long-term deferred expenses	884,697	249,995
Decrease in prepaid expenses (or deduct: increase)	1,347,448	1,196,566
Increase in accrued expenses (or deduct: decrease)	(1,470,516)	1,836,000
Loss on disposal of fixed assets, intangible assets and other long term assets (or deduct: gain)	155,830	(430,319)
Loss on disposal of fixed assets (or deduct: gain)	—	—
Financial expenses (or deduct: income)	27,788,252	20,249,084
Loss arising from investments (or deduct: gain)	(2,796,989)	(90,095,292)
Deferred tax credit (or deduct:debit)	—	—
Decrease in inventories (or deduct: increase)	(385,091,798)	(217,439,844)
Decrease in operating receivables (or deduct: increase)	(402,628,533)	(147,785,140)
Increase in operating payables (or deduct: decrease)	978,922,604	568,725,217
Others	—	—
Net cash flows from operating activities	456,835,864	319,017,068
2. Investing and financing activities that do not involve cash receipts and payments		
Conversion of debt into capital	—	—
Reclassification convertible bonds to be expired within one years as current liability	—	—
Fixed assets financed by finance leases	—	—
3. Net Increase in Cash and Cash Equivalents		
Cash at end of year	901,936,754	646,487,786
Less: Cash at beginning of year	(1,283,323,115)	(1,017,452,531)
Plus: Cash equivalents at end of year	—	—
Less: Cash equivalents at beginning of year	—	—
Net decrease in cash and cash equivalents	(381,386,361)	(370,964,745)

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

Legal representative: Ye Maixin

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 Standards and System)
(All amounts are stated in RMB Yuan unless otherwise stated)

I. COMPANY BACKGROUND

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 “holding company” and formerly known as China National Textile Machinery Corporation) as the sole promoter.

The Company was listed on the Stock Exchange of Hong Kong Limited with the issuance of 180,800,000 H shares during February 1996. In November 1996, the Company issued 23,000,000 A share, which included 10,000,000 employee shares, and 13,000,000 listed shares on Shenzhen Stock Exchange in December 1996. On 24th June 1997, the 10,000,000 employee shares were also listed and traded on Shenzhen Stock Exchange. On 26th May 2000, the Company issued an additional 180,000,000 A shares. Subsequent to this issuance, the total issued share of the Company amounted to 603,800,000 shares.

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

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

(a) Basis of preparation

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

(b) Accounting period

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

(c) Reporting currency

Renminbi (RMB) is used as its reporting currency. All amounts in the financial statements are stated in RMB Yuan.

(d) Basis of accounting and measurement bases

Accrual method is used as the basis 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 recorded at their acquired costs. Subsequently, if they are impaired, impairment provisions will be made accordingly.

(e) Foreign currency translation

Transactions in foreign currencies are translated into RMB 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 RMB at the exchange rates stipulated by the People’s Bank of China at the balance sheet date. Except for the capitalisation of foreign exchange differences in relation 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 difference.

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

(g) Cash and cash equivalents

For the purpose of the cash flow statement, cash refers to all cash on hand and deposits held at call with banks. Cash equivalents refer to short term, highly-liquid investments with maturity of not more than three months, which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purpose of the cash flow statement, cash with restricted usage, and time deposits with maturity in excess of three months, are not included as cash and cash equivalents.



Notes to the Accounts

(Prepared in accordance with the PRC Accounting Standards and System)

(All amounts are stated in RMB Yuan unless otherwise stated)

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

(h) Short term investments

Short term investments refer to highly liquid securities, futures and funds that have a maturity period of not more than a year. It is recorded at cost less declared dividend at the time of purchase. Apart from those dividends that have been recorded as receivable, dividends and interests received during the holding period are deducted against the investment cost. Securities are stated at the lower of cost or net realisable value. Provision for impairment is made on those investment whose net realisable value is lower than cost.

Entrusted loans refer to loans provided to other companies through intermediary financial institutions. 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 reversed. At year end, should there be evidence that the principle amount of the entrusted loan is higher than the collectible amount, provision is made for the difference.

(i) Receivables and provision for bad debts

Receivables refer to accounts receivable and other receivables.

The Group provides an allowance for bad debts.

Provision for bad debt are made based on the assessment of the receivables' collectibility. The Group does not make a provision for those debts that are considered as collectible, including those due from the holding company and related parties. As for those receivables which are guaranteed and collection is uncertain, the Group will set specific provisions against those balances assessed as uncollectible based on the actual circumstances and experiences. A general provision is then set against the remaining balance based on the aging using the respective percentages as tabulated below:

Aging	Ratio
Within 1 year	0%
Between 1-2 years	20%
Between 2-3 years	50%
Above 3 years	100%

For balances where there is evidence that they could not be recovered (e.g. the debtor has been liquidated, declared bankrupt, or is unable to meet its liabilities when they fall due, or is experiencing significant cash flow problems), then bad debt is recognised and the balances are written off again the provision.

(j) Inventories

Inventories include raw materials, work in progress, finished goods, and goods issued on instalment basis. Inventories are recorded at cost. The cost of raw materials used and the sale of finished goods are accounted for using the weighted average method. The cost of goods sold on instalment basis, when issued, is calculated based on the amount to be collected multiplied by the ratio of the cost of goods sold to instalment sales. Finished goods and work in process comprise material costs, direct labour and an appropriate allocation of all production overhead expenditures.

At period end, inventory is valued at the lower of cost and net realisable value. When the costs are higher than the net realisable value, provision for loss on realisation of inventories will be made. Net realisable value is the estimated selling price in the normal course of business less the estimated costs of completion and estimated costs necessary to conclude the sale.

(k) Long term investments

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

The cost of long term investment is accounted for based on actual payment made for the investment, or based on book value of non-monetary assets contributed plus related taxes. 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 over the financial and operational decisions, the equity method of accounting is adopted. For investment whose equity interests held by the Group 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 over the financial and operational decisions, the cost method of accounting is adopted.

When long term investments are accounted for using the equity method of accounting, the difference between the original investment cost and the Company's proportionate share of the net assets of the investee is accounted for as an "equity investment difference" and is amortised on a straight line basis over 10 years.

Long term investments which have been accounted for under the equity method include investments in subsidiaries, joint ventures and associated companies. Subsidiaries are those entities in which the Company owns directly or indirectly an interest of 50% or more of the voting right, or even if the voting rights is below 50% but the Company is able to make decision over the financial and operational policies and to obtain benefits from their operational activities. Joint ventures refer to entities in which the Company could exercise joint control with its joint venture partners. Associated companies refer to investees in which the Company could exercise significant influence.

Long term debt investments are recorded at cost of acquisition, less interest receivable. Interest income from long term investments is computed for each period.

Notes to the Accounts

(Prepared in accordance with the PRC Accounting Standards and System)
(All amounts are stated in RMB Yuan unless otherwise stated)

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

(l) Fixed assets and depreciation

Fixed assets refer to buildings, plant and other production related equipment held for production, leasing activities or operation of the Company and which have useful life of more than one year and relatively high value.

Fixed assets purchased or constructed were initially recorded at cost. Fixed assets being revalued during reorganisation of the Group are recorded at the revalued amount approved by the State Assets Management Bureau.

Depreciation of fixed assets is calculated on the straight-line method to write off the cost or revalued amount of the assets to their residual values over their estimated useful lives. When a provision for impairment loss has been made for a fixed asset, the depreciation rate and depreciation charge for the fixed assets are recalculated based on the asset's carrying amount and its remaining useful life.

Expenditure incurred for major reconstruction, expansion or improvement of fixed assets are capitalised, whilst those incurred for repair and maintenance are expensed when incurred.

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

	Estimated useful lives	Estimated residual value	Depreciation rate
Plant and buildings	9 – 50 years	5%	1.9% to 10.56%
Machinery and equipment	7 – 22 years	5%	4.32% to 13.57%
Motor vehicles	9 years	5%	10.56%

(m) Construction in progress

Construction in progress represents capital assets under construction or being installed and is stated at cost. Cost comprises construction cost and other direct costs, original cost of plant and equipment, installation costs, and interest accrued on specific borrowings to finance the projects during the construction period. Construction in progress is transferred to fixed assets account when it reaches the expectable usable condition.

(n) Borrowing costs

Interest, ancillary costs and exchange differences incurred in connection with specific borrowings obtained for the acquisition or construction of fixed assets are capitalised as cost of the assets when the capital expenditure and borrowing costs have been incurred and the activities that are necessary to enable the assets to reach their expected usable condition have commenced. Borrowing costs ceased to be capitalised when the construction in progress have reached their expected usable conditions. Borrowing costs are recognised as expenses thereafter.

Borrowing costs include interest calculated based on the weighted average cost of fixed assets purchased or constructed and the weighted average rate of related borrowings during the period. The amount of borrowing costs capitalised 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 include the land use rights, trademarks, patents, and softwares

– Land use rights

Land use rights are stated at cost and is amortised on a straight-line basis over 50 years.

Effective 1st January 2002, land use right purchased or obtained through payment of land transfer fees are initially recorded at cost and classified as intangible assets. When the land is being developed for the Company's use, the carrying value of the land use rights will be transferred to construction in progress account.

– Trademarks and patents

Trademarks and patents are stated at cost and is amortised on a straight-line basis over 10 years.

– Softwares

Softwares are stated at cost and is amortised on a straight-line basis over 5 years



Notes to the Accounts

(Prepared in accordance with the PRC Accounting Standards and System)

(All amounts are stated in RMB Yuan unless otherwise stated)

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

(p) Long term deferred expenses

Long term deferred expenses include those expenses which have been paid and will be amortised over one year (not including one year).

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

When there is no economic benefits to be received from the long term deferred expenses, the remaining amount of such item will be written off to the profit and loss account.

(q) Asset impairment

The recognition of impairment provisions against short-term investments, entrusted loans, receivables and loss on realisation of inventories are described in the respective accounting policies. When events or changes in circumstances indicate that the carrying value of other assets are higher than their recoverable amounts, then tests for impairment are undertaken. If the carrying amount is higher than the recoverable amount, then the excess is recognized as an impairment provision and taken into the profit and loss.

The recoverable amount of an individual asset item is the higher of its net selling price and its value in use. Net selling price is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, after deducting any direct incremental disposal costs. Value in use is the present value of estimated future cash flows expected to be derived from the continual use of an asset and from its disposal at the end of its useful life.

If indications that the impairment loss recognised for an asset in prior years no longer exist or have decreased, then the recoverable amount of the asset will be reassessed. The provision for asset impairment is then reversed accordingly to the extent of impairment loss being recognized in the previous years.

(r) Employee social security benefits

The Company and its subsidiaries participate in employee social security plans, including pension, housing and other welfare benefits, organised by the government authorities in accordance with relevant regulations. For medical insurance, Qingdao Hongda Textile Machinery Company Limited, Shenyang Hongda Textile Machinery Company Limited, Tianjin Hongda Textile Machinery Company Limited, Yichang Textile Machinery Company Limited, and Changde Textile Machinery Company Limited have participated in basic staff medical insurance policy organised by the local government authorities. The Company and the other subsidiaries are still implementing the existing medical insurance system, and have not participated in the new medical insurance policy as required by the local government authorities.

According to the relevant regulations, premium and welfare benefit contributions are remitted to the social welfare authorities and are calculated based on certain percentages of the total salary of employees, subject to certain ceilings. Contributions to the plans are charged to the profit and loss as incurred.

(s) Revenue recognition

Sales of goods

Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the customer, when the Company neither retains continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, when it is probable that the economic benefits associated with the transaction will flow to the enterprises and when the relevant amount of revenue and costs can be measured reliably.

In the case of instalment sales, revenue is recognized according to the terms specified in the contract.

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

Other revenues are recognised on the following bases:

Interest income – recognised on a time proportion basis on the amounts deposited or entrusted loan lent out and the effective yield

Subsidy income – when received.

Leasing income – recognised using the straight-line method over the lease term.

Notes to the Accounts

(Prepared in accordance with the PRC Accounting Standards and System)
(All amounts are stated in RMB Yuan unless otherwise stated)

(t) Income tax

The Group accounts for enterprise and local income tax using the tax payable method.

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

(u) Basis of preparation of consolidated financial statement

Consolidated financial statements, which includes the Company and all subsidiaries consolidated, 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.

The results of the subsidiaries are consolidated from the date when the Company has obtained control and likewise, they are no longer consolidated when the Company ceased control over them. All significant inter-company balances and transactions between the Company and its subsidiaries have been eliminated in the preparation of the consolidated financial statements. Minority interests in the consolidated financial statements represent the portion of the shareholders equity of the subsidiaries that are not owned by the Company.

III. TAXATION

The major taxes of the Group are listed as follows:

Category	Rate	Basis of tax computation
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 issued by the Management Committee of Shenyang New Technology Industry Zone on 28th September 1999, Shenyang Hongda Textile Machinery Company Limited enjoys the preferential tax rate of 15% for new technology enterprises in 2002.

Pursuant to the approval document issued by State Tax Bureau of Tianjin New Technology Industry Zone on 19th March 2001, Tianjin Hongda Textile Machinery Company Limited enjoys the preferential tax rate of 15% for new technology enterprises in 2002.

Pursuant to the approval document [2001] No. 62 issued by State Tax Bureau of Henan New Technology Industry Zone, Zhengzhou Hongda Textile Machinery Company Limited enjoys the preferential tax rate of 15% for new technology enterprises since 2001.

Pursuant to the approval document issued by Qingdao science and technology committee on 20th December 2000, Qingdao Hongda Textile Machinery Company Limited enjoys the preferential tax rate of 15% for new technology enterprises in 2002.

Pursuant to the approval document issued by Shanxi New Technology Industry Committee on 10th November 1997, Taiyuan Jingwei Textile Electrical Company Limited enjoys the preferential tax rate of 15% for new technology enterprises in 2002.

The applicable tax rate for all other subsidiaries is 33%.

IV. SUBSIDIARIES AND ASSOCIATED COMPANIES

The name, registered capital, main business, investment amount and percentage of investment in the subsidiaries and joint ventures are disclosed in note VII “Related party and related party transactions”.

On 1st April 2002, the Group acquired 95% and 64.38% equity interests in Changde Textile Machinery Company Limited (“Changde”), and Yichang Textile Machinery Company Limited (“Yichang”) respectively. The total consideration is 88,027,584. The net assets of the two companies as at the date of acquisition are 88,027,584.

During the extraordinary meeting of the Board of Directors held on 14th November 2002, it was resolved that the Company will acquire the remaining 35.62% interest in Yichang from its minority shareholder, Huarong Assets Management Company (“Huarong”) at a consideration of 22,800,000. The Company now holds 100% equity interest in Yichang and is in the process of converting Yichang to a branch.

The contribution to the results of the Company arising from the acquisition of the subsidiaries during the year is disclosed in note V (35).

**Notes to the Accounts**

(Prepared in accordance with the PRC Accounting Standards and System)
(All amounts are stated in RMB Yuan unless otherwise stated)

V NOTES TO THE FINANCIAL STATEMENTS**1. CASH**

	31st December 2002	31st December 2001
Cash in hand	531,758	278,888
Cash at bank	888,344,893	1,282,544,227
Include: Deposits in CTMC Finance Company	28,994,427	15,121,906
Other cash balances:		
– Other deposits	749,078	500,000
– Time deposits over three months	42,542,275	61,332,226
– Deposit of bank draft	23,025,823	–
– Deposit placed in security account	12,311,025	–
	<u>967,504,852</u>	<u>1,344,655,341</u>

Deposits in China National Textile Machinery Group (“CTMC”) Finance Company carry an interest rate of 1.44% per annum (2001: 1.71%).

Cash and bank balances at 31st December 2002 include foreign currencies as follows:

Type of foreign currencies	Foreign Currencies	Exchange rate	equivalent
USD	2,344,005	8.2773	19,402,033
HKD	21,314,068	1.0611	22,616,358
SFR	87,393	4.7022	410,939
EUR	14,500	8.6360	125,222
			<u>42,554,552</u>

For the purposes of the cash flow statement, cash and cash equivalents comprise the following:

	31st December 2002	31st December 2001
Cash	967,504,852	1,344,655,341
Less: Time deposits over three months	(42,542,275)	(61,332,226)
Restricted cash at bank	(23,025,823)	–
	<u>901,936,754</u>	<u>1,283,323,115</u>

2. SHORT TERM INVESTMENTS

	31st December 2001			31st December 2002
Investment cost				
Trading securities	28,515,083			28,892,784
Entrusted loans	93,000,000			–
Futures	1,537,623			51,385
Government bonds	–			21,015,000
Other bonds	–			20,764,173
Funds	–			6,470,000
Total	<u>123,052,706</u>			<u>77,193,342</u>
		Newly acquired subsidiaries	Addition	Write back
Provision				
Trading securities	(5,180,912)	(117,310)	(1,225,000)	4,411,306
Other bonds	–	–	(1,707,878)	–
Funds	–	–	(423,460)	–
	<u>(5,180,912)</u>	<u>(117,310)</u>	<u>(3,356,338)</u>	<u>4,411,306</u>
	<u>117,871,794</u>			<u>72,950,088</u>

Provision for trading securities and other bonds are made after comparing the cost and the closing price listed in the Shanghai Stock Exchange and Shenzhen Stock Exchange as at 31st December 2002.

Provision for investment in funds is made after comparing the cost and the net assets value announced on 31st December 2002.

Entrusted loans relate to loan to CTMC via CTMC Finance Company. The principal amount is 93,000,000 and it bears interest of 5.58% per annum, both of which have been settled during the year.

There is no significant restriction on the ability of the Group to realise its short-term investments as at 31 December 2002.

Notes to the Accounts

(Prepared in accordance with the PRC Accounting Standards and System)
(All amounts are stated in RMB Yuan unless otherwise stated)

V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. NOTES RECEIVABLE

The Group's notes receivable as at 31st December 2002 are bank drafts and these amount to 147,418,744 (2001: 62,407,426).

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

	31st December 2002	31st December 2001
– Due from Jingwei Group Company and its subsidiaries and associated companies	<u>1,774,000</u>	<u>–</u>

4. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

(1) Accounts receivable

	31st December 2002	31st December 2001
Accounts receivable	544,758,930	391,910,610
Less: Bad debt provision	<u>(87,044,684)</u>	<u>(62,575,772)</u>
	<u>457,714,246</u>	<u>329,334,838</u>

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

	31st December 2002			31st December 2001		
	Amount	%	Bad debt provision	Amount	%	Bad debt provision
Aging:						
Within 1 year	379,626,283	70	–	214,240,195	55	(2,424,497)
Within 1 to 2 years	55,136,332	10	(12,033,952)	77,083,620	20	(7,026,479)
Within 2 to 3 years	19,586,372	4	(7,876,235)	49,718,716	12	(17,117,529)
Over 3 years	90,409,943	16	(67,134,497)	50,868,079	13	(36,007,267)
	<u>544,758,930</u>	<u>100</u>	<u>(87,044,684)</u>	<u>391,910,610</u>	<u>100</u>	<u>(62,575,772)</u>

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

	31st December 2002	31st December 2001
– Due from the holding company	7,901,673	21,658,738
– Due from fellow subsidiaries	35,821,539	5,259,641
– Due from Jingwei Group Company and its subsidiaries and associated companies	<u>522,516</u>	<u>–</u>
	<u>44,245,728</u>	<u>26,918,379</u>

The five largest individual balance of accounts receivable at the year end amount to 134,584,140 and this accounts for 25% of the total accounts receivable.

The accounts receivable aged over 3 years included receivable from China Huayuan Group Company Limited, who is the Company's export agent. As both parties are re-negotiating the terms of the original contract, the Group has made a provision for bad debt based on the current negotiation situation.

**Notes to the Accounts**

(Prepared in accordance with the PRC Accounting Standards and System)
(All amounts are stated in RMB Yuan unless otherwise stated)

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

	31st December 2002	31st December 2001
Other receivables	271,071,463	155,667,436
Less: Bad debt provision	(3,721,396)	(1,084,812)
	<u>267,350,067</u>	<u>154,582,624</u>

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

	31st December 2002			31st December 2001		
	Amount	%	Bad debt provision	Amount	%	Bad debt provision
Ageing:						
Within 1 year	221,842,213	81	—	122,753,305	78	—
Within 1 to 2 years	36,014,869	13	(1,747,468)	26,343,012	17	—
Within 2 to 3 years	10,015,435	4	(127,800)	5,265,648	4	—
Over 3 years	3,198,946	2	(1,846,128)	1,305,471	1	(1,084,812)
	<u>271,071,463</u>	<u>100</u>	<u>(3,721,396)</u>	<u>155,667,436</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 2002	31st December 2001
– Due from the holding company	51,779,065	22,858,301
– Due from fellow subsidiaries	93,246,421	53,842,362
– Due from Jingwei Group Company and its subsidiaries and associated companies	37,778,346	3,516,327
	<u>182,803,832</u>	<u>80,216,990</u>

The five largest individual balance of other receivables at the year end amount to 154,082,718 and this accounts for 57% of the total other receivables.

No bad debt provision is made for balances with holding company and Jingwei Group Company with aging between 2 to 3 years and over 3 years.

5. ADVANCES TO SUPPLIERS

	31st December 2002		31st December 2001	
	Amount	%	Amount	%
Ageing:				
Within 1 year	204,507,404	91	90,175,830	86
Within 1 to 2 years	7,796,307	3	8,937,983	8
Within 2 to 3 years	7,920,986	4	2,060,376	2
Over 3 years	4,901,288	2	4,104,379	4
	<u>225,125,985</u>	<u>100</u>	<u>105,278,568</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 2002	31st December 2001
– Holding company	6,144,587	6,009,668
– Fellow subsidiaries	22,696,602	30,914,515
– Jingwei Group Company and its subsidiaries and associated companies	195,036	2,381,991
	<u>29,036,225</u>	<u>39,306,174</u>

Advance to suppliers with aging over one year includes balances due from the holding company and third parties. The related goods have been received and estimated amount has been recorded. The amounts have not been settled in the account as the related invoices have not been received yet.



Notes to the Accounts

(Prepared in accordance with the PRC Accounting Standards and System)
(All amounts are stated in RMB Yuan unless otherwise stated)

V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. INVENTORIES

	31st December 2001				31st December 2002
Goods in transit	1,665,410				8,157,080
Raw materials	184,750,053				241,522,743
Work in progress	243,900,369				346,115,721
Finished goods	470,950,537				729,297,117
Instalment goods	—				4,408,113
	<u>901,266,369</u>				<u>1,329,500,774</u>
Provision—					
		Newly acquired subsidiaries	Addition	Write back	
Raw materials	(4,811,276)	—	(1,240,737)	—	(6,052,013)
Work in progress	(2,712,054)	(656,000)	261,627	—	(3,106,427)
Finished goods	(8,177,520)	(3,414,546)	(3,853,885)	3,297,752	(12,148,199)
	<u>(15,700,850)</u>	<u>(4,070,546)</u>	<u>(4,832,995)</u>	<u>3,297,752</u>	<u>(21,306,639)</u>
	<u>885,565,519</u>				<u>1,308,194,135</u>

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

7. PREPAID EXPENSES

	1st January 2002	Newly acquired subsidiaries	Addition	Amortisation	31st December 2002
VAT input pending deduction	1,300,384	—	6,989,207	(8,281,586)	8,005
Heating fee	832,528	—	1,601,757	(1,472,263)	962,022
Others	1,333,862	612,355	2,700,457	(2,885,020)	1,761,654
	<u>3,466,774</u>	<u>612,355</u>	<u>11,291,421</u>	<u>(12,638,869)</u>	<u>2,731,681</u>

8. LONG TERM EQUITY INVESTMENT/LONG TERM DEBENTURE INVESTMENT

	1st January 2002 Balance	Newly acquired subsidiaries	Addition	Disposal	31st December 2002 Balance
Investment in associated companies (1)	64,564,679	—	4,377,881	(834,141)	68,108,419
Other equity investment	639,194	500,000	150,000	—	1,289,194
Consolidation difference (2)	(4,892,604)	—	587,194	34,162	(4,271,248)
Long term equity investment	<u>60,311,269</u>	<u>500,000</u>	<u>5,115,075</u>	<u>(799,979)</u>	<u>65,126,365</u>
Debenture	<u>209,600</u>	<u>—</u>	<u>—</u>	<u>(209,600)</u>	<u>—</u>
Long term debenture	<u>209,600</u>	<u>—</u>	<u>—</u>	<u>(209,600)</u>	<u>—</u>
Provision for long term equity investment	<u>—</u>	<u>(137,200)</u>	<u>—</u>	<u>—</u>	<u>(137,200)</u>
	<u>60,520,869</u>	<u>362,800</u>	<u>5,115,075</u>	<u>(1,009,579)</u>	<u>64,989,165</u>

There is no restriction on the realisation and remittance of the earnings of long term equity investments.

The provision of long term equity investments relates to investment of a newly acquired subsidiary in CTMC Finance Company. The original cost of the investment was 500,000, representing a 5% holding. As CTMC Finance Company is undergoing restructuring, the investment will be sold at a price of 362,800. Hence, a provision of 137,200 was made.



Notes to the Accounts

(Prepared in accordance with the PRC Accounting Standards and System)
(All amounts are stated in RMB Yuan unless otherwise stated)

V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. LONG TERM EQUITY INVESTMENT/LONG TERM DEBENTURE INVESTMENT (CONTINUED)

(1) Associated companies

Name of investee	Investment period	Equity Interest Held(%)		Investment Cost		Accumulated Equity Movement			Balance	
		1st	31st	1st	31st	1st	Movement	31st	1st	31st
		January	December	January	December	January	in equity	December	January	December
		2002	2002	2002	2002	2002		2002	2002	2002
Hongda Research Company Limited	2001 to 2101	40	40	20,000,000	20,000,000	(197,503)	726,558	529,055	19,802,497	20,529,055
Shenzhen Bolue Technology Investment Company Limited	2001 to 2031	40.94	40.94	35,000,000	35,000,000	828,041	-	828,041	35,828,041	35,828,041
Beijing Hongda Fangji Enterprise's Management Consulting Company Limited	2001 to 2021	47.37	47.37	1,800,000	1,800,000	-	(66,728)	(66,728)	1,800,000	1,733,272
Beijing Hongda International Trading Company Limited	2000 to 2010	20	20	6,000,000	6,000,000	-	55,107	55,107	6,000,000	6,055,107
Beijing Textile Machinery Automatic Control Technology Company Limited	2000 to 2030	40	-	800,000	-	34,141	(34,141)	-	834,141	-
Qingdao Jinyi Pressing and Casting Company Limited	2000 to 2010	24.39	24.39	300,000	300,000	-	60,000	60,000	300,000	360,000
Qingdao Jinshan City Company Limited	2002 to permanent	-	20	-	200,000	-	-	-	-	200,000
Qingdao Lanlifeng Laser Technology Company Limited	2002 to 2004	-	31.25	-	1,000,000	-	-	-	-	1,000,000
Qingdao Qingfeng Technology Company Limited	2002 to 2005	-	35.8	-	1,400,000	-	-	-	-	1,400,000
Shenyang Jingxing Textile Machinery Company Limited	2002 to 2022	-	31.25	-	1,000,000	-	2,944	2,944	-	1,002,944
				63,900,000	66,700,000	664,679	743,740	1,408,419	64,564,679	68,108,419

(2) Consolidation difference

In the course of assets exchange with holding company in 1999, there is a difference of 6,213,559 between the cost of the long term investment and the net assets of the acquired subsidiaries. This consolidation difference is amortised over a period of 10 years on a straight-line basis.

On 14th November 2002, the Company acquired the remaining equity interest of 35.62% in Yichang from its minority shareholder Huarong for a consideration of 22,800,000. The Company now holds 100% equity interest in Yichang. Subsequent to the acquisition, a difference of 587,194 arose between the cost of the long term investment in Yichang and the related net assets of Yichang. As the Company is in the process of converting Yichang to a branch, the investment difference is charged to the current year's profit and loss account.



Notes to the Accounts

(Prepared in accordance with the PRC Accounting Standards and System)
(All amounts are stated in RMB Yuan unless otherwise stated)

V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. FIXED ASSETS AND ACCUMULATED DEPRECIATION

	Buildings	Machinery and equipment	Motor vehicles	Total
Cost				
At 1st January 2002	181,299,133	769,422,916	35,475,559	986,197,608
Purchases from third parties	447,995	39,678,964	10,804,648	50,931,607
Newly acquired subsidiaries	120,695,473	176,683,227	11,103,122	308,481,822
Purchases from related parties	26,887,691	81,234,966	828,900	108,951,557
Transfer from CIP	340,572,361	49,616,094	3,038,106	393,226,561
Disposal to a related party	(6,097,292)	(26,674,124)	—	(32,771,416)
Other disposals	(2,482,863)	(19,484,279)	(5,388,450)	(27,355,592)
At 31st December 2002	661,322,498	1,070,477,764	55,861,885	1,787,662,147
Accumulated depreciation				
At 1st January 2002	35,899,396	400,952,438	9,942,379	446,794,213
Charge for the year	12,255,429	52,954,634	3,038,600	68,248,663
Newly acquired subsidiaries	74,939,067	143,807,697	7,255,417	226,002,181
Purchases from related parties	5,786,243	25,909,701	577,691	32,273,635
Disposal to a related party	(1,362,440)	(14,165,717)	—	(15,528,157)
Other disposals	(2,633,145)	(15,676,303)	(2,769,743)	(21,079,191)
At 31st December 2002	124,884,550	593,782,450	18,044,344	736,711,344
Net book value				
At 31st December 2002	536,437,948	476,695,314	37,817,541	1,050,950,803
At 31st December 2001	145,399,737	368,470,478	25,533,180	539,403,395

As at 31st December 2002, the net book value of fixed assets pledged amounted to 112,812,243 (2001: 37,355,091).

As at 31st December 2002, the net book value of leased fixed assets amounted to 353,121,940 (2001: 12,626,667).

Fixed Assets Impairment Provision

	Buildings	Machinery and equipment	Motor vehicles	Total
At 1st January 2002	—	(39,537,633)	—	(39,537,633)
Addition	—	(4,705,000)	—	(4,705,000)
Reversal	—	3,603,627	—	3,603,627
At 31st December 2002	—	(40,639,006)	—	(40,639,006)

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.

10. CONSTRUCTION SUPPLIES

	31st December 2002	31st December 2001
Special equipment	2,188,307	—
Prepayment for equipment	24,931,220	16,752,662
	<u>27,119,527</u>	<u>16,752,662</u>

**Notes to the Accounts**

(Prepared in accordance with the PRC Accounting Standards and System)
(All amounts are stated in RMB Yuan unless otherwise stated)

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

	Budget	1st January 2002	Addition	Newly acquired subsidiaries	Transfer to fixed assets	Disposal of chemical fibre business	Other disposal	31st December 2002	Source of capital	Project amount incurred as a percentage of budget(%)
Scientific research base	32,388,573	11,134,893	38,764,408	-	-	-	-	49,899,301	Proceeds from additional share issue	154
Assembly line	14,970,000	351,626	9,802,318	-	-	-	-	10,153,944	Proceeds from additional share issue	68
Nanhu development project	8,000,000	-	8,195,527	-	-	-	-	8,195,527	Proceeds from additional share issue	102
Science and technology center	22,000,000	-	6,393,254	-	-	-	-	6,393,254	Proceeds from additional share issue	29
35T boiler	5,000,000	3,994,015	1,899,930	-	-	-	-	5,893,945	Loan	118
CIMS project for Zhengzhou Hongda	10,000,000	-	2,870,952	-	(226,980)	-	-	2,643,972	Proceeds from additional share issue	26
Bobbin winders assembly factory	1,181,240	-	1,974,073	-	-	-	-	1,974,073	Loan	167
CIMS project for Tianjin Hongda	4,500,000	812,356	669,295	-	-	-	-	1,481,651	Proceeds from additional share issue	33
Investment property		322,294,900	13,122,040	-	(335,416,940)	-	-	-	Self financing and loan	
Laser cutting machine		4,393,608	-	-	(4,393,608)	-	-	-	Proceeds from additional share issue	
Taiwan machine tools		1,939,616	23,400	-	(1,963,016)	-	-	-	Proceeds from additional share issue	
Others		17,655,422	46,537,112	722,943	(51,226,017)	(125,024)	(4,110,197)	9,454,239		
Total		362,576,436	130,252,309	722,943	(393,226,561)	(125,024)	(4,110,197)	96,089,906		
Including: capitalised interest expense		2,606,580	552,267	-	(1,416,815)	-	-	1,742,032		

Notes:

- Others include projects less than 1,000,000.
- Construction in progress includes capitalised interest expense of 1,742,032 (2001: 2,606,580), capitalised interest rate ranges from 5.94% to 6.53%. (2001: 5.85% to 6.53%).

12. INTANGIBLE ASSETS

	Cost	1st January 2002	Addition for the year	Newly acquired subsidiaries	Transfer to fixed assets	Disposal of chemical fibre business	Amortisation for the year	31 December 2002	Remaining amortisation year	Acquisition method
Land use rights	132,729,854	65,812,136	1,965,940	63,073,066	(5,769,097)	(1,019,213)	(2,359,983)	121,702,849	44.34 to 49	Purchase
Trademark and patents	2,809,000	733,850	808,853	-	-	-	(267,750)	1,274,953	2.5 to 4.5	Purchase
Others	2,251,513	518,428	1,697,368	-	-	-	(394,993)	1,820,803	4.5	Purchase
Total	137,790,367	67,064,414	4,472,161	63,073,066	(5,769,097)	(1,019,213)	(3,022,726)	124,798,605		

Land use rights of the Group 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. Based on agreement signed with Taiyuan Land Administration Bureau, the land use rights are amortised on a straight line basis over 50 years, commencing on 27th January 1997. Based on land use rights agreement signed by a subsidiary of the Company with Shanghai Land Administration Bureau, the land use rights are amortised on a straight line basis over 50 years, commencing on 1st January 2001. As the land use rights was acquired from an associated company which was liquidated and injected into the subsidiary, the registration for the transfer of the land use rights is still in process. Based on agreements signed with Hunan province Land Administration Bureau, Yichang Land Administration Bureau and Liaoning Province Shenyang New Technology Industry Zone Committee, the land use rights are amortised on a straight-line basis over 50 years, commencing on 23rd December 2001 and 13th September 2001 and 18th June 2001 respectively.

Notes to the Accounts

(Prepared in accordance with the PRC Accounting Standards and System)
(All amounts are stated in RMB Yuan unless otherwise stated)

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

Pursuant to the reorganisation agreement, the Company acquired the trademark “Jingwei” and the related patents from Jingwei Plant for a consideration of 2,000,000. The trademark and patents are amortised on a straight-line basis over 10 years commencing on 15th August 1995. The Company acquired controlling techniques of roving machinery for a consideration of 800,000 and this will be amortised over 5 years on a straight line basis, starting from August 2002. PRO tricone software and CDA design software were acquired for a consideration of 1,000,000, and are amortised on a straight line basis over 5 years commencing on November and December 2002 respectively.

13. LONG TERM DEFERRED EXPENSES

	1st January 2002	Addition	Amortisation	31st December 2002	Remaining amortisation year
Renovation expenses	2,112,693	653,276	(884,697)	1,881,272	2 years

14. SHORT TERM LOANS

	31st December 2002	31st December 2001
Guaranteed	252,920,000	688,750,000
Unsecured	23,200,000	5,220,000
Secured	38,600,000	—
	<u>314,720,000</u>	<u>693,970,000</u>

The guarantors and the guaranteed amounts are as follows:

Guarantor	Loans guaranteed
Jingwei Machinery (Group) Company Limited	209,400,000
Zhengzhou Textile Machinery Plant	20,000,000
Jingwei Textile Machinery Company Limited	23,520,000
	<u>252,920,000</u>

As at 31st December 2002, the total amount of overdue loans were 12,000,000. It included the working capital loans of 5,000,000 (2001: 5,000,000) from China Textile Association, the interest rate of which is 6.39% (2001: 6.39%) per annum and the working capital loan of 7,000,000 (2001: Nil) from CTMC finance company, the interest rate is 6.44% (2001: Nil) per annum. The amount is not repaid as China Textile Association and CTMC finance company are still undergoing a restructuring exercise.

The above secured short term loans were mortgaged by buildings and machinery with net book values of 76,001,000.

15. NOTES PAYABLE

All the notes payables as at 31st December 2002 will be matured within the next financial year.

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

	31st December 2002	31st December 2001
Due to fellow subsidiaries	<u>—</u>	<u>1,100,000</u>

**Notes to the Accounts**

(Prepared in accordance with the PRC Accounting Standards and System)
(All amounts are stated in RMB Yuan unless otherwise stated)

V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**16. ACCOUNTS PAYABLE**

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

	31st December 2002	31st December 2001
Due to the holding company	345,124	803,492
Due to fellow subsidiaries	18,661,538	24,633,078
Due to Jingwei Group Company and its subsidiaries and associated companies	37,365,552	29,437,761
	<u>56,372,214</u>	<u>54,874,331</u>

17. ADVANCES FROM CUSTOMERS

Included in advances from customers are related companies as follows:

	31st December 2002	31st December 2001
Due to holding company	14,860,842	489,772
Due to fellow subsidiaries	43,019,171	24,745,021
Due to Jingwei Group Company and its subsidiaries and associated companies	28,162,004	—
	<u>86,042,017</u>	<u>25,234,793</u>

18. DIVIDENDS PAYABLE

	31st December 2002	31st December 2001
Due to the holding company	13,200,000	13,200,000
Due to A share investors	12,180,000	12,180,000
Due to H share investors	10,859,607	10,848,000
Due to minority shareholders	187,224	1,460,616
	<u>36,426,831</u>	<u>37,688,616</u>

19. TAXES PAYABLE

	31st December 2002	31st December 2001
Value added tax (recoverable)/payable	(2,420,880)	3,034,522
Business tax payable	776,945	39,431
City construction tax payable	1,030,537	501,841
Income tax payable	16,754,083	17,250,732
Others	677,500	140,332
	<u>16,818,185</u>	<u>20,966,858</u>

20. OTHER ACCRUALS

	31st December 2002	31st December 2001
Education fee levy	1,288,213	410,823
Others	26,005	31,790
	<u>1,314,218</u>	<u>442,613</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 Standards and System)
(All amounts are stated in RMB Yuan unless otherwise stated)

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 2002	31st December 2001
Due to the holding company	9,969,685	1,478,620
Due to fellow subsidiaries	5,831,559	—
	<u>15,801,244</u>	<u>1,478,620</u>

22. ACCRUED EXPENSES

	31st December 2002	31st December 2001
Interest expense	92,324	927,748
Audit fee	1,900,000	1,700,000
Trial expenses of bobbin winders	2,337,792	—
Agency fee for the disposal of chemical fibre business	1,000,000	—
Consultation expenses	580,000	—
Sales agent fees	821,987	—
Qingdao Hongda CIMS expenses	525,000	—
Others	440,007	417,972
	<u>7,697,110</u>	<u>3,045,720</u>

23. PORTION OF LONG TERM LIABILITY DUE WITHIN ONE YEAR

	Note	31st December 2002	31st December 2001
Guaranteed	(1)	10,620,000	26,000,000
Secured	(2)	3,588,000	3,588,000
		<u>14,208,000</u>	<u>29,588,000</u>

(1) The guarantors and the guaranteed amounts are as follows:

Name of banks	Amount	Maturity date	Annual Rate	Guarantor	Terms
Industrial & Commercial Bank	3,330,000	25th October 2003	5.94%	Jingwei Group Company	Guaranteed
Industrial & Commercial Bank	7,290,000	4th December 2003	5.94%	Jingwei Group Company	Guaranteed
	<u>10,620,000</u>				

(2) The above loans due within one year are secured by a mortgage of buildings with net book values of 36,811,243.

**Notes to the Accounts**

(Prepared in accordance with the PRC Accounting Standards and System)
(All amounts are stated in RMB Yuan unless otherwise stated)

V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**24. LONG TERM LOANS**

	Note	31st December 2002	31st December 2001
Guaranteed	(1)	55,800,000	79,620,000
Secured	(2)	9,867,000	13,455,000
		<u>65,667,000</u>	<u>93,075,000</u>

(1) The guarantors and the guaranteed amounts are as follows:

Name of banks	Amount	Maturity date	Annual Rate	Guarantor	Terms
Industrial & Commercial Bank	23,000,000	3rd September, 2004	5.94%	Jingwei Group Company	Guaranteed
Industrial & Commercial Bank	3,000,000	2nd April, 2004	5.94%	Jingwei Group Company	Guaranteed
China Construction Bank	7,000,000	12th November, 2004	5.94%	Jingwei Group Company	Guaranteed
China Construction Bank	22,800,000	29th May, 2005	5.49%	Jingwei Textile Machinery Company Limited	Guaranteed
	<u>55,800,000</u>				

(2) The above loans are secured by a mortgage of buildings with net book values of 36,811,243.

25. SHARE CAPITAL

	1st January 2002	Rights issue	Bonus issue	Placing	Shares transfer from reserve funds	Others	Sub-total	31st December 2002
Non-tradable share								
Promoter shares	220,000,000	-	-	-	-	-	-	220,000,000
Including:								
State-owned shares	-	-	-	-	-	-	-	-
Shares owned by domestic legal persons	220,000,000	-	-	-	-	-	-	220,000,000
Shares owned by foreign legal persons	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
Legal person shares	-	-	-	-	-	-	-	-
Employee shares	-	-	-	-	-	-	-	-
Preference shares and others	-	-	-	-	-	-	-	-
Including:	-	-	-	-	-	-	-	-
Bonus issue shares	-	-	-	-	-	-	-	-
Total of non-tradable shares	<u>220,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>220,000,000</u>
Listed shares								
Domestically listed domestic shares	203,000,000	-	-	-	-	-	-	203,000,000
Domestically listed foreign shares	-	-	-	-	-	-	-	-
Overseas listed foreign shares	180,800,000	-	-	-	-	-	-	180,800,000
Others	-	-	-	-	-	-	-	-
Total shares in market	<u>383,800,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>383,800,000</u>
Total number of shares in issue	<u>603,800,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>603,800,000</u>

Notes to the Accounts

(Prepared in accordance with the PRC Accounting Standards and System)
(All amounts are stated in RMB Yuan unless otherwise stated)

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

	1st January 2002	Addition	Deduction	31st December 2002
Share premium	1,247,954,114	—	—	1,247,954,114
Surplus on revaluation of assets	4,200,000	—	—	4,200,000
Total	1,252,154,114	—	—	1,252,154,114

27. SURPLUS RESERVE

	Statutory surplus fund	Discretionary surplus fund	Statutory public welfare	Total
Balance at 1st January 2002	60,809,621	27,763,047	60,809,621	149,382,289
Addition	22,200,716	—	22,200,715	44,401,431
Balance at 31st December 2002	83,010,337	27,763,047	83,010,336	193,783,720

- (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 the Articles of Association of respective companies comprising the Group, 10% of profit after taxation is required to be transferred to the statutory public welfare fund. The statutory public welfare fund can only be used for provision of collective benefits and facilities to the Group's employees and is non-distributable. When such kind of expenses are incurred, an equivalent amount is transferred from statutory public welfare fund to the discretionary surplus reserve and is accounted for either as an asset or an expense on an accrual basis.
- (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 Standards and System or prepared in accordance with accounting principles generally accepted in Hong Kong.

28. UNDISTRIBUTED PROFITS

Balance at 1st January 2002	167,936,262
Less: Retroactive adjustment of the housing allowance	(5,411,411)
Add: Retroactive adjustment to reserve fund relating to the housing allowance	2,164,564
Adjusted balance at 1st January 2002	164,689,415
Add: Net profit for the year	137,685,143
Less: Transfer to statutory surplus reserve	(22,200,716)
Transfer to statutory public welfare fund	(22,200,715)
Proposed dividends	(36,228,000)
Balance at 31st December 2002	221,745,127

According to Cai Kuai (2001) No. 5 Regulations Relating to the Accounting Treatment of Housing Reform issued by the Ministry of Finance, one of the subsidiaries of the Group provided a one-time housing allowance of 5,411,411 to those old employees who joined the Company before 31st December 1998 and do not have housing. This housing allowance has been recorded as a retroactive adjustment to retained earnings.

**Notes to the Accounts**

(Prepared in accordance with the PRC Accounting Standards and System)
(All amounts are stated in RMB Yuan unless otherwise stated)

V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**29. REVENUES FROM MAIN OPERATIONS AND COST OF MAIN OPERATIONS**

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.

	2002		2001	
Location	Sales revenue	Cost of goods sold	Sales revenue	Cost of goods sold
China	2,403,758,482	1,848,886,144	1,921,408,662	1,537,528,405
Africa	2,006,559	1,471,446	38,306,917	30,979,130
Asia	406,163,583	374,112,192	200,813,619	161,956,447
Others	16,509,401	14,202,275	54,710,072	43,900,439
Total	<u>2,828,438,025</u>	<u>2,238,672,057</u>	<u>2,215,239,270</u>	<u>1,774,364,421</u>

30. TAX AND LEVIES ON MAIN OPERATIONS

	2002	2001
Business tax	221,188	115,186
City construction tax	6,843,965	4,837,885
Education levy	2,272,265	1,462,919
Total	<u>9,337,418</u>	<u>6,415,990</u>

31. PROFITS FROM OTHER OPERATIONS

	2002	2001
Operating lease income	31,640,734	—
Sales of materials and others	7,015,384	5,331,283
Other	4,617,253	3,144,815
	<u>43,273,371</u>	<u>8,476,098</u>

32. FINANCIAL EXPENSES

	2002	2001
Interest expense	45,310,874	32,183,966
Less: Interest income	(19,049,535)	(27,331,784)
Exchange loss	61,188	11,829
Others	1,465,725	747,986
	<u>27,788,252</u>	<u>5,611,997</u>

Notes to the Accounts

(Prepared in accordance with the PRC Accounting Standards and System)
(All amounts are stated in RMB Yuan unless otherwise stated)

V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**33. INCOME/(LOSS) FROM INVESTMENT**

	2002	2001
Share of associated companies' income	743,740	1,238,682
Provision for short term investment loss	(3,356,338)	(5,180,912)
Amortisation of consolidation difference	34,162	621,356
Interest income from entrusted loans	1,297,350	1,000,000
Income from investment in futures	36,969	—
Other investment income	684,768	1,797,891
	<u>(559,349)</u>	<u>(522,983)</u>

As at 31st December 2002, there is no significant restriction on the remittance of earnings of the Group.

34. DISPOSAL OF CHEMICAL FIBRE MANUFACTORY PRODUCTION BUSINESS

As at 1st October 2002, the Company disposed the chemical fibre manufactory production business to its holding company. The disposal price is based on the appraised value of the disposed assets. The difference between the disposal price and the appraised value was charged to the current year's profit and loss account.

(1) Details of the transaction:

	As at 1st October 2002
Disposal price	29,072,261
Proceeds from sale	—
Cash paid in business sold	2,458,926
Non-cash assets: Inventory	88,573,114
Fixed assets-costs	32,771,416
Less: Accumulated depreciation	(15,528,157)
Construction in progress	125,014
Intangible assets	1,019,213
Other current assets	29,115,593
Liabilities: Short term loans	(50,000,000)
Accounts payable	(43,501,824)
Other current liability	(15,923,708)
Loss on disposal	<u>(37,326)</u>

(2) The effect on the operating result:

	January to September 2002
Sales revenue	104,099,345
Less: Cost of sales	(90,502,401)
Selling expenses	(3,186,809)
Financial expenses	(2,203,146)
General and administrative expenses	(8,524,714)
Non-operating expenses	(228,571)
Total loss	(546,296)
Income tax	—
Net loss	<u>(546,296)</u>

**Notes to the Accounts**

(Prepared in accordance with the PRC Accounting Standards and System)
(All amounts are stated in RMB Yuan unless otherwise stated)

V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**35. THE CASH FLOW RELATING TO THE ACQUISITION OF THE SUBSIDIARY COMPANIES**

On 1st April 2002, the Company acquired 95% and 64.38% equity interests in Changde and Yichang from its holding company. The purchase consideration is the share of equity interests multiplied the audited net assets as at 31st March 2002.

(1) Details of the transaction:

	Yichang Textile Machinery Company Limited As at 1st April 2002	Changde Textile Machinery Company Limited As at 1st April 2002	Total
Purchase consideration	40,147,682	47,879,902	88,027,584
Cash paid on acquisition	(40,147,682)	(47,879,902)	(88,027,584)
Cash received on acquisition of the subsidiaries	22,044,305	16,959,945	39,004,250
Non-cash assets: Inventory	76,661,388	54,281,539	130,942,927
Fixed assets-cost	149,105,819	159,376,003	308,481,822
Less: Accumulated depreciation	(111,487,919)	(114,514,262)	(226,002,181)
Long term investment	362,800	—	362,800
Intangible assets	38,231,107	24,841,959	63,073,066
Other current assets	25,409,258	38,931,087	64,340,345
Liability: Short term loans	(24,375,000)	(57,950,000)	(82,325,000)
Accounts payable	(19,071,085)	(10,920,515)	(29,991,600)
Other current liabilities	(84,520,185)	(60,605,859)	(145,126,044)
Long term loans	(10,000,000)	—	(10,000,000)
Minority interest	(22,212,806)	(2,519,995)	(24,732,801)

(2) Effect on the current operating result:

	The period from 1st April to 31st December 2002		
	Yichang Textile Machinery Company Limited	Changde Textile Machinery Company Limited	Total
Sales revenue	77,543,083	178,601,490	256,144,573
Less: Cost of sales	(52,137,365)	(108,667,263)	(160,804,628)
Sales tax	(162,937)	(1,372,040)	(1,534,977)
Selling expenses	(2,939,103)	(1,909,295)	(4,848,398)
Financial expenses	(2,442,490)	(3,236,640)	(5,679,130)
General and administrative expenses	(17,327,806)	(43,552,567)	(60,880,373)
Add: Other operating income	1,628,455	2,613,161	4,241,616
Non-operating income	66,692	1,120,772	1,187,464
Investment income	284,894	—	284,894
Subsidy income	69,271	—	69,271
Less: Non-operating expenses	(521,960)	(468,904)	(990,864)
Total profit	4,060,734	23,128,714	27,189,448
Income tax	—	(1,120,711)	(1,120,711)
Net profit	4,060,734	22,008,003	26,068,737

During the extraordinary meeting of the Board of Directors held on 14th November 2002, it was resolved that the Company will acquire the remaining 35.62% interest in Yichang from its minority shareholder, Huarong Assets Management Company at a consideration of 22,800,000. An investment difference of 587,194 arose between the cost of Huarong's investment in Yichang and the related net assets of Yichang. The Company now hold 100% equity interest in Yichang and is in the process of converting Yichang to a branch.

Notes to the Accounts

(Prepared in accordance with the PRC Accounting Standards and System)
(All amounts are stated in RMB Yuan unless otherwise stated)

VI NOTES TO FINANCIAL STATEMENTS – COMPANY

1. ACCOUNTS RECEIVABLES AND OTHER RECEIVABLES

(1) Accounts receivables

	31st December 2002			31st December 2001		
Accounts receivables			284,866,120			217,010,440
Less: bad debt provision			(14,846,527)			(19,500,360)
			<u>270,019,593</u>			<u>197,510,080</u>
	31st December 2002			31st December 2001		
Aging:	Amount	%	Provision	Amount	%	Provision
Within 1 year	204,616,616	72	–	120,835,574	56	–
1 to 2 years	42,945,588	15	(5,494,895)	38,135,331	18	–
2 to 3 years	6,701,548	2	(1,484,492)	30,261,637	14	(2,800,000)
Over 3 years	30,602,368	11	(7,867,140)	27,777,898	12	(16,700,360)
	<u>284,866,120</u>	<u>100</u>	<u>(14,846,527)</u>	<u>217,010,440</u>	<u>100</u>	<u>(19,500,360)</u>

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

	31st December 2002	31st December 2001
– Due from the holding company	226,954	21,460,558
– Due from fellow subsidiaries	33,597,974	–
– Due from Jingwei Group Company and its subsidiaries and associated companies	522,516	–
	<u>34,347,444</u>	<u>21,460,558</u>

The total amount of the five largest individual balance of accounts receivables is RMB134,584,140 and this accounts for 47% of the total accounts receivables balance.

The accounts receivables with aging of 1-2 years include the amounts due by subsidiaries and thus no bad debt provision is made.

The accounts receivables with aging over 3 years include the receivables from China Huayuan Group Company Limited, who is the Company's export agent. As both parties are re-negotiating the terms of the original contract, the Group has made a provision for bad debt based on the current negotiation situation.

(2) Other receivables

	31st December 2002			31st December 2001		
Other receivables			258,746,150			194,465,426
	31st December 2002			31st December 2001		
	Amount	%	Provision	Amount	%	Provision
Within 1 year	243,047,885	94	–	163,339,212	84	–
1 to 2 years	2,237,601	1	–	25,620,087	13	–
2 to 3 years	9,740,138	4	–	5,253,048	3	–
Over 3 years	3,720,526	1	–	253,079	–	–
	<u>258,746,150</u>	<u>100</u>	<u>–</u>	<u>194,465,426</u>	<u>100</u>	<u>–</u>

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

	31st December 2002	31st December 2001
– Due from the holding company	38,072,261	10,619,857
– Due from fellow subsidiaries	8,300,000	5,000,000
– Due from Jingwei Group Company and its subsidiaries and associated companies	37,778,346	3,516,327
	<u>84,150,607</u>	<u>19,136,184</u>

The total amount of the five largest individual balance of other receivables is 100,871,792 and this accounts for 39% of the total other receivables balance.

The other receivables accounts with aging 2-3 years or over 3 years include receivables from the holding company, Jingwei Group Company and its subsidiaries, hence, no bad debt provision is made.

**Notes to the Accounts**

(Prepared in accordance with the PRC Accounting Standards and System)

(All amounts are stated in RMB Yuan unless otherwise stated)

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

		1st January 2002	Addition	Disposal	31st December 2002
Investment in associated companies	(1)	61,630,538	781,665	–	62,412,203
Investment in subsidiaries	(2)	440,245,849	392,163,929	(3,968,311)	828,441,467
Investment Difference		(6,213,559)	587,194	1,355,117	(4,271,248)
Long term equity investments		<u>495,662,828</u>	<u>393,532,788</u>	<u>(2,613,194)</u>	<u>886,582,422</u>
Investment in debenture		209,600	–	(209,600)	–
Long term debenture investment		<u>209,600</u>	<u>–</u>	<u>(209,600)</u>	<u>–</u>

(1) Investment in associated companies

Name of investee	Investment period	Equity Inter est Held (%)		Investment Cost		Accumulated Equity Movement		Balance	
		1st	31st	1st	31st	1st	31st	1st	31st
		January 2002	December 2002	January 2002	December 2002	January 2002	Changes in equity 2002	January 2002	December 2002
Hongda Research Company Limited	2001 to 2101	40	40	20,000,000	20,000,000	(197,503)	726,558	19,802,497	20,529,055
Shenzhen Bolue Technology Co., Ltd.	2001 to 2031	40.94	40.94	35,000,000	35,000,000	828,041	–	35,828,041	35,828,041
Hongda International Trade Limited	2000 to 2010	20	20	6,000,000	6,000,000	–	55,107	6,000,000	6,055,107
				<u>61,000,000</u>	<u>61,000,000</u>	<u>630,338</u>	<u>781,665</u>	<u>61,630,538</u>	<u>62,412,203</u>

(2) Investment in subsidiaries

Name of investee	Investment period	Equity Inter est Held (%)		Investment Cost		Accumulated Equity Movement		Balance	
		1st	31st	1st	31st	1st	31st	1st	31st
		January 2002	December 2002	January 2002	December 2002	January 2002	Changes in equity 2002	January 2002	December 2002
Beijing Jingpeng Investment Management Company Limited	2001 to 2051	80	80	16,000,000	16,000,000	15,218	1,557,184	16,015,218	17,572,402
Jintu Information Technology Company Limited	2001 to 2031	58.9	58.9	30,000,000	30,000,000	(292,614)	(2,228,484)	29,707,386	27,478,902
Shanghai Chuangan Trade Company Limited	2001 to 2011	90	90	1,800,000	1,800,000	–	225,496	1,800,000	2,025,496
Hongkong Huaming Company Limited	2000 to 2030	100	100	4,966,416	4,966,416	2,450	(475,496)	4,968,866	4,493,370
Beijing Jingwei Textile Machinery New Technology Company Limited	2000 to 2050	98.4	98.4	98,407,084	98,407,084	(2,815,132)	4,235,382	95,591,952	99,827,334
Tianjin Hongda Textile Machinery Company Limited	1999 to 2009	98	98	24,202,600	71,390,523	20,541,127	13,912,162	34,453,289	44,743,727
Shenyang Hongda Textile Machinery Company Limited	1999 to 2009	98	98	44,598,465	81,742,695	(2,321,578)	7,506,574	5,184,996	42,276,887
Zhengzhou Hongda New Textile Machinery Company Limited	1999 to 2009	98	98	32,435,770	81,243,200	11,320,046	6,843,330	43,755,816	99,406,576
Qingdao Hongda Textile Machinery Company Limited	1999 to 2009	98	98	29,742,077	96,863,612	52,520,575	24,650,975	77,171,550	82,262,652
Yichang Textile Machinery Company Limited	2002 to 2052	–	100	–	62,360,488	–	4,060,734	4,060,734	–
Changde Textile Machinery Company Limited	2002 to 2012	–	95	–	47,879,902	–	20,953,638	20,953,638	–
Jinzhong Jingwei Ring Manufacturing Company Limited	1993 to 2003	98	98	500,000	500,000	362,170	22,627	384,797	862,170
Jingwei Textile Machinery Yuci Material Company	1996 to 2003	99.2	99.2	5,000,000	5,000,000	24,218	76,195	5,024,218	5,100,413
Taiyuan Jingwei Electrical Company Limited	1997 to 2047	98	98	9,412,000	9,412,000	(4,078,078)	559,603	(3,518,475)	5,333,922
Shanghai Jingwei Dongxing Blowing-Carding Machinery Company Limited	2001 to 2001	78	73.95	39,000,000	36,974,000	3,335,957	3,046,280	6,382,237	42,335,957
Shanxi Jingwei Computer Technology Development Company Limited	1995 to permanent	60	60	640,000	640,000	381,489	55,362	436,851	1,021,489
Ningbo Daxie Development Zone Wu Fang Hongda Company Limited	1999 to 2009	98	98	2,352,000	2,352,000	8,875,297	(5,955,331)	2,919,966	11,227,297
Shanghai Weixin Electrical & Machinery Company Limited	2000 to 2050	90	90	14,400,000	14,400,000	(1,081,708)	673,879	(407,829)	13,318,292
				<u>353,456,412</u>	<u>661,931,920</u>	<u>86,789,437</u>	<u>79,720,110</u>	<u>166,509,547</u>	<u>440,245,849</u>
									<u>828,441,467</u>

Notes to the Accounts

(Prepared in accordance with the PRC Accounting Standards and System)
(All amounts are stated in RMB Yuan unless otherwise stated)

VI NOTES TO FINANCIAL STATEMENTS – COMPANY (CONTINUED)**3. REVENUES FROM MAIN OPERATIONS**

	2002	2001
Mainland China	769,445,858	677,865,298
Africa	7,997	17,972,850
Asia	332,894,546	114,461,310
Other	8,143,163	46,934,574
	<u>1,110,491,564</u>	<u>857,234,032</u>

4. COST OF GOODS SOLD

	2002	2001
Mainland China	595,601,774	538,757,807
Africa	7,875	14,378,232
Asia	320,421,075	91,569,098
Other	7,572,598	37,547,653
	<u>923,603,322</u>	<u>682,252,790</u>

5. INCOME/(LOSS) FROM INVESTMENT

	2002	2001
Share of associated companies' income	781,665	833,269
Adjustment for the changes in the equity of subsidiaries and associated companies	86,709,766	52,777,473
Amortisation of investment difference	1,355,117	—
Provision for short term investment loss	(1,225,000)	(4,683,591)
Interest income from entrusted loans	1,297,350	1,000,000
Other investment income	(48,606)	1,508,337
	<u>88,870,292</u>	<u>51,435,488</u>

Up to 31st December 2002, there is no significant restriction on the remittance of the Company's investment income.

VII RELATED PARTY AND RELATED PARTY TRANSACTIONS**(1) Related party with controlling relationship**

Name	Registered Address	Main business	Relation with the Company	Nature or type	Legal representative
China National Textile Machinery (Group) Co., Ltd	PRC	Manufacturing and trading textile machinery	Holding company of the Company	Limited company	Zhang Jie
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	Guan Xuefeng
Taiyuan Jingwei Electrical Company Limited	PRC	Manufacture and sales of transformers and electrical components	Subsidiary	Limited company	Guan Xuefeng
Ningbo Daxie Development Zone 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

**Notes to the Accounts**

(Prepared in accordance with the PRC Accounting Standards and System)

(All amounts are stated in RMB Yuan unless otherwise stated)

VII RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)**(1) Related party with controlling relationship (continued)**

Name	Registered Address	Main business	Relation with the Company	Nature or type	Legal representative
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 Hongda New Textile Machinery Company Limited	PRC	Developing and manufacturing textile machinery and related components	Subsidiary	Limited company	Tang Qiwei
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
Shanghai Weixin Electrical & Machinery Company Limited	PRC	Textile machinery, automobile component and general machinery's developing and manufacturing	Subsidiary	Limited company	Ye Maoxin
Beijing Garden Automobile lease Company Limited	PRC	Leasing of automobile and construction tools	Subsidiary	Limited company	Lin Jianwang
Beijing Ximen Information Technology Company Limited	PRC	Manufacturing, wholesale and retail	Subsidiary	Limited company	Liu Shitong
Hong Kong Huaming Company Limited	HK	Imports and exports, general trading and consulting services	Subsidiary	Limited company	Ye Maoxin
Beijing Jingpeng Investment Management Company Limited	PRC	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	Subsidiary	Limited company	Ye Maoxin

Notes to the Accounts

(Prepared in accordance with the PRC Accounting Standards and System)

(All amounts are stated in RMB Yuan unless otherwise stated)

VII RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)**(1) Related party with controlling relationship (continued)**

Name	Registered Address	Main business	Relation with the Company	Nature or type	Legal representative
Jintu Information Technology Company Limited	PRC	Wholesale, retail and Consulting services	Subsidiary	Limited company	Ye Maoxin
Shanghai Chuangan Trade Company Limited	PRC	Trading sales of textile, electronic products, 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 Blowing-Carding Machinery Company Limited	PRC	Manufacturing and sales of blowing-carding machinery and related components	Subsidiary	Limited company	Guan Xuefeng
Changde Textile Machinery Company Limited	PRC	Manufacturing and trading of textile machinery and other machinery, powder metallurgy (regulated by the special regulations)	Subsidiary	Limited company	Ye Maoxin
Yichang Textile Machinery Company Limited	PRC	Manufacturing, trading and designing of textile machinery and special fittings	Subsidiary	Limited company	Ye Maoxin

**Notes to the Accounts**

(Prepared in accordance with the PRC Accounting Standards and System)

(All amounts are stated in RMB Yuan unless otherwise stated)

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	Increase	Decrease	Year end balance
China National Textile Machinery (Group) Co., Ltd	2,065,890,000	—	(510,621,000)	1,555,269,000
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 Development Zone and Wu Fang Hongda Company Limited	2,400,000	—	—	2,400,000
Qingdao Hongda Textile Machinery Company Limited	45,508,465	68,491,535	—	114,000,000
Tianjin Hongda Textile Machinery Company Limited	30,349,177	48,150,823	—	78,500,000
Zhengzhou Hongda New Textile Machinery Company Limited	24,696,500	49,803,500	—	74,500,000
Shenyang Hongda Textile Machinery Company Limited	33,097,770	37,902,230	—	71,000,000
Beijing Jingwei Textile Machinery New Technology Company Limited	100,000,000	—	—	100,000,000
Shanghai Weixin Electrical & Achinery 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 Dongxin Blowing-Carding Machinery Company Limited	50,000,000	—	—	50,000,000
Yichang Textile Machinery Company Limited	—	64,007,600	—	64,007,600
Changde Textile Machinery Company Limited	—	42,349,900	—	42,349,900

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

Name	Beginning balance amount	%	Increase	%	Decrease	%	Year end balance amount	%
China National Textile Machinery (Group) Co., Ltd	220,000,000	36.44	—	—	—	—	220,000,000	36.44

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

Notes to the Accounts

(Prepared in accordance with the PRC Accounting Standards and System)
(All amounts are stated in RMB Yuan unless otherwise stated)

VII RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

(5) Fellow subsidiaries in which the Company has no control:

Name of related party	Relation with the Company
Tianjin Textile Machinery Plant	Fellow subsidiaries
Jingwei Textile 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
Taicang Textile Machinery Plant	Fellow subsidiaries
Qingdao Textile Machinery Plant	Fellow subsidiaries
Zhengzhou Textile Machinery Company Limited	
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
Qingdao Textile Machinery Company Limited	Fellow subsidiaries
Qingdao Textile Machinery & Card Clothing Company Limited	Fellow subsidiaries
Qingdao Textile Machinery Jinhui Mould Company Limited	Fellow subsidiaries
Wuxi Special Parts Plant	Fellow subsidiaries
Shenyang Textile Machinery Spare Parts Sale Company	Fellow subsidiaries
Trading Committee of CTMC	Fellow subsidiaries
Shenyang Hongsheng Textile Machinery Company Limited	Fellow subsidiaries
Shenyang Jingxin Founding Company Limited	Fellow subsidiaries
China National Textile Machinery Group Sale Company	Fellow subsidiaries
Tianjin Textile Machinery Plant-Branch Plant	Fellow subsidiaries
Tianjintian Textile Machinery & Steel Products Transformation Company Limited	Fellow subsidiaries
Tianjintian Textile Machinery Heat-Treatment Company Limited	Fellow subsidiaries
Huangshi Textile Machinery Plant	Fellow subsidiaries
Luhuan Engineering Company Limited	Associated companies
Hongda International Trading Company Limited	Associated companies
China National Textile Machinery Group	
Beijing Automatic Technology Company Limited	Associated companies
Qingdao Jinyi Die-Casting Company Limited	Associated companies
Shenyang Jingxing Textile Machinery Company Limited	Associated companies

Related companies include the 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 companies other than Jingwei Group Company are collectively referred to as “fellow subsidiaries”.

**Notes to the Accounts**

(Prepared in accordance with the PRC Accounting Standards and System)

(All amounts are stated in RMB Yuan unless otherwise stated)

VII RELATED PARTY 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	NOTE	2002 Amount	2001 Amount
Sale of finished goods	(i)	11,275,583	8,486,385
Interest income	(i)	1,297,350	1,000,000
Purchase of raw materials and components	(i)	—	1,401,308
Bank loan guarantee in favour of the Company		—	16,000,000
Loans to CTMC		—	93,000,000
Disposal of chemical fibre business	(iv)	29,072,261	—
Purchase of subsidiary companies	(iii)	88,027,584	—
Transactions with Jingwei Group Company			
Sale of finished goods	(i)	37,751,348	—
Sale of raw materials and components	(i)	3,278,090	11,224,605
Fees received for the provision of supporting services	(i)	4,768,616	15,412,974
Purchase of tools and moulds	(i)	18,811,935	15,254,798
Purchase of raw materials and components	(i)	7,162,145	85,088
Processing fees paid	(i)	23,758,302	60,110,410
Fees paid for transportation services	(i)	3,139,152	3,704,930
Fees paid for repairs and maintenance services	(i)	28,194,223	11,645,809
Fees paid for other supporting services	(i)	14,539,116	14,285,717
Rental expenses	(i)	605,029	605,028
Bank loan guarantees in favour of the Company		253,020,000	533,300,000
Transactions with an associated company of Jingwei Group Company			
Purchase of raw materials and components	(i)	17,192,573	21,464,808
Transactions with other fellow subsidiaries			
Sale of finished goods	(i)	51,599,063	90,479,637
Sale of components and special parts	(i)	46,157,857	6,608,037
Processing fees received	(i)	384,631	439,743
Provision of services	(i)	275,610	300,000
Rental income	(i)	253,488	—
Interest income	(i)	—	8,964,540
Purchase of tools	(i)	15,187,634	7,820,864
Purchase of castings	(i)	106,835,812	87,207,717
Purchase of package	(i)	3,460,063	4,084,833
Purchase of energy	(i)	14,889,000	14,939,466
Purchase of raw materials and components	(i)	78,402,241	114,885,485
Processing fees paid	(i)	65,756,222	62,801,898
Transportation fee paid	(i)	5,771,343	—
Repairs and maintenance fee paid	(i)	2,231,389	—
Fees paid for other supporting services	(i)	9,714,680	9,140,767
Rental expenses	(i)	24,900,763	29,577,365
Rental fee for staff dormitory	(i)	249,141	—
Building maintenance fees paid	(i)	327,203	460,380
Bank loan guarantees in favour of the Group		20,000,000	24,600,000
Purchase of the fixed assets	(ii)	76,677,932	—

Notes:

- (i) The transactions were conducted in accordance with the composite service agreements entered into on 5th February 2002.
- (ii) The transactions have been carried out in accordance with the assets purchasing agreements entered into on 5th February 2002.
- (iii) The transactions have been carried out in accordance with the equity purchasing agreements entered into on 5th February 2002.
- (iv) The transactions have been carried out in accordance with the assets selling agreements entered into on 5th February 2002.

Notes to the Accounts

(Prepared in accordance with the PRC Accounting Standards and System)
(All amounts are stated in RMB Yuan unless otherwise stated)

VII RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

(6) Related party transactions (continued)

(b) Pricing policy

The terms of these transactions with related parties follow the composite service agreements entered into by the Group and its related parties.

The general pricing policy for the ongoing connected transactions:

The ongoing connected transactions are on normal commercial terms and conditions which is conducted based on fair negotiation. Pursuant to the composite service agreements, the prices which the Group charged or were being charged was determined on following basis:

- (i) the market price of the relevant services or products to be bought or supplied; or
- (ii) the cost (including administration and finance costs) of such services or products, if there is no readily available market price for the service or product; or
- (iii) the prices prescribed by the State; and the annual cost increase will not exceed the rate of increase in the relevant municipal households consumer price index.

The Company and its subsidiaries, namely, Zhengzhou Hongda New Textile Machinery Company Limited, Qingdao Hongda Textile Machinery Company Limited, Shenyang Hongda Textile Machinery Company Limited and Tianjin Hongda Textile Machinery Company Limited acquired the fixed assets from each of Jingwei Machinery (Group) Company Limited, Zhengzhou Textile Machinery Factory, Qingdao Textile Machinery Factory, Shenyang Textile Machinery Factory and Tianjin Textile Machinery Factory at the appraised net book value of 72,808,922. The original net book value was 47,786,742.

Zhengzhou Hongda New Textile Machinery Company Limited, a subsidiary of the Company, acquired assets from Zhengzhou Textile Machinery Factory at the market value of 3,869,010, whose net book value in Zhengzhou Textile Machinery Factory is 3,869,010.

VIII CONTINGENT LIABILITIES

	Company	
	31st December 2002	31st December 2001
Guarantees for bank loans of subsidiaries	<u>142,830,000</u>	<u>44,520,000</u>
	Group	
	31st December 2002	31st December 2001
Guarantees for bank loans of third party	60,000,000	15,000,000
Guarantees for bank loans of related parties	10,980,000	—
Guarantees for bank drafts of third party	<u>—</u>	<u>27,700,000</u>

One of the subsidiaries of the Group guaranteed a bank loan in favour of Zhengzhou Textile Machinery Factory. The Group does not foresee any significant financial impact arising from the above guarantee.

**Notes to the Accounts**

(Prepared in accordance with the PRC Accounting Standards and System)
(All amounts are stated in RMB Yuan unless otherwise stated)

IX CAPITAL AND LEASE COMMITMENTS**Capital commitments**

	31st December 2002	31st December 2001
Contracted but not provided for investment (note)	44,240,000	—
Contracted but not provided for others	47,450,000	13,958,312
	<u>91,690,000</u>	<u>13,958,312</u>

Note: During the year, the Company and its holding company and fellow subsidiaries entered into an agreement to set up two new companies – Wuxi Textile Technology Experiment Company Limited and Honda New Textile Manufacturing Technology Company Limited.

Lease commitments

	31st December 2002	31st December 2001
Lease in respect of land		
Within 1 year	2,045,103	1,915,430
2-5 years	8,180,412	7,661,720
5 years and above	5,480,903	7,340,778
	<u>15,706,418</u>	<u>16,917,928</u>

Lease in respect of a building

	31st December 2002	31st December 2001
Lease in respect of a building		
Within 1 year	1,669,691	15,593,406
2-5 years	5,468,706	50,655,855
5 years and above	1,064,662	46,360,785
	<u>8,203,059</u>	<u>112,610,046</u>

X SUBSEQUENT EVENT

Based on the meeting of the Board of Directors held on 26th March 2003, it was resolved that the Company will acquire 28% of the equity interests of 37,935,408 in Shanxi Heli Machinery Manufacturing Company Limited from Jingwei Group Company.

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.