

Chapter XIII Supplementary Information Provided by Management

(1) Difference reconciliation between financial statements under different GAAPs

Differences between the accounts prepared under the PRC Accounting Standards and System ("PRC GAAP") and these accounts prepared under Hong Kong Generally Accepted Accounting Principles ("HK GAAP") for the year ended 31st December 2002 are as follows:

	Profit attributable to shareholders For the year ended 31st December 2002		Net assets As at 31st December 2002	
	Group RMB'000	Company RMB'000	Group RMB'000	Company RMB'000
Prepared in accordance with PRC GAAP	137,685	139,068	2,271,549	2,271,483
Provision for housing allowances recognised in current year under HK GAAP	(5,411)	—	—	—
Equity accounting for the results and reserves of subsidiaries in the accounts of the Company prepared under PRC GAAP	—	(80,502)	—	(167,293)
Amortisation of negative goodwill not allowed under HK GAAP	—	—	(3,731)	(3,731)
Revaluation surplus on land use right under PRC GAAP	—	—	(4,200)	(4,200)
Surplus on revaluation over cost of investment property not recognised under PRC GAAP	—	—	4,583	4,583
Reversal of amortisation of revalued land use right under PRC GAAP	105	—	583	—
Reversal of depreciation for investment property not recognised under PRC GAAP	4,780	4,780	4,780	4,780
Capital reserve arising on consolidation under HK GAAP	—	—	9,946	—
Amortisation of long term investment difference over ten years under PRC GAAP	(621)	(1,942)	(1,942)	(1,942)
2002 proposed final dividends not recognised as dividend payable under HK GAAP	—	—	36,228	36,228
Others	198	(3)	—	—
Prepared in accordance with HK GAAP	<u>136,736</u>	<u>61,401</u>	<u>2,317,796</u>	<u>2,139,908</u>

The company's international auditor is PricewaterhouseCoopers, Hong Kong Certified Public Accountants.

(2) Fully diluted and weighted average return on equity (%) and earnings per share

Item	Profit for reporting period RMB'000	Return on equity (%)		Earnings per share (RMB)	
		Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from principal activities	580,429	25.55	25.92	0.96	0.96
Operating profit	169,466	7.46	7.57	0.28	0.28
Net profit	137,685	6.06	6.15	0.23	0.23
Net profit after extraordinary items	144,070	6.34	6.43	0.24	0.24

The above financial data are calculated as follows:

Calculating formulae of fully diluted return on equity (%) and earnings per share are as follows:

Fully diluted return on equity (%) = Profit for reporting period ÷ year-end equity

Fully diluted earnings per share = Profit for reporting period ÷ year-end number of shares

The formulae of the calculation of return on equity (ROE) on a weighted average basis is:

$$ROE = \frac{P}{E0 + NP \div 2 + E1 \times M1 + M0 - E2 \times M2 \div M0}$$

**(2) Fully diluted and weighted average return on equity (%) and earnings per share (continued)**

Of which: P is the profit of the reporting period; NP is the net profit of the reporting period; E0 is the net assets at the beginning of the reporting period; Ei is the increase in net assets arising from new issues of shares or conversions of loans into shares during the reporting period; Ej is the decrease in net assets arising from repurchases or cash distributions during the reporting period; M0 is the month of the reporting period; Mi is the number of remaining months immediately following the month of increase in net assets to the last month of the reporting period; Mj is the number of remaining months immediately following the month of decrease in net assets to the last month of the reporting period.

The formula for the calculation of earnings per share on a weighted average basis is:

$$\text{EPS} = \frac{P}{S0 + S1 + Si \times Mi \div M0 - Sj \times Mj \div M0}$$

Of which: P is the profit of the reporting period; S0 is the total number of shares at the beginning of the reporting period; S1 is the increase in the number of shares resulting from the increase in shareholdings by funds or stock dividends issue of shares; Si is the increase in the number of shares arising from new issues of shares or conversion of loans into shares during the reporting period; Sj is the decrease in the number of shares arising from repurchases or cash distributions during the reporting period; M0 is the month of the reporting period; Mi is the number of remaining months immediately following the month of increase in shares to the last month of the reporting period; Mj is the number of remaining months immediately following the month of decrease in shares to the last month of the reporting period.

(3) Breakdown of assets provision as at 31st December 2002

Item	1st January 2002		Addition		Reversal		In RMB 31st December 2002	
	Group	Company	Group	Company	Group	Company	Group	Company
1.Bad debt provision, total	63,660,584	19,500,360	38,172,922	1,997,042	11,067,426	6,650,875	90,766,080	14,846,527
Including: Accounts receivable	62,575,772	19,500,360	35,536,338	1,997,042	11,067,426	6,650,875	87,044,684	14,846,527
Other receivables	1,084,812	—	2,636,584	—	—	—	3,721,396	—
2.Provision for short-term investment, total	5,180,912	4,683,591	3,473,648	1,225,000	4,411,306	3,892,325	4,243,254	2,016,266
Including: Trading securities	5,180,912	4,683,591	1,342,310	1,225,000	4,411,306	3,892,325	2,111,916	2,016,266
Debenture investment	—	—	1,707,878	—	—	—	1,707,878	—
Fund investment	—	—	423,460	—	—	—	423,460	—
3.Provision for inventory, total	15,700,850	3,700,000	8,903,541	2,000,000	3,297,752	663,242	21,306,639	5,036,758
Including: Finished goods	8,177,520	3,700,000	7,268,431	2,000,000	3,297,752	663,242	12,148,199	5,036,758
Work in progress	2,712,054	—	394,373	—	—	—	3,106,427	—
Raw material	4,811,276	—	1,240,737	—	—	—	6,052,013	—
4.Provision for long-term investments, total	—	—	137,200	—	—	—	137,200	—
Including: Long-term equity investment	—	—	137,200	—	—	—	137,200	—
Long-term debenture investment	—	—	—	—	—	—	—	—
5.Provision for fixed assets, total	39,537,633	35,904,204	4,705,000	—	3,603,627	3,603,627	40,639,006	32,300,577
Including: Buildings	—	—	—	—	—	—	—	—
Equipments	39,537,633	35,904,204	4,705,000	—	3,603,627	3,603,627	40,639,006	32,300,577
6.Provision for intangible assets	—	—	—	—	—	—	—	—
Including: Patent	—	—	—	—	—	—	—	—
Trademark	—	—	—	—	—	—	—	—
7.Provision for CIP	—	—	—	—	—	—	—	—
8.Provision for consignment loans	—	—	—	—	—	—	—	—

Legal representative: Ye Maoxin

Person in charge of accounting function: Yao Yuming

Person in charge of accounting department: Mao Faqing

(4) Analysis of the financial statement items whose fluctuation is above 30%(including 30%), or accounts for more than 5%(including 5%) of the total assets at the balance sheet date of more than 10%(including 10%) of the current period's profit. The following analysis is not part of the financial statement. (Amount in RMB)

1. Cash of 967,504,000 decreased 28.05% compared with last year. The decrease is mainly due to the usage of proceed to invest in fixed assets.
2. Short-term investments of 72,950,000 decreased 38.11% compared with last year. The decrease is mainly due to the disposal of securities and receipt of entrusted loans.
3. Notes receivable of 147,418,000 increased 136.22% compared with last year. The increase is mainly due to the an increase in the bank drafts settlement and the scope of the consolidation.
4. Accounts receivable of 457,714,000 increased 38.98% compared with last year. The increase is mainly due to a lag in the collection of trade receivable and the increase in the trade receivable aged within one year.
5. Other receivables of 267,350,000, increased 72.95% compared with last year. The increase is mainly due to more entities being consolidated and receivables from the holding company and fellow subsidiaries.
6. Advance to suppliers of 225,126,000 increased 113.84% compared with last year. The main reason is due to one department of Beijing headquarter has not settled its installment payment for the purchase of equipment parts during the year.
7. Inventory of 1,308,194,000 increased 51.47% compared with last year. The increase is mainly due to more entities being consolidated coupled with the expansion in the production to increase the inventory on hand.
8. Fixed assets of 1,010,312,000 increased 102.12% compared with last year. The increase is mainly due to buildings transferred from construction in process.
9. Construction supplies of 27,120,000 increased 61.88% compared with last year. The increase is mainly due to advance payment for large-scale equipment.
10. Construction in process of 96,090,000 decreased 73.50% compared with last year. The decrease is mainly due to buildings transferred to fixed assets.
11. Intangible assets of 124,799,000 increased 86.09% compared with last year. The increase mainly represents the consolidation of land use rights of newly acquired subsidiaries.
12. Short-term loans of 314,720,000 decreased 54.65% compared with last year. The decrease is mainly due to the repayment of loans due.
13. Notes payable of 309,717,000 increased 263.95% compared with last year. The increase mainly represents new bank drafts due within one year.
14. Accounts payable of 543,454,000 decreased 90.61% compared with last year. The decrease is mainly due to the increase in the time taken to pay the suppliers.
15. Advances from customers of 923,485,000 increased 105.76% compared with last year. The main reason for the increase is that customers pay deposits and advance payments for equipments.
16. Accrued payroll of 3,196,000 increased 269.65% compared with last year. The increase is mainly due to the delay in payment of salary.
17. Welfare benefits payable of 36,068,000 increased 152.05% compared with last year. The increase is mainly due to more amount being accrued as a result of the increase in salaries while lesser amount was being used.



(4) Analysis of the financial statement items whose fluctuation is above 30%(including 30%), or accounts for more than 5%(including 5%) of the total assets at the balance sheet date of more than 10%(including 10%) of the current period's profit. The following analysis is not part of the financial statement. (Amount in RMB) (continued)

18. Other accruals of 1,314,000 increased 196.92% compared with last year. The increase mainly represents an increase in the education fee levy.
19. Other payables of 179,329,000 increased 112.98% compared with last year. The increase is mainly due to more entities being consolidated and increase in the unpaid non-operating payables.
20. Accrued expense of 7,697,000 increased 152.72% compared with last year. The increase is mainly due to an increase in the accrual of consultation expenses and experiment expenses.
21. Long-term loans due within one year of 14,208,000 decreased 51.98% compared with last year. The decrease is mainly due to the repayment of loans due and there is no additional loan.
22. Long-term loans of 65,667,000 decreased 29.45% compared with last year. The decrease is mainly due to the repayment of a portion of the long-term loans.
23. Minority interests of 50,531,000 increased 28.63% compared with last year. The increase is mainly due to the increase in the profits of the Company attributable to the minority interests as well as the acquisition of new subsidiaries.
24. Surplus reserve of 193,784,000 increased 27.87% compared with last year. The increase mainly represents the surplus reserve accrued during the current period.
25. Undistributed profits of 221,745,000 increased 32.04% compared with last year. The increase is mainly due to the addition of the current year's profit.
26. Revenue from main operations of 2,828,438,000 increased 27.68% compared with last year. The increase is mainly due to the consolidation of two newly acquired subsidiaries and the hefty increase in the sales of textile machineries.
27. Cost of main operations of 2,238,672,000 increased 26.17% compared with last year. This increase is consistent with the increase in sales.
28. Tax and levies on main operations of 9,337,000 increased 45.53% compared with last year. The increase is mainly due to the increase in VAT for the current period.
29. Profit from other operations of 43,273,000 increased 410.53% compared with last year. This is mainly attributable to the increase in rental income.
30. Selling expenses of 89,640,000 increased 47.62% compared with last year. This is mainly due to the increase in number of entities being consolidated as well as an increase in the exhibition expenditure and promotion expenses.
31. General and administrative expenses of 336,807,000 increased 46.68% compared with last year. This is mainly due to the increase in the number of entities being consolidated as well as an increase in the individual expenses, salaries and related expenses.
32. Finance expenses of 27,788,000 increased 395.16% compared with last year. This is mainly due to a decline in the interest income for the year.
33. Non-operating income of 2,269,000 increased 94.57% compared with last year. This is mainly due to the recognition of payables that no longer need to be repaid.
34. Non-operating expenses of 11,734,000 increased 237.45% compared with last year. This is mainly due to the increase in the provision for impairment of fixed assets.
35. Income tax of 19,967,000 decreased 3.07% compared with last year. This is mainly due to a refund in taxation in one of the subsidiaries.
36. Minority interests of 2,482,000 increased 118.85% compared with last year. This is due to an increase in the profit and hence profit attributable to minority interests has increased.