



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

Consolidated Profit and Loss Account

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

FOR THE YEAR ENDED 31ST DECEMBER 2002

	<i>Note</i>	2002 <i>RMB '000</i>	2001 <i>RMB '000</i>
Turnover	2	2,828,438	2,215,239
Cost of sales		(2,238,672)	(1,774,364)
Gross profit		589,766	440,875
Other revenues	2	48,363	6,743
Distribution expenses		(98,977)	(67,140)
Administrative expenses		(337,423)	(222,174)
Net other operating expenses		(16,662)	(51,125)
Operating profit	4	185,067	107,179
Net interest expenses	6	(26,261)	(3,852)
Share of profits less losses of associated companies		516	1,174
Profit before taxation		159,322	104,501
Taxation	7	(20,104)	(20,746)
Profit after taxation		139,218	83,755
Minority interests		(2,482)	(1,061)
Profit attributable to shareholders	8	136,736	82,694
Dividends	9	36,228	36,228
Basic earnings per share	10	<i>RMB</i> 0.23	<i>RMB</i> 0.14



Consolidated Balance Sheet

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

AS AT 31ST DECEMBER 2002

	Note	2002 RMB'000	2001 RMB'000
Non-current assets			
Intangible assets	12	3,096	1,250
Fixed assets	13	1,260,970	958,992
Investments in associated companies	15	68,108	64,954
Investment securities	16(a)	1,152	460
		<u>1,333,326</u>	<u>1,025,656</u>
Current assets			
Inventories	17	1,308,194	885,565
Trade and bills receivables	18	559,113	359,139
Prepayment to suppliers		196,090	65,972
Amount due from ultimate holding company	19	40,650	140,755
Amounts due from fellow subsidiaries	19	180,759	109,698
Deposits, other receivables and prepayments		89,161	81,030
Short-term investments	16(b)	72,950	24,872
Bank balances and cash	20		
– pledged		23,026	–
– unpledged		915,484	1,329,574
		<u>3,385,427</u>	<u>2,996,605</u>
Current liabilities			
Trade and bills payables	21	796,799	314,243
Advances from customers		837,443	423,590
Amounts due to fellow subsidiaries	19	74,512	50,478
Amount due to Jingwei Group Company	19	25,258	23,539
Other payables and accruals		212,001	103,040
Current portion of long-term bank loans	25	14,208	29,588
Taxation payable	22	16,818	20,967
Bank loans and overdrafts			
– secured		38,600	–
– unsecured		269,120	693,970
		<u>2,284,759</u>	<u>1,659,415</u>
Net current assets		<u>1,100,668</u>	<u>1,337,190</u>
Total assets less current liabilities		<u>2,433,994</u>	<u>2,362,846</u>
Financed by:			
Share capital	23	603,800	603,800
Reserves	24	1,677,768	1,590,371
Proposed final dividends	24	36,228	36,228
		<u>2,317,796</u>	<u>2,230,399</u>
Shareholders' funds			
Minority interests		50,531	39,372
Non-current liabilities			
Long-term bank loans	25	65,667	93,075
		<u>2,433,994</u>	<u>2,362,846</u>

Ye Maoxin
Director

Yao Yuming
Director

**Balance Sheet**

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

AS AT 31ST DECEMBER 2002

	<i>Note</i>	2002 <i>RMB '000</i>	2001 <i>RMB '000</i>
Non-current assets			
Intangible assets	12	1,153	725
Fixed assets	13	775,139	763,050
Investments in subsidiaries	14	843,802	515,814
Investments in associated companies	15	61,631	61,631
Investment securities	16(a)	—	210
		<u>1,681,725</u>	<u>1,341,430</u>
Current assets			
Inventories	17	633,522	506,656
Trade and bills receivables	18	255,436	176,899
Prepayment to suppliers		79,132	44,647
Amount due from ultimate holding company	19	37,348	130,367
Amounts due from fellow subsidiaries	19	59,771	39,258
Deposits, other receivables and prepayments		28,013	61,138
Short-term investments	16(b)	22,980	21,002
Bank balances and cash		631,448	1,002,413
		<u>1,747,650</u>	<u>1,982,380</u>
Current liabilities			
Trade and bills payables	21	492,583	171,136
Advances from customers		414,764	251,823
Amounts due to fellow subsidiaries	19	41,248	22,115
Amount due to Jingwei Group Company	19	25,258	23,539
Other payables and accruals		42,185	23,956
Current portion of long-term bank loans	25	14,208	23,588
Taxation payable	22	6,954	13,421
Bank loans and overdrafts, unsecured		209,400	583,300
		<u>1,246,600</u>	<u>1,112,878</u>
Net current assets		<u>501,050</u>	<u>869,502</u>
Total assets less current liabilities		<u>2,182,775</u>	<u>2,210,932</u>
Financed by:			
Share capital	23	603,800	603,800
Reserves	24	1,499,880	1,487,829
Proposed final dividends	24	36,228	36,228
Shareholders' funds		<u>2,139,908</u>	<u>2,127,857</u>
Non-current liabilities			
Long-term bank loans	25	42,867	83,075
		<u>2,182,775</u>	<u>2,210,932</u>

Ye Maoxin
DirectorYao Yuming
Director



Consolidated Statement of Changes in Equity

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

FOR THE YEAR ENDED 31ST DECEMBER 2002

		2002	2001
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total equity as at 1st January		<u>2,230,399</u>	<u>2,196,363</u>
(Deficit)/surplus on revaluation of investment property	24	(13,122)	17,705
Exchange differences arising on translation of the accounts of a foreign subsidiary	24	<u>11</u>	<u>55</u>
Net (losses)/gains not recognised in the profit and loss account		(13,111)	17,760
Profit for the year	24	136,736	82,694
Dividends	24	<u>(36,228)</u>	<u>(66,418)</u>
Total equity as at 31st December		<u><u>2,317,796</u></u>	<u><u>2,230,399</u></u>

**Consolidated Cash Flow Statement**

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

FOR THE YEAR ENDED 31ST DECEMBER 2002

	<i>Note</i>	2002 <i>RMB '000</i>	2001 <i>RMB '000</i>
OPERATING ACTIVITIES			
Net cash inflow generated from operations	29(a)	564,423	28,762
Interest received		19,050	28,332
Interest paid		(45,028)	(36,142)
PRC income tax paid		(20,465)	(18,297)
NET CASH INFLOW FROM OPERATING ACTIVITIES		517,980	2,655
INVESTING ACTIVITIES			
Establishment of associated companies		(3,600)	(56,826)
Investment income received		2,164	1,798
Purchase of intangible assets		(2,506)	(561)
Purchase of short-term investments and investment securities		(77,744)	(29,814)
Purchase of subsidiaries, net of cash acquired	29(d)	(71,824)	—
Purchase of fixed assets		(263,873)	(469,330)
Proceeds on sale of short-term investments and investment securities		26,775	646
Proceeds on sale of an associated company		800	—
Cash outflow arising from discontinuing operation, net of cash disposed	3	(2,459)	—
Proceeds on disposal of fixed assets		6,626	5,579
Decrease in time deposits with maturity more than three months		18,790	21,668
Increase in pledged bank balances		(23,026)	—
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(389,877)	(526,840)
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING		128,103	(524,185)
FINANCING ACTIVITIES			
Dividends paid		(36,228)	(66,418)
Dividends paid to minority shareholders		—	(1,460)
Capital contribution from minority shareholders		6,157	26,123
New bank loans		297,720	897,520
Repayment of bank loans		(791,063)	(592,087)
NET CASH (OUTFLOW)/INFLOW FROM FINANCING ACTIVITIES	29(b)	(523,414)	263,678
DECREASE IN CASH AND CASH EQUIVALENTS		(395,311)	(260,507)
CASH AND CASH EQUIVALENTS AT 1ST JANUARY		1,268,242	1,528,694
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		11	55
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER	29(c)	872,942	1,268,242

Notes to the Accounts

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

1 PRINCIPAL ACCOUNTING POLICIES

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

(a) Basis of preparation

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

In the current year, the Group adopted the following Statements of Standard Accounting Practice (the “SSAPs”) issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2002:

SSAP 1 (revised)	: Presentation of financial statements
SSAP 11 (revised)	: Foreign currency translation
SSAP 15 (revised)	: Cash flow statements
SSAP 33	: Discontinuing operations
SSAP 34 (revised)	: Employee benefits

The adoption of these SSAPs does not have material effect to the Group except for the changes in presentation of the cash flow statement for the year ended 31st December 2001 in accordance with the SSAP 15 (revised) and the presentation of consolidated statement of changes in equity for each of the years ended 31st December 2001 and 2002.

(b) Group accounting

(i) Consolidation

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

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power, has the power to govern the financial and operating policies, to appoint or remove the majority of the members of the board of directors, or to cast majority of votes at the meeting of the board of directors.

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

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

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group’s share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

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

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

(ii) Associated companies

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

The consolidated profit and loss account includes the Group’s share of the results of associated companies for the year, and the consolidated balance sheet includes the Group’s share of the net assets of the associated companies.

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



Notes to the Accounts

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

1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(b) Group accounting (continued)

(iii) Translation of foreign currencies

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

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

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

(c) Intangibles

(i) Goodwill

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

Goodwill on acquisitions occurring on or after 1st January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life.

Goodwill on acquisitions that occurred prior to 1st January 2001 was eliminated against reserves. Any impairment arising on such goodwill is accounted for in the profit and loss account.

(ii) Patents and trademark

Expenditure on acquired patents and trademarks is capitalised and amortised using the straight-line method over their useful lives of ten years. Patents and trademarks are carried in the balance sheet at its cost less any accumulated amortisation and any accumulated impairment losses..

(iii) Software

Expenditure on acquired software is capitalised and amortised using the straight-line method over their useful lives of five years.

(iv) Research and development costs

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

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

(v) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

Notes to the Accounts

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

1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(d) Fixed assets

(i) Investment properties

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

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

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

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

(ii) Construction in progress

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

(iii) Other fixed assets

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

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

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

(iv) Capitalisation of fixed assets

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

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

(v) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that other fixed assets and construction in progress are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

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



Notes to the Accounts

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

1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(e) Investments in securities

(i) Investment securities

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

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amount. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account.

This impairment loss is written back to profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist in the foreseeable future.

(ii) Short-term investments

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

(f) Inventories

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

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

(g) Accounts receivable

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

(h) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, time deposits with a maturity of three months or less from the date of placing deposit and bank overdrafts.

(i) Borrowing costs

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

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

(j) Operating leases

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

(k) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made by the Group for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

Notes to the Accounts

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

1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(k) Employee benefits (continued)

(ii) Bonus plans

The expected cost of bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(iii) Retirement benefit costs

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

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

(l) Provisions

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

(m) Contingent liabilities

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

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

(n) Deferred taxation

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

(o) Segment reporting

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

Unallocated costs represent operating expenses which cannot be identifiable to specific segment. Segment assets consists primarily of intangible assets, fixed assets, inventories, receivables and operating cash, and mainly exclude investments in securities and non-operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditures comprise additions to intangible assets and fixed assets, including additions resulting from acquisition through purchase of subsidiaries.

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

(p) Revenue recognition

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

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

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

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

**Notes to the Accounts**

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

2 TURNOVER, REVENUES AND SEGMENT INFORMATION

Turnover represents the value of goods sold, net of value added tax ("VAT"). VAT was accessed on the Group's sales at the statutory rate of 17% less deductible input VAT (2001: 17%).

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

	2002 <i>RMB '000</i>	2001 <i>RMB '000</i>
Turnover		
Sale of goods	2,828,438	2,215,239
Other revenues		
Gross rental income from investment property	31,640	—
Investment income	2,164	1,798
Sale of raw materials and others	14,559	4,945
	<u>48,363</u>	<u>6,743</u>
Total revenues	<u>2,876,801</u>	<u>2,221,982</u>

Primary reporting format— business segments

	Manufacture and sale of textile machinery 2002 <i>RMB '000</i>	Property investment 2002 <i>RMB '000</i>	Group 2002 <i>RMB '000</i>
Turnover	2,828,438	—	2,828,438
Segment results	170,157	30,350	200,507
Loss on disposal of discontinuing operation	38	—	38
Investment income			2,164
Unallocated costs			(17,642)
Operating profit			185,067
Net interest expenses			(26,261)
Share of profits less losses of associated companies	516	—	516
Profit before taxation			159,322
Taxation			(20,104)
Minority interests			(2,482)
Profit attributable to shareholders			<u>136,736</u>
Segment assets	3,764,830	340,000	4,104,830
Interests in associated companies	68,108	—	68,108
Unallocated assets			545,815
Total assets			<u>4,718,753</u>
Segment liabilities	1,946,013	—	1,946,013
Unallocated liabilities			404,413
Total liabilities			<u>2,350,426</u>
Capital expenditure	400,084	13,122	413,206
Depreciation	65,726	—	65,726
Amortisation charge	660	—	660
Impairment charge	4,705	—	4,705

No analysis on business segments for the year ended 31st December 2001 is presented as the Group engaged only in the manufacture and sale of textile machinery during that year.

Notes to the Accounts

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

2 TURNOVER, REVENUES AND SEGMENT INFORMATION (CONTINUED)**Secondary reporting format – geographical segments**

	Turnover		Segment results		Total assets		Capital expenditure	
	2002	2001	2002	2001	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
China	2,403,758	1,921,409	172,928	77,732	4,152,607	3,641,051	413,176	479,170
Other countries	424,680	293,830	27,617	42,954	20,331	15,878	30	38
	<u>2,828,438</u>	<u>2,215,239</u>	<u>200,545</u>	<u>120,686</u>	<u>4,172,938</u>	<u>3,656,929</u>	<u>413,206</u>	<u>479,208</u>
Investment income			2,164	1,798				
Unallocated costs			(17,642)	(15,305)				
Operating profit			<u>185,067</u>	<u>107,179</u>				
Unallocated assets					545,815	365,332		
Total assets					<u>4,718,753</u>	<u>4,022,261</u>		

3 DISCONTINUING OPERATIONS

The Group sold the chemical fibre machinery production business to its ultimate holding company on 1st October 2002. Such transaction is reported in these accounts as discontinuing operation. The sales, results and net assets of this segment were as follows:

	9 months to 30th September 2002 RMB'000
Turnover	104,099
Operating costs	<u>(102,443)</u>
Operating profit	1,656
Interest expenses	<u>(2,203)</u>
Loss for the period	<u>(547)</u>
	At 1st October 2002 RMB'000
Fixed assets	18,387
Current assets	<u>120,148</u>
Total assets	138,535
Total liabilities	<u>(109,425)</u>
Net assets	<u>29,110</u>
Net assets sold	29,110
Consideration	<u>29,072</u>
Loss on disposal of discontinuing operation	<u>38</u>
The net cash inflow on sale is determined as follows:	
Proceeds from sale (note)	—
Less: cash and cash equivalents in this business sold	<u>(2,459)</u>
Net cash outflow from disposal of discontinuing operation, net of cash disposed	<u>(2,459)</u>

The cash flow of this business is not presented as it is not material to the Group.

Note:

The consideration receivable was included in amount due from ultimate holding company.

**Notes to the Accounts**

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

4 OPERATING PROFIT

	2002 <i>RMB '000</i>	2001 <i>RMB '000</i>
Operating profit is stated after crediting and charging the following:		
<u>Crediting</u>		
Gain on disposal of fixed assets	—	653
<u>Charging</u>		
Amortisation of intangible assets (note 12)	660	236
Auditors' remuneration	2,680	2,400
Cost of inventories sold	2,238,672	1,774,364
Depreciation (note 13)	65,726	51,126
Loss on disposal of an associated company	26	—
Loss on disposal of fixed assets	156	—
Net exchange losses	61	12
Operating lease expenses— land and buildings	15,620	17,900
Outgoings in respect of an investment property	1,290	—
Provision for doubtful debts	15,392	16,232
Provision for impairment loss of fixed assets (included in net other operating expenses) (note 13)	4,705	39,538
Provision for inventories	4,833	11,385
Realised and unrealised loss on short-term investments	3,356	4,941
Repairs and maintenance expenses	48,978	26,636
Research and development costs	29,322	14,650
Staff costs, include directors and supervisors' emoluments (note 5)	320,124	216,704

5 STAFF COSTS

	2002 <i>RMB '000</i>	2001 <i>RMB '000</i>
Wages, salaries and other benefits	293,305	189,945
Retirement benefit costs	26,819	26,759
	320,124	216,704

The retirement benefit costs charged to the profit and loss account represent contributions payable by the Group to the retirement schemes totalling RMB26,819,000 (2001: RMB26,759,000), representing 24% (2001: 24%) on the aggregate amount of total salaries that participate in the retirement schemes.

At 31st December 2002, contributions totalling RMB5,916,000 (2001: RMB2,531,000) were payable to the retirement schemes and were included in other payables and accruals. There were no forfeited contributions utilised during the year or available at 31st December 2002 to reduce future contributions (2001: Nil).

6 NET INTEREST EXPENSES

	2002 <i>RMB '000</i>	2001 <i>RMB '000</i>
Interest income from banks and a fellow subsidiary	19,050	28,332
Interest expenses on bank loans wholly repayable within 5 years	45,863	36,142
Less: amounts capitalised as construction in progress (note)	(552)	(3,958)
	45,311	32,184
Net interest expenses	(26,261)	(3,852)

Note:

Interest was capitalised on loans borrowed to finance the construction of fixed assets at rates ranging from 5.940% to 6.534% (2001: 5.850% to 6.534%) per annum.

Notes to the Accounts

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

7 TAXATION

Hong Kong profits tax has not been provided as the Group had no taxable profits in Hong Kong for the year (2001: Nil). The Company and its subsidiaries are subject to PRC income tax on their taxable profits.

	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Company and subsidiaries		
– PRC taxation	19,968	20,600
Share of taxation attributable to associated companies	136	146
	<u>20,104</u>	<u>20,746</u>

In accordance with an approval document issued by the State Administration of Taxation of Shanxi Province on 28th September 1995, income tax rate of 15% (2001: 15%) is applicable to the Company during the year. The income tax rates of the Company's subsidiaries range from 15% to 33% (2001: 15% to 33%) and one of the Company's subsidiaries enjoys full tax exemption from 1999 to 2002. In addition, four other subsidiaries of the Company are subject to a preferential tax rate of 15% in 2002.

No deferred taxation has been accounted for during the year as there were no material timing differences (2001: Nil).

8 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of RMB61,401,000 (2001: RMB92,200,000).

9 DIVIDENDS

	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Proposed final dividend of RMB0.06 (2001: RMB0.06)		
– per domestic share	13,200	13,200
– per A share	12,180	12,180
– per H share	10,848	10,848
	<u>36,228</u>	<u>36,228</u>

At the board meeting held on 26th March 2003, the directors declared a final dividend of RMB0.06 per share. Such dividend is not reflected as dividend payable in the accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2003.

10 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of RMB136,736,000 (2001: RMB82,694,000) and the weighted average number of 603,800,000 (2001: 603,800,000) shares in issue during the year.

No diluted earnings per share is presented as the Group does not have any dilutive potential shares as at 31st December 2002 (2001: Nil).

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

	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Directors' emoluments		
Salaries and other benefits	565	167
Retirement benefit costs	18	44
	<u>583</u>	<u>211</u>
Supervisors' emoluments		
Salaries and other benefits	42	58
Bonuses	29	–
Retirement benefit costs	8	15
	<u>79</u>	<u>73</u>

The emoluments of the directors and supervisors were all within the band of Nil to RMB1,060,000, equivalent to Nil to HK\$1,000,000 (2001: Nil to RMB1,060,000).

None of the directors has waived the right to receive his emoluments (2001: Nil).

**Notes to the Accounts**

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

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

The five individuals whose emoluments were the highest in the Group for the year include three directors (2001: four), whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2001: remaining one) individuals are as follows:

	2002 <i>RMB '000</i>	2001 <i>RMB '000</i>
Salaries and other benefits	211	45
Retirement benefit costs	17	12
	<u>228</u>	<u>57</u>

The emoluments of the five highest paid individuals were all within the band of Nil to RMB1,060,000, equivalent to Nil to HK\$1,000,000 (2001: Nil to RMB1,060,000).

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

12 INTANGIBLE ASSETS

Group	Patent and trademark <i>RMB '000</i>	Software <i>RMB '000</i>	Total <i>RMB '000</i>
Cost			
At 1st January 2002	2,561	–	2,561
Additions	809	1,697	2,506
At 31st December 2002	<u>3,370</u>	<u>1,697</u>	<u>5,067</u>
Accumulated amortisation			
At 1st January 2002	1,311	–	1,311
Charge for the year	574	86	660
At 31st December 2002	<u>1,885</u>	<u>86</u>	<u>1,971</u>
Net book value			
At 31st December 2002	<u>1,485</u>	<u>1,611</u>	<u>3,096</u>
At 31st December 2001	<u>1,250</u>	<u>–</u>	<u>1,250</u>
Company	Patent and trademark <i>RMB '000</i>	Software <i>RMB '000</i>	Total <i>RMB '000</i>
Cost			
At 1st January 2002	2,000	–	2,000
Additions	–	697	697
At 31st December 2002	<u>2,000</u>	<u>697</u>	<u>2,697</u>
Accumulated amortisation			
At 1st January 2002	1,275	–	1,275
Charge for the year	200	69	269
At 31st December 2002	<u>1,475</u>	<u>69</u>	<u>1,544</u>
Net book value			
At 31st December 2002	<u>525</u>	<u>628</u>	<u>1,153</u>
At 31st December 2001	<u>725</u>	<u>–</u>	<u>725</u>



Notes to the Accounts

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

13 FIXED ASSETS

Group

	Construction in progress (note c) RMB'000	Investment property (notes a, b) RMB'000	Land and buildings (note b) RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost or valuation						
At 1st January 2002	57,035	340,000	250,533	769,490	35,409	1,452,467
Additions from:						
– related parties	–	–	26,887	81,235	829	108,951
– others	121,728	13,122	2,414	39,612	10,871	187,747
Acquisition of subsidiaries (note 29(d))	723	–	184,946	176,683	11,103	373,455
Transfer upon completion	(57,809)	–	5,155	49,616	3,038	–
Disposals to:						
– a related party (note 3)	(125)	–	(7,249)	(26,674)	–	(34,048)
– others	(4,110)	–	(2,483)	(19,484)	(5,388)	(31,465)
Revaluation (note 24)	–	(13,122)	–	–	–	(13,122)
At 31st December 2002	117,442	340,000	460,203	1,070,478	55,862	2,043,985
Accumulated depreciation and impairment losses						
At 1st January 2002	–	–	43,042	440,491	9,942	493,475
Charge for the year	–	–	9,733	52,955	3,038	65,726
Impairment loss (note 4)	–	–	–	4,705	–	4,705
Acquisition of subsidiaries (note 29(d))	–	–	76,117	143,807	7,256	227,180
Purchase from related parties	–	–	5,786	25,909	578	32,273
Disposals to:						
– a related party (note 3)	–	–	(1,495)	(14,166)	–	(15,661)
– others	–	–	(2,633)	(19,280)	(2,770)	(24,683)
At 31st December 2002	–	–	130,550	634,421	18,044	783,015
Net book value						
At 31st December 2002	117,442	340,000	329,653	436,057	37,818	1,260,970
At 31st December 2001	57,035	340,000	207,491	328,999	25,467	958,992

The analysis of the cost or valuation at 31st December 2002 and 2001 of the above is as follows:

	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At cost	117,442	–	460,203	1,070,478	55,862	1,703,985
At 2002 valuation	–	340,000	–	–	–	340,000
At 31st December 2002	117,442	340,000	460,203	1,070,478	55,862	2,043,985
At cost	57,035	–	250,533	769,490	35,409	1,112,467
At 2001 valuation	–	340,000	–	–	–	340,000
At 31st December 2001	57,035	340,000	250,533	769,490	35,409	1,452,467



Notes to the Accounts

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

13 FIXED ASSETS (CONTINUED)

Company

	Construction in progress (note c) RMB'000	Investment property (notes a ,b) RMB'000	Land and buildings (note b) RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost or valuation						
At 1st January 2002	32,247	340,000	223,297	447,902	18,198	1,061,644
Additions from:						
– a related party	–	–	–	38,266	–	38,266
– others	41,640	13,122	–	440	487	55,689
Transfer upon completion	(46,935)	–	3,519	40,397	3,019	–
Disposals to:						
– a related party (note 3)	(125)	–	(7,249)	(26,674)	–	(34,048)
– others	(216)	–	(1,727)	(14,611)	(2,501)	(19,055)
Revaluation (note 24)	–	(13,122)	–	–	–	(13,122)
At 31st December 2002	<u>26,611</u>	<u>340,000</u>	<u>217,840</u>	<u>485,720</u>	<u>19,203</u>	<u>1,089,374</u>
Accumulated depreciation and impairment losses						
At 1st January 2002	–	–	41,050	251,107	6,437	298,594
Charge for the year	–	–	5,261	26,018	874	32,153
Purchase from a related party	–	–	–	17,864	–	17,864
Disposals to:						
– a related party (note 3)	–	–	(1,495)	(14,166)	–	(15,661)
– others	–	–	(1,990)	(15,130)	(1,595)	(18,715)
At 31st December 2002	<u>–</u>	<u>–</u>	<u>42,826</u>	<u>265,693</u>	<u>5,716</u>	<u>314,235</u>
Net book value						
At 31st December 2002	<u>26,611</u>	<u>340,000</u>	<u>175,014</u>	<u>220,027</u>	<u>13,487</u>	<u>775,139</u>
At 31st December 2001	<u>32,247</u>	<u>340,000</u>	<u>182,247</u>	<u>196,795</u>	<u>11,761</u>	<u>763,050</u>

The analysis of the cost or valuation at 31st December 2002 and 2001 of the above is as follows:

	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At cost	26,611	–	217,840	485,720	19,203	749,374
At 2002 valuation	–	340,000	–	–	–	340,000
At 31st December 2002	<u>26,611</u>	<u>340,000</u>	<u>217,840</u>	<u>485,720</u>	<u>19,203</u>	<u>1,089,374</u>
At cost	32,247	–	223,297	447,902	18,198	721,644
At 2001 valuation	–	340,000	–	–	–	340,000
At 31st December 2001	<u>32,247</u>	<u>340,000</u>	<u>223,297</u>	<u>447,902</u>	<u>18,198</u>	<u>1,061,644</u>

Notes:

- Investment property was revalued by Greater China Appraisal Limited, an independent professional valuer, on the basis of its open market value as at 31st December 2002.
- All of the Group's land and buildings and investment property are located in the PRC with lease terms of between 10 to 50 years.
- At 31st December 2002, construction in progress comprises expenditure incurred, including interest expenses capitalised, on land and buildings, machinery and equipment and motor vehicles of the Group and the Company which have not yet been commissioned as at the balance sheet date.
- At 31st December 2002, the net book value of the Group's and the Company's fixed assets pledged as securities for the Group's and the Company's bank loans amounted to approximately RMB112,812,000 and RMB36,811,000 respectively (2001: RMB37,355,000 and RMB37,355,000 respectively).

Notes to the Accounts

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

14 INVESTMENTS IN SUBSIDIARIES

	2002 <i>RMB '000</i>	Company 2001 <i>RMB '000</i>
Unlisted investments, at cost	647,786	339,311
Amounts due from subsidiaries	196,016	176,503
	<u>843,802</u>	<u>515,814</u>

Amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayments.

Set out below are particulars of the subsidiaries at 31st December 2002.

Name of company	Date of establishment	Registered capital <i>RMB</i>	Percentage of equity interest held by the		Principal activities
			Group %	Company %	
Shanxi Jingwei Computer Technology Development Company Limited*	3rd November 1995	1,600,000	60	60	Distribution of computers and related services
Jinzhong Jingwei Ring Manufacturing Company Limited*	23rd November 1995	500,000	100	98	Manufacture of textile machinery components
Jingwei Textile Machinery Yuci Material Company Limited*	9th July 1996	5,000,000	100	99.2	Trading of furnace materials, metals, textile machinery component and charcoal
Taiyuan Jingwei Electrical Company Limited*	18th March 1997	5,000,000	100	98	Manufacturing and selling of transformers and electrical components
Ningbo Daxie and Develop Zone Wu Fang Hongda Limited*	22nd September 1999	2,400,000	100	98	Sale of textile machinery and related components
Qingdao Hongda Textile Machinery Company Limited	16th August 1999	114,000,000	98	98	Manufacturing, selling, repairing and leasing of textile machinery and related components
Tianjin Hongda Textile Machinery Company Limited	17th August 1999	78,500,000	98	98	Provision of technical consultancy services, sales of textile, photocopying, agriculture processing machinery and related components
Zhengzhou Hongda New Textile Machinery Company Limited	11th August 1999	74,500,000	98	98	Developing and manufacturing of textile machinery and related components
Shenyang Hongda Textile Machinery Company Limited	16th August 1999	71,000,000	98	98	Developing, manufacturing and processing of textile machinery and related components and provision of technical consultancy services
Changde Textile Machinery Company Limited (note a)	5th January 2002	42,349,900	95	95	Manufacturing and trading of textile machinery and other machinery, powder metallurgy (regulated by special regulations)
Yichang Textile Machinery Company Limited (note a)	4th January 2002	64,007,600	100	100	Manufacturing, trading and designing of textile machinery and special fittings

**Notes to the Accounts**

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

14 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of company	Date of establishment	Registered capital RMB	Percentage of equity interest held by the		Principal activities
			Group %	Company %	
Beijing Jingwei Textile New Technology Company Limited	2nd March 2000	100,000,000	98.4	98.4	Technical developing and manufacturing of textile machinery and computer software and hardware, sale of textile, industrial specialised machinery, agricultural machinery, instruments and panel and automobile components.
Shanghai Weixin Electrical and Machinery Company Limited*	30th June 2000	16,000,000	100	90	Textile machinery, automobile component and general machinery's developing and manufacturing
Beijing Jingpeng Investment Management Company Limited*	30th July 2001	20,000,000	95	80	Investment management, sales of electronic & chemical products (other than dangerous products), machinery, construction materials, wood, automotive parts, local products, fashion and exhibitions and provision of technology information
Jintu Information Technology Company Limited*	9th August 2001	50,920,000	58.9	58.9	Wholesale, retail and consulting services
Shanghai Chuangan Trade Company Limited*	29th September 2001	2,000,000	90	90	Trading of textile, electronic and chemical products (other than dangerous products), metal construction materials, wood cement, mining-related sub-products.
Hong Kong Huaming Company Limited*	31st December 2000	4,966,416	100	100	Imports and exports, general trading and consulting services
Shanghai Jingwei Dongxing Blowing-Carding Machinery Company Limited*	5th September 2001	50,000,000	83.95	73.95	Manufacturing and selling of blowing-carding machinery and related components
Beijing Garden Automobile Lease Company Limited*	21st April 1995	2,000,000	80	–	Leasing of automobile.
Beijing Ximen Information Technology Company Limited*	7th June 2001	6,600,000	50	–	Consulting services
Jinan Jin Hongda Textile Machinery Company Limited*	13th December 2001	5,000,000	94	–	Research of electronics and general machinery technology and production, consultation and services, processing and sale of textile industry equipment, switch control equipment, agriculture equipment, general equipment, component and parts

Notes to the Accounts

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

14 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Notes:

- (a) These subsidiaries were acquired during the year.

On 1st April 2002, the Group acquired from its ultimate holding company of 95% and 64.38% equity interests in Changde Textile Machinery Company Limited (“Changde”) and Yichang Textile Machinery Company Limited (“Yichang”) respectively, which are principally engaged in the manufacture of textile machinery and were established in the People’s Republic of China. The total purchase consideration was approximately RMB88,028,000.

In December 2002, the Group acquired from its ultimate holding company of the remaining 35.62% equity interest in Yichang at a consideration of RMB22,800,000 and Yichang became a wholly owned subsidiary of the Group since then.

The acquired subsidiaries contributed combined profit after tax of 24,968,000 to the Group for the period since acquisition. The aggregate net asset value of Changde and Yichang as at 31st December 2002 was approximately RMB138,829,000.

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

* These subsidiaries are not audited by PricewaterhouseCoopers, Hong Kong. The aggregate net assets of subsidiaries not audited by PricewaterhouseCoopers, Hong Kong amounted to approximately 5.55% (2001: 4.5%) of the Group’s total net assets.

15 INVESTMENTS IN ASSOCIATED COMPANIES

	Group	
	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted investments, at cost	66,700	63,926
Share of post-acquisition profits	1,408	1,028
Share of net assets	<u>68,108</u>	<u>64,954</u>
	Company	
	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted investments, at cost	<u>61,631</u>	<u>61,631</u>

**Notes to the Accounts**

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

15 INVESTMENTS IN ASSOCIATED COMPANIES (CONTINUED)

The following is a list of associated companies, all of which were established in the PRC, as at 31st December 2002.

Name of company	Date of establishment	Registered capital RMB	Attributable equity interest %	Principal activities
Beijing Hongda International Trading Company Limited	8th June 2000	30,000,000	20	Self and agent, trading import and export of commodities, technology transfer and entrepot trade
Qingdao Jinyi Pressing and Casting Company Limited	24th March 2000	1,250,000	24	Pressing and casting of non-ferrous metal. Design, manufacturing and sales of model.
Shenzhen Bolue Technology Investment Company Limited	11th April 2001	85,500,000	40.94	Investing, setting up and management of new enterprises and investment consultation
Hongda Research Company Limited	8th May 2001	50,000,000	40	Sale and development of environmental protective textile machine, office equipment, electronics and provision of technical support
Beijing Hongda Fangji Enterprise's Management Consulting Company Limited	24th September 2001	3,800,000	47.37	Provision of management consultation and corporate image services, technology research, transfer, training and consultation services, computer design, organisation of cultural activities and exhibitions
Qingdao Jinshan City Company Limited #	14th March 2002	1,000,000	20	Provision of accommodation, restaurant, hair and beauty care services, wholesale and retailing of drinks, wine, cigarettes and food
Qingdao Qingfeng Technology Company Limited #	9th May 2002	2,910,000	35.80	Development of carding and textile machinery, research on textile technique; design of module; development of electronic devices, computer software, etc
Qingdao Lanlifeng Laser Technology Company Limited #	9th August 2002	3,200,000	31.25	Manufacturing and trading of laser machine and equipment, digital control machinery; maintenance and related repair services.
Shenyang Jingxing Textile Machinery Company Limited #	5th June 2002	3,200,000	31.25	Manufacturing of textile machinery, spare parts and related components

These associated companies were newly established in 2002.

Notes to the Accounts

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

16 INVESTMENT SECURITIES**(a) Investment securities**

	Group		Company	
	2002	2001	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted government debentures and others, at cost	1,152	460	—	210

(b) Short-term investments

	Group		Company	
	2002	2001	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Equity securities, at fair value				
– listed outside Hong Kong	66,852	23,334	22,980	21,002
Open investment fund, at fair value				
– unlisted	6,047	—	—	—
Futures, at fair value				
– listed outside Hong Kong	51	1,538	—	—
	<u>72,950</u>	<u>24,872</u>	<u>22,980</u>	<u>21,002</u>
Market value of listed investments	<u>66,903</u>	<u>24,872</u>	<u>22,980</u>	<u>21,002</u>

17 INVENTORIES

	Group		Company	
	2002	2001	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	249,680	186,415	85,177	71,366
Work in progress	346,116	243,900	198,533	158,000
Finished goods	733,705	470,951	354,849	280,990
	<u>1,329,501</u>	<u>901,266</u>	<u>638,559</u>	<u>510,356</u>
Less: Provision	(21,307)	(15,701)	(5,037)	(3,700)
	<u>1,308,194</u>	<u>885,565</u>	<u>633,522</u>	<u>506,656</u>

At 31st December 2002, the carrying amount of inventories of the Group and Company that are carried at net realisable value amounted to approximately RMB52,333,000 (2001: RMB64,323,000) and RMB21,490,000 (2001: RMB33,249,000) respectively.

18 TRADE AND BILLS RECEIVABLES

	Group		Company	
	2002	2001	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade and bills receivables	646,158	422,799	270,283	196,399
Less: Provision	(87,045)	(63,660)	(14,847)	(19,500)
	<u>559,113</u>	<u>359,139</u>	<u>255,436</u>	<u>176,899</u>

At 31st December 2002, the ageing analysis of the gross trade and bills receivables were as follows:

	Group		Company	
	2002	2001	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Less than 1 year	481,026	245,128	190,033	100,224
1-2 years	55,136	77,084	42,946	38,135
2-3 years	19,586	49,719	6,702	30,262
Over 3 years	90,410	50,868	30,602	27,778
Total	<u>646,158</u>	<u>422,799</u>	<u>270,283</u>	<u>196,399</u>

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

**Notes to the Accounts**

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

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

The amount due from the ultimate holding company is unsecured, interest free and has no fixed terms of repayment. At 31st December 2001, except for a deposit of RMB93,000,000 which carried interest at a rate of approximately 5.58% per annum and was repayable in 2002, the remaining balances were unsecured, interest free and had no fixed terms of repayment.

The amounts with fellow subsidiaries are unsecured. Except for deposits of RMB28,994,000 (2001: RMB15,122,000) placed with China Textile Machinery Group Finance Company ("CTMGFC") which carry interest at a rate of 1.44% (2001: 1.71%) per annum and are repayable within one year, and the loan of RMB7,000,000 (2001: Nil) due to CTMGFC with interest at 6.44% (2001: Nil) per annum, all other balances with fellow subsidiaries are interest free and have no fixed terms of repayment.

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

20 BANK BALANCES AND CASH

Bank balances and cash as at 31st December 2002 of approximately RMB23,026,000 (2001: Nil) were fixed deposits pledged as collateral for the Group's short-term banking facilities.

21 TRADE AND BILLS PAYABLES

At 31st December 2002, the ageing analysis of the trade and bills payables were as follows:

	Group		Company	
	2002	2001	2002	2001
	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>
Less than 1 year	752,122	280,789	475,894	150,774
1-2 years	20,400	10,794	3,588	5,227
2-3 years	6,187	11,582	3,609	7,048
Over 3 years	18,090	11,078	9,492	8,087
Total	<u>796,799</u>	<u>314,243</u>	<u>492,583</u>	<u>171,136</u>

22 TAXATION RECOVERABLE/PAYABLE

	Group		Company	
	2002	2001	2002	2001
	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>
Income tax payable	16,754	17,251	12,835	12,221
Other taxes payable/(recoverable)	64	3,716	(5,881)	1,200
Net taxation payable	<u>16,818</u>	<u>20,967</u>	<u>6,954</u>	<u>13,421</u>

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

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

23 SHARE CAPITAL

	Registered, issued, and fully paid	
	No. of shares	RMB '000
Registered, issued and fully paid		
Domestic shares of RMB1.00 each	220,000,000	220,000
H shares of RMB1.00 each	180,800,000	180,800
A shares of RMB1.00 each	203,000,000	203,000
At 31st December 2001 and 2002	<u>603,800,000</u>	<u>603,800</u>

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



Notes to the Accounts

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

24 RESERVES

Group	Capital reserve RMB '000	Investment property revaluation reserve RMB '000	Statutory surplus reserve (note a) RMB '000	Statutory public welfare fund (note b) RMB '000	Discretionary surplus reserve RMB '000	Exchange difference RMB '000	Retained profit RMB '000	Total RMB '000
At 1st January 2001	1,249,865	–	44,483	44,483	27,764	–	225,968	1,592,563
Transfer from profit and loss account (notes a and b)	–	–	17,412	17,412	–	–	(34,824)	–
Surplus on revaluation of investment property	–	17,705	–	–	–	–	–	17,705
Exchange difference	–	–	–	–	–	55	–	55
2000 payment of final dividend	–	–	–	–	–	–	(66,418)	(66,418)
Profit for the year	–	–	–	–	–	–	82,694	82,694
At 31st December 2001	<u>1,249,865</u>	<u>17,705</u>	<u>61,895</u>	<u>61,895</u>	<u>27,764</u>	<u>55</u>	<u>207,420</u>	<u>1,626,599</u>
Representing:								
Reserves	1,249,865	17,705	61,895	61,895	27,764	55	171,192	1,590,371
2001 proposed final dividend	–	–	–	–	–	–	36,228	36,228
At 31st December 2001	<u>1,249,865</u>	<u>17,705</u>	<u>61,895</u>	<u>61,895</u>	<u>27,764</u>	<u>55</u>	<u>207,420</u>	<u>1,626,599</u>
Company and subsidiaries	1,249,865	17,705	61,895	61,895	27,764	55	206,392	1,625,571
Associated companies	–	–	–	–	–	–	1,028	1,028
At 31st December 2001	<u>1,249,865</u>	<u>17,705</u>	<u>61,895</u>	<u>61,895</u>	<u>27,764</u>	<u>55</u>	<u>207,420</u>	<u>1,626,599</u>
At 1st January 2002	1,249,865	17,705	61,895	61,895	27,764	55	207,420	1,626,599
Transfer from profit and loss account in respect of prior year (note d)	–	–	(1,086)	(1,086)	–	–	2,172	–
Transfer from profit and loss account (notes a and b)	–	–	22,201	22,201	–	–	(44,402)	–
Deficit on revaluation of investment property	–	(13,122)	–	–	–	–	–	(13,122)
Exchange difference	–	–	–	–	–	11	–	11
2001 payment of final dividend	–	–	–	–	–	–	(36,228)	(36,228)
Profit for the year	–	–	–	–	–	–	136,736	136,736
At 31st December 2002	<u>1,249,865</u>	<u>4,583</u>	<u>83,010</u>	<u>83,010</u>	<u>27,764</u>	<u>66</u>	<u>265,698</u>	<u>1,713,996</u>
Representing:								
Reserves	1,249,865	4,583	83,010	83,010	27,764	66	229,470	1,677,768
2002 proposed final dividend	–	–	–	–	–	–	36,228	36,228
At 31st December 2002	<u>1,249,865</u>	<u>4,583</u>	<u>83,010</u>	<u>83,010</u>	<u>27,764</u>	<u>66</u>	<u>265,698</u>	<u>1,713,996</u>
Company and subsidiaries	1,249,865	4,583	83,010	83,010	27,764	66	264,290	1,712,588
Associated companies	–	–	–	–	–	–	1,408	1,408
At 31st December 2002	<u>1,249,865</u>	<u>4,583</u>	<u>83,010</u>	<u>83,010</u>	<u>27,764</u>	<u>66</u>	<u>265,698</u>	<u>1,713,996</u>



Notes to the Accounts

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

24 RESERVES (CONTINUED)

Company	Capital reserve RMB'000	Investment property revaluation reserve RMB'000	Statutory surplus reserve (note a) RMB'000	Statutory public welfare fund (note b) RMB'000	Discretionary surplus reserve RMB'000	Retained profit RMB'000	Total RMB'000
At 1st January 2001	1,239,298	–	34,319	34,319	27,764	144,870	1,480,570
Transfer from profit and loss account (notes a and b)	–	–	12,220	12,220	–	(24,440)	–
Surplus on revaluation of investment property	–	17,705	–	–	–	–	17,705
2000 payment of final dividend	–	–	–	–	–	(66,418)	(66,418)
Profit for the year	–	–	–	–	–	92,200	92,200
At 31st December 2001	<u>1,239,298</u>	<u>17,705</u>	<u>46,539</u>	<u>46,539</u>	<u>27,764</u>	<u>146,212</u>	<u>1,524,057</u>
Representing:							
Reserves	1,239,298	17,705	46,539	46,539	27,764	109,984	1,487,829
2001 proposed final dividend	–	–	–	–	–	36,228	36,228
At 31st December 2001	<u>1,239,298</u>	<u>17,705</u>	<u>46,539</u>	<u>46,539</u>	<u>27,764</u>	<u>146,212</u>	<u>1,524,057</u>
At 1st January 2002	1,239,298	17,705	46,539	46,539	27,764	146,212	1,524,057
Transfer from profit and loss account in respect of prior year (note d)	–	–	(541)	(541)	–	1,082	–
Transfer from profit and loss account (notes a and b)	–	–	13,907	13,907	–	(27,814)	–
Deficit on revaluation of investment property	–	(13,122)	–	–	–	–	(13,122)
2001 payment of final dividend	–	–	–	–	–	(36,228)	(36,228)
Profit for the year	–	–	–	–	–	61,401	61,401
At 31st December 2002	<u>1,239,298</u>	<u>4,583</u>	<u>59,905</u>	<u>59,905</u>	<u>27,764</u>	<u>144,653</u>	<u>1,536,108</u>
Representing:							
Reserves	1,239,298	4,583	59,905	59,905	27,764	108,425	1,499,880
2002 proposed final dividend	–	–	–	–	–	36,228	36,228
At 31st December 2002	<u>1,239,298</u>	<u>4,583</u>	<u>59,905</u>	<u>59,905</u>	<u>27,764</u>	<u>144,653</u>	<u>1,536,108</u>

Notes:

- (a) According to the Articles of Association of respective companies comprising the Group, 10% of profit after taxation reported under PRC GAAP is required to be transferred to statutory surplus reserve until the statutory surplus reserve reaches 50% of the registered capital of the respective companies.
- (b) According to the Articles of Association of respective companies comprising the Group, 10% of profit after taxation reported under PRC GAAP 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 in the PRC 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 as an expense on an accrual basis.
- (c) At 31st December 2002, the distributable reserves of the Company amounted to RMB144,653,000 (2001: RMB146,212,000).
- (d) The transfer to statutory surplus reserve and statutory public welfare fund has been adjusted as a result of a prior year adjustment made to the accounts prepared in accordance with PRC GAAP for the year ended 31st December 2002 in respect of the Group's and the Company's profit for the year ended 31st December 2001.

Notes to the Accounts

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

25 LONG-TERM BANK LOANS

	Group		Company	
	2002	2001	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank loans wholly repayable within five years				
Unsecured	66,420	109,208	43,620	93,208
Secured	13,455	13,455	13,455	13,455
	<u>79,875</u>	<u>122,663</u>	<u>57,075</u>	<u>106,663</u>
Current portion of long-term bank loans	(14,208)	(29,588)	(14,208)	(23,588)
	<u>65,667</u>	<u>93,075</u>	<u>42,867</u>	<u>83,075</u>

At 31st December 2002, bank loans were repayable as follow:

	Group		Company	
	2002	2001	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	14,208	29,588	14,208	23,588
In the second year	36,588	—	36,588	—
In the third to fifth year	29,079	93,075	6,279	83,075
	<u>79,875</u>	<u>122,663</u>	<u>57,075</u>	<u>106,663</u>

26 COMMITMENTS**(a) Capital commitments**

	Group		Company	
	2002	2001	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Authorised but not contracted for				
Construction and equipment purchases	45,010	24,738	11,000	10,200
Contracted but not provided for				
Investments (note)	44,240	—	44,240	—
Construction and equipment purchases	47,450	13,958	23,000	3,580
	<u>91,690</u>	<u>13,958</u>	<u>67,240</u>	<u>3,580</u>
	<u>136,700</u>	<u>38,696</u>	<u>78,240</u>	<u>13,780</u>

Note:

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

**Notes to the Accounts**

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

26 COMMITMENTS (CONTINUED)**(b) Lease commitments**

At 31st December 2002, the Group and the Company had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group		Company	
	2002	2001	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Land and buildings				
Not later than one year	3,715	17,509	605	630
Later than one year and not later than five years	13,649	58,318	1,210	—
Later than five years	6,546	53,702	—	—
	<u>23,910</u>	<u>129,529</u>	<u>1,815</u>	<u>630</u>

At 31st December 2002, the Group and the Company had future aggregate minimum lease payments receivable under non-cancellable operating leases as follows:

	Group and Company	
	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
Investment property		
Not later than one year	<u>34,000</u>	<u>30,000</u>

27 CONTINGENT LIABILITIES

	Group		Company	
	2002	2001	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Guarantees for bank loans of third party	60,000	15,000		
Guarantees for bank loans of related parties	10,980	—		
Guarantees for bank bills of third parties	—	27,700		
	<u>70,980</u>	<u>42,700</u>		
			2002	2001
			<i>RMB'000</i>	<i>RMB'000</i>
Guarantees for bank loans and overdraft of subsidiaries			<u>142,830</u>	<u>44,520</u>

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

Notes to the Accounts

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

28 RELATED PARTY TRANSACTIONS

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

		2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Transactions with China National Textile Machinery (Group) Limited ("CTMC")			
Sale of finished goods	(i)	11,276	8,486
Interest Income	(i)	1,297	1,000
Purchase of raw materials and components	(i)	—	1,401
Bank loan guarantee in favour of the Company	(iii)	<u>—</u>	<u>16,000</u>
Transactions with a fellow subsidiary Jingwei Machinery (Group) Company Limited ("Jingwei Group Company")			
Sale of finished goods	(i)	37,751	—
Sale of raw materials and components	(i)	3,728	11,225
Fees received for the provision of supporting services	(i)	4,769	15,413
Purchase of tools	(i)	18,812	15,255
Purchase of raw materials and components	(i)	7,162	85
Fees paid for processing services	(i)	23,758	60,110
Fees paid for transportation services	(i)	3,139	3,705
Fees paid for repairs and maintenance services	(i)	28,194	11,646
Fees paid for other supporting services	(i)	14,539	14,286
Rental expense	(i)	605	605
Bank loan guarantee in favour of the Company	(iii)	<u>253,020</u>	<u>533,300</u>
Transactions with associated companies of Jingwei Group Company			
Purchase of raw materials and components	(i)	<u>17,193</u>	<u>21,465</u>
Transactions with other fellow subsidiaries			
Sale of finished goods	(i)	51,599	90,480
Sale of raw materials and spare parts	(i)	46,158	6,608
Fees received for processing services	(i)	385	440
Fees received for the provision of supporting services	(i)	276	300
Rental income	(i)	253	—
Interest income	(i)	—	8,965
Purchase of tools	(i)	15,188	7,821
Purchase of casts	(i)	106,836	87,208
Purchase of package materials	(i)	3,460	4,085
Purchase of energy	(i)	14,889	14,939
Purchase of raw materials and spare parts	(i)	78,402	114,885
Fees paid for processing service	(i)	65,756	62,802
Fees paid for transportation	(i)	5,771	—
Fees paid for the provision of supporting services	(i)	2,231	—
Fees paid for other supporting services	(i)	9,715	9,141
Rental expenses	(i)	24,901	29,577
Rental fee for staff dormitory	(i)	249	—
Estate administration expenses	(i)	327	460
Bank loan guarantee in favour of the Group	(iii)	20,000	24,600
Purchase of fixed assets from related parties	(ii)	<u>76,678</u>	<u>—</u>

Notes:

- (i) The transactions carried out in 2002 were conducted in accordance with the composite service agreement dated 5th February 2002 while transactions carried out in 2001 were conducted in accordance with the agreement entered into at the time of reorganisation and composite service agreements in connection with the assets exchange agreement dated at 15th August 1995 and 15th November 1999 respectively.
- (ii) The transactions have been carried out in accordance with the assets purchasing agreement entered into on 5th February 2002.
- (iii) Bank loan guarantee granted by CTMC, Jingwei Group Company and other fellow subsidiaries in favour of the Company and the Group were executed in accordance with the related guarantee agreements.

**Notes to the Accounts**

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

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

	2002	2001
	<i>RMB '000</i>	<i>RMB '000</i>
Operating profit	185,067	107,179
Depreciation	65,726	51,126
Loss/(gain) on disposal of fixed assets	156	(653)
Amortisation of intangible assets	660	236
Loss on disposal of an associated company	26	—
Loss on disposal of discontinuing operation	38	—
Goodwill charged to profit and loss account	587	—
Realised and unrealised losses on short-term investments	3,356	4,941
Investment income	(2,164)	(1,798)
Provision for impairment loss of fixed assets	4,705	39,538
Operating profit before working capital changes	258,157	200,569
Increase in inventories	(380,258)	(4,184)
Increase in trade and bills receivables, deposits, other receivables and prepayments	(304,516)	(26,554)
Decrease/(increase) in amount due from ultimate holding company	129,177	(111,372)
Increase in amounts due from fellow subsidiaries	(71,061)	(35,737)
Increase/(decrease) in trade and bills payables, other payables and accruals and advances from customers	921,534	(42,643)
Increase in amount due to Jingwei Group Company	1,719	11,997
Increase in amounts due to fellow subsidiaries	24,034	15,981
(Decrease)/increase in other taxation payable	(14,363)	20,705
Net cash inflow from operating activities	<u>564,423</u>	<u>28,762</u>

(b) Analysis of changes in financing during the year

	Minority interests		Bank loans	
	2002	2001	2002	2001
	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>
Balance as at 1st January	39,372	7,728	816,633	511,200
Purchase of subsidiaries (note 29(d))	2,520	—	114,305	—
Capital contribution from minority shareholders	6,157	32,043	—	—
Disposal of discontinuing operation	—	—	(50,000)	—
Minority interest in share of profit	2,482	1,061	—	—
Dividend to minority interest	—	(1,460)	—	—
Net cash (outflow)/inflow from financing	<u>—</u>	<u>—</u>	<u>(493,343)</u>	<u>305,433</u>
Balance as at 31st December	<u>50,531</u>	<u>39,372</u>	<u>387,595</u>	<u>816,633</u>

Notes to the Accounts

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

29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)**(c) Analysis of the balances of cash and cash equivalents**

	2002 <i>RMB '000</i>	2001 <i>RMB '000</i>
Unpledged bank balances and cash	915,484	1,329,574
Time deposits with maturity more than three months	(42,542)	(61,332)
	<u>872,942</u>	<u>1,268,242</u>

(d) Purchase of subsidiaries

	2002 <i>RMB '000</i>
Net assets acquired	
Fixed assets (note 13)	146,275
Investment securities	363
Inventories	130,944
Trade and other receivables	62,823
Short-term investments	794
Bank balances and cash	39,004
Trade and other payables	(142,426)
Other taxes payable	(10,711)
Bank loans	(114,305)
Minority interests	(2,520)
	<u>110,241</u>
Goodwill charged to the profit and loss account	587
Total purchase consideration satisfied by cash	<u>110,828</u>

Analysis of the net outflow in respect of the purchase of subsidiaries:

	2002 <i>RMB '000</i>
Cash consideration	(110,828)
Bank balances and cash in hand acquired	39,004
Net cash outflow in respect of the purchase of subsidiaries	<u>(71,824)</u>

The subsidiaries acquired during the year contributed RMB33,877,000 to the Group's net operating cash flows and utilised RMB15,598,000 and RMB34,105,000 for investing and financing activities respectively.

30 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 RMB 37,935,000 in Shanxi Jingwei Heli Machinery Manufacture Company Limited from Jingwei Group Company.

31 ULTIMATE HOLDING COMPANY

The directors regard China National Textile Machinery (Group) Company Limited, a stated-owned enterprise established in the PRC, the Company's ultimate holding company.

32 APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 26th March 2003.