

The Directors present their annual report and the audited financial statements for the year ended 31st December, 2002.

## (I) REVIEW OF OPERATIONS

### 1. Overview of principal activities

The Group is originally engaged in the design, development, manufacture and sales of machine tools, precision measuring equipment and precision transducers. The products mainly include horizontal boring machines, jig boring machines, copy milling machines, machining centres, precision measuring equipment, precision transducers and fully automatic coin wrapping machine and precision machining and different types of iron casting to outsiders. Upon completion of the Asset Restructuring, started from 29th March, 2002, the Group adjusted its product mix and diversified its business in the design, development, production and sales of digital control machine tools, digital scanning machine tools etc., and the existing product lines of the Group expands to cover other technologically advanced machinery.

### 2. Review of operation

- (1) In the year 2002, the Group accelerated the development of new products and launched the high technology products from the four subsidiaries. Under the PRC GAAP, the turnover from the principal activities for the year amounted to RMB179,628,000 and the net profit for the year amounted to RMB6,078,000. As compared to that of last year, the principal turnover and net profit for the year has increased by 75.26% and 196.30%, respectively.

The Group has placed emphasis on adjusting its structure and upgrading its production and business, accelerated the development of advanced technology with higher profit margin. As a result of the development of the principal operations, their structure were therefore developed up to a high level of significant increase in composite gross profit margin.

The Group has enhanced the pace of technology innovation. The Group puts more effort to expand its market and increases the profitability of the sales of boring machines. After the Asset Restructuring, the Company has introduced 4 new business segments which increase the profit of the Group.

- (2) In 2002, the Company's boring machine business has contributed RMB130,371,000 revenue to the Group.

Analysis on turnover and market share by products:

Product	Turnover (RMB'000)	% of market share by turnover
Horizontal boring machines	94,644	35
Jig boring machines	18,931	95
Precision horizontal machining centers	14,667	2

Analysis on sales by businesses:

Business	Number of machine	Principal operating income (RMB'000)	Proportion (%)
Aerospace	14	20,783	15.94%
Transportation machineries	15	13,330	10.22%
Plastic	31	10,794	8.28%
Petrol	5	5,510	4.23%
Shipping	6	5,172	3.97%
Gear and thread cutting machineries	4	3,711	2.85%
Motor vehicles	1	2,489	1.91%
Metallic Copper	2	1,113	0.85%
Others	171	67,469	51.75%
Total	249	130,371	100%

# DIRECTORS' REPORT

Analysis on sales by geographical segments:

The Company's customer base is derived from all provinces of the PRC, except Tibet and Taiwan.

The analysis on there geographical segments is as follows:

Geographical segments	Number of machine	Principal operating income (RMB'000)	Proportion (%)
Zhejiang	60	20,186	15.48%
Jiangsu	26	13,667	10.48%
Liaoning	17	12,339	9.46%
Sichuan	16	10,811	8.29%
Shanghai	29	9,560	7.00%

- (3) During 2002, the turnover as prepared in accordance with the PRC GAAP contributed by the 4 subsidiaries of the Company was amounted to RMB45,366,000. The analysis on these business segments is as follows:

Products	Turnover (RMB'000)	Proportion of principal operating income (%)
Turbo machines	28,725	15.99%
Intelligence electrical machines	8,250	4.59%
Prototyping machines	4,650	2.59%
Computerized embroidery machines and related products	3,741	2.08%

## (II) MAJOR SUPPLIERS AND CUSTOMERS

- During the year, the aggregate purchases attributable to the Group's five largest suppliers accounted for 25.6% of the Group's total purchases for the year.
- During the year, the aggregate sales attributable to the Group's five largest customers accounted for 12.62% of the Group's total sales for the year.

## (III) DIFFICULTIES FACED BY THE GROUP AND ITS RESOLUTIONS

During 2002, the market demand for boring machines increased significantly, however, due to the restriction on the Company's production capacity, the Company has faced challenges on its logistic system. In order to overcome this challenges, the Company has intensified internal reform and adjusting its operations to the higher standard according to the requirement of the market. Besides, the Company has also acquired some advanced technology machines in order to maximise its production capabilities.

## (IV) INVESTING ACTIVITIES

### 1. The use of listing proceeds

The Company has not issued any new shares since its public offers of new shares in 1993. The use of the listing proceeds has been in accordance with the purposes disclosed in the Company's listing documents.

### 2. Other investing activities

- In November 2002, the Company has invested RMB18,390,000 in 昆明交大昆機自動機器有限公司 (the registered share capital is RMB20,230,000), the Company's shareholding in 昆明交大昆機自動機器有限公司 is 90.91%. The principal activities of 昆明交大昆機自動機器有限公司 is sale of intelligent computerized colored embroidery machines.

- (2) In December 2002, the Company has invested RMB27,310,000 in 西安交大思源智慧电器有限公司 (the registered share capital is RMB35,000,000), the Company's shareholding in 西安交大思源智慧电器有限公司 is 78.03%. During the reporting period, 西安交大思源智慧电器有限公司 is engaged in sale of automatic machines.
- (3) During the year, the Company has authorised to make further investment in Xian Ser Turbo Machinery Equipment Company Limited ("Xian Ser") amounted to RMB21,630,000. During the reporting period, Xian Ser engaged in develop, design and sale of turbo-machinery.
- (4) During the year, the Company has authorised to make further investment in Shaanxi Hengtong Intelligence Machine Company Limited ("Hengtong") amounted to RMB17,730,000. During the reporting period, Hengtong engaged in develop and sale of manufacturing moulds, machinery, equipment, electronic products, software and hardware.
- (5) In 1994, the Company made an initial investment of RMB2,000,000 to establish the Cheng Jiang Machine Tool Accessories Plant ("Cheng Jiang"), representing a 40% interest in Cheng Jiang's capital. The factory premises were completed in 1995. Due to the changes of market conditions, the joint venture partners decided to change the principal business of Cheng Jiang from production of spare parts for machine tools to copper products and renamed the joint venture to Cheng Jiang Copper Products Plant. The Group did not participate in Cheng Jiang's financial and operating decision and Cheng Jiang has ceased its production. Such investment had been fully written off by the Group in previous year.

## (V) FINANCIAL HIGHLIGHTS OF THE GROUP

In accordance to the PRC GAAP, the major change of the financial indicator is as follows:

(Unit: RMB'000)

Items	2002	2001	Increase (decrease) (%)	Major reason
Total assets	839,469	776,107	8.16	Increase in other investments
Shareholders' equity	506,778	500,701	1.21	Increase in net profit for the year
Principal operating income	59,345	24,968	137.68	Increase in turnover
Net profit	6,078	2,051	196.29	Increase in turnover
Increase in cash and cash equivalents	47,805	(7,398)	—	Receipts from other investments; Increase in borrowings

## (VI) THE BOARD OF DIRECTORS' PROPOSAL ON 2003 BUSINESS PLAN

In 2003, the economy of the PRC will continuously grow and develop. The Company has proposed the following business plan in order to maximise its shareholders' returns and to maximise its opportunities for further development in 2003:

1. In accordance with the Reform of Yunnan Stated Owned Business Enterprises, the Group will expand its business operations and will accelerate its profitability.
2. The Group will strengthen its internal governance and control, and comply with the "Rules of Corporate Governance of the Listed Companies" in order to improve the effectiveness of the corporate governance of the Group.
3. The Group will explore international market and will increase its competitiveness in the market.
4. The Group will strengthen its internal management in order to reinforce the accountability of the four projects so as to attain a better performance to the Group.
5. The Group will develop its market position in order to achieve a better results in the future.

# DIRECTORS' REPORT

## (VII) DAY TO DAY OPERATION OF THE BOARD OF DIRECTORS

### 1. Resolutions of the Board of Directors Meetings

During the reporting period, the Board of Directors of the Company held 13 meetings. The purpose of these meetings were to approve the "Supplementary Land Use Rights Lease Agreement" and "Supplementary Premises Lease Agreement" entered between the Company and the Yunnan Government; to approve 2001 Annual Report, to approve 2002 first quarter report, to approve 2002 Interim Report, to approve 2002 third quarter report; to approve the proposal of increase of the registered capital of Xian Ser and Hengtong and authorise the Company to make addition contribution to these subsidiaries; to approve the investment in 西安交大思源智慧电器有限公司 and 昆明交大昆機自動機器有限公司; to elect the Chairman of the fourth Board of Director, the Vice-Chairman; to appoint the General Manager, the Assistant General Manager, the Chief Financial Officer, the Chief Engineer and the Secretary to the Board of Directors, etc.

2. During the reporting period, the Board of Directors had acted their statutory power and duties carefully as provided in the Shareholder's Meeting.

### 3. Proposal of Appropriation Scheme and proposal of Transfer to Statutory Surplus Reserve and Statutory Public Welfare Funds

In accordance to the audited results prepared by Xian Xigema Certified Public Accountants and Messrs. Deloitte Touche Tohmatsu, the Group has a net profit for the year of RMB6,078,000 in accordance with the PRC GAAP and a profit of RMB6,726,000 in accordance with the HK GAAP, respectively. The profit for the year 2002 is used to offset losses brought forward from previous years. No appropriation and dividend was proposed by the Directors for the year. No transfer was made to statutory surplus reserve and statutory public welfare fund.

## (VIII) THE BOARD OF DIRECTORS' PROPOSAL ON THE PROFIT APPROPRIATION OR TRANSFER OF CAPITAL RESERVE FUND

In accordance to the PRC Accounting Standards, the Group has a profit from principal operation for the year of RMB59,345,000 and the profit for the year is RMB6,078,000. In accordance to the Company's Articles of Association, the profit for the year will be used to set off losses brought forward from previous years. Thus no appropriation and no transfer were made to statutory surplus reserve and statutory public welfare fund.

## (IX) 2003 PROPOSED APPROPRIATION SCHEME AND TRANSFER TO STATUTORY SUPPLUS RESERVE AND STATUTORY PUBLIC WELFARE FUND

No profit appropriation in 2003 and no transfer to statutory surplus reserve and statutory public welfare fund were suggested.

## (X) DONATION

During the year, the Group made charitable and other donations totaling approximately RMB23,000.

On behalf of the Board  
**Yue Huafeng**  
Chairman

6th April, 2003