

## Chapter VII Directors' Report

### Section 1 Operation of the Company

#### 1. Scope of Principal Activities and Operation Review of the Company

The Company is one of the largest textile machinery manufacturers in the PRC. It is principally engaged in the development, manufacture and sales of textile machinery and components and special parts.

In 2003, the Company pursued the strategy for operation. Its strategic targets are to facilitate technological and managerial innovation in the course of digitalization and further consolidate the Company's competitive strength. While the Company has been vigorously involved in the development of technological innovation, the continuous upgrading of the complete set of cotton yarn textile equipment as well as the expansion of domestic and overseas markets, it has also been actively promoting managerial innovation, strengthening integration of resources, reorganizing business management system and promoting its intensive operations to reform and upgrade the corporate management level through digitalization. The operating activities of the Company are progressing smoothly and have recorded satisfactory operating results. Its principal operating activities are as follows:

- (1) During the reporting period, the expansion of the PRC domestic demand policy and the increased textile exports have created additional demand in the textile industry. Sales of textile machinery moved up in the market which brought good opportunities to the development of the Company. By actively taking measures to adjust the production and operating model, the Company, being facilitated by community support, intends to explore its internal potential to expand the production of marketable products. Its production grew on a monthly basis. As a result, the production of its leading products made a historical breakthrough to satisfy market needs to the maximum. The Company's market competitiveness has been enhanced to lead to satisfactory economic effectiveness.
- (2) By actively promoting integration of resources and integrated management, its intensive operations have recorded remarkable results. The Company moved to its present address in the Beijing Economic and Technological Development Zone in October 2003. Following the relocation, the operation of the Company was streamlined. The equity acquisition of Shangxi Jingwei Heli Machinery Manufacture Company further facilitated the integration of internal resources which gradually enhanced integrated operations of the Company.
- (3) To strengthen intensive management for the purpose of reducing operating costs of the Company in an effective manner. In 2003, the Company further enhanced its financial management measures to effectively form a smooth financial management system. Meanwhile, it facilitated capital central management to keep on narrowing the scale of loans and to reduce capital cost. It fully made use of the corporate creditability to strive for a larger credit limit from banks. The Company has achieved a productive result by actively carrying out the central bidding and purchase for bulk goods.
- (4) By continually promoting technological innovation, it achieved a productive result in the development of new products. All of the enterprises of the Group closely monitored the market and studied and developed a series of new products that recorded satisfactory results in terms of efficiency, automation and continuity. As a result of enhanced productivity and improved product quality, the Group has created favourable conditions for boosting its core competitiveness.
- (5) To continually enhance market analysis and sales planning and to actively open domestic and overseas markets, aiming at the ever changing market and the trend of its operation, the Company has thus enhanced market analysis and sales planning. Not only does the Company conduct a variety of promotional activities and foster its advertising impact, it also unified its image, regulated its sales and marketing activities and strengthened training of its sales and marketing team on a gradual basis to enable its sales and marketing activities to be closer to the market and users. As a result of strengthening the training of users and the follow-up of users, the users enjoyed a higher level of satisfaction. The Company achieved notable result with its market share being increased and consolidated following the promotion of new products.
- (6) The initial effect of the digitalization of corporate establishment gradually emerged. In 2003, the Company enhanced the guidance and coordination on the digitalization of corporate establishment and built a centralised information platform to improve the central management of websites. It built CRM application environment for the sales and marketing team of its subsidiaries and branches. With HRM data being centralized, a standardized auditing platform for the financial settlement of its business divisions and subsidiaries was built. This will form the basis of the Company's intensive management. The continual upgrading of the Company's productivity and management level is to be strongly supported by the notable result of the operation of ERP and 3C/P.



## Section 1 Operation of the Company (continued)

### 1. Scope of Principal Activities and Operation Review of the Company (continued)

As stated in the financial report prepared in accordance with the HK GAAP for the year ended 31st December 2003, turnover and profit attributable to shareholders of the Group amounted to RMB4,305,743,000 and RMB176,171,000 respectively, representing an increase of 52.23% and 29.11% over the previous year respectively. As at 31st December 2003, bank and cash balances, short-term bank loans and overdrafts and long-term bank loans (including current portion) of the Group amounted to RMB843,206,000, RMB325,550,000 and RMB85,800,000 respectively. The gearing ratio (total long-term loans/net assets) of the Group at 31st December 2003 was 3.48%.

Listed investments of carrying amount as at 31st December 2003 of RMB100,000 (2002: nil) have been pledged as security for the Group's short term bank loans.

As stated in the financial report prepared in accordance with the PRC GAAP for the year ended 31st December 2003, revenue from principal activities of the Group amounted to RMB4,305,743,000, representing an increase of 52.23% over the previous year. Profit from the principal activities was RMB755,137,000, representing an increase of 30.10% over the previous year.

Including:

Revenue from principal activities of the Company was RMB1,670,197,000, representing an increase of 50.40% over the previous year while its profit from principal activities was RMB211,595,000, representing an increase of 14.30% over the previous year.

Subsidiaries: Revenue from principal activities of Zhengzhou Hongda New Textile Machinery Company Limited was RMB612,429,000 while profit from its principal activities was RMB66,437,000.

Revenue from principal activities of Qingdao Hongda Textile Machinery Company Limited was RMB1,015,588,000 while profit from its principal activities was RMB137,784,000.

Revenue from principal activities of Shenyang Hongda Textile Machinery Company Limited was RMB255,320,000 while profit from its principal activities was RMB67,073,000.

Revenue from principal activities of Tianjin Hongda Textile Machinery Company Limited was RMB433,596,000 while profit from its principal activities was RMB90,690,000.

Revenue from principal activities of Changde Textile Machinery Company Limited was RMB328,561,000 while profit from its principal activities was RMB104,422,000.

Revenue from principal activities of Beijing Jingwei Textile New Technology Company Limited was RMB53,604,000 while profit from its principal activities was RMB8,218,000.

Revenue from principal activities of Shanghai Jingwei Dongxing Blowing Carding Machinery Company Limited was RMB88,071,000 while profit from its principal activities was RMB13,142,000.

Revenue from principal activities of Shangxi Jingwei Heli Machinery Manufacture Company was RMB234,549,000 while profit from its principal activities was RMB29,490,000.

**Section 1 Operation of the Company (continued)****1. Scope of Principal Activities and Operation Review of the Company (continued)****Analysis of principal activities by products (in RMB'000)**

|  | Revenue from principal activities | Cost of principal activities | Gross profit margin (%) | Increase or decrease in revenue from principal activities compared with last year (%) | Increase or decrease in cost of principal activities compared with last year (%) | Increase or decrease in gross profit margin compared with last year (%) |
|--|-----------------------------------|------------------------------|-------------------------|---|--|---|
| Natural fibre textile machinery  | 3,581,851                         | 3,004,868                    | 16.11                   | 65.44   | 78.00  | (26.87)   |
| Of which being connected transactions  | 12,750                            | 10,685                       | 16.20                   | (87.25)   | (88.02)  | 49.31   |
| Chemical fibre textile machinery   | 66,701                            | 56,583                       | 15.17                   | (38.99)   | (38.44)  | (4.77)  |
| Weaving machinery  | 223,402                           | 193,662                      | 13.31                   | 11.79   | 2.71   | 135.72  |
| Accessories and special parts for weaving machinery  | 303,006                           | 177,254                      | 41.50                   | 26.20   | (1.90)   | 67.69   |
| Others   | 130,783                           | 101,362                      | 22.50                   | 14.60   | 13.41  | 3.78  |
| Total  | 4,305,743                         | 3,533,729                    | 17.93                   | 52.23   | 57.85  | (14.01)   |
| <b>Pricing basis for connected transactions:</b><br>Transactions between the Group and related parties are subject to the composite services agreement entered into by the Group and related parties. General pricing basis for their ongoing connected transactions:<br>Ongoing connected transactions will be conducted on normal commercial terms and conditions as agreed through fair negotiations. Pursuant to the composite services agreement, prices payable or receivable by the Group will be based on the following:<br>(i) such transactions were entered into by the Group in the ordinary course of its business;<br>(ii) such transactions were entered into on normal commercial terms or on terms no less favourable than terms available to or made by independent third parties;<br>(iii) such transactions were fair and reasonable so far as the independent shareholders are concerned. |                                   |                              |                         |   |  |   |
| <b>Explanations on the necessity and on-going nature of connected transactions</b><br>Such transactions are conducted in the ordinary course of the Group's operations, which ensures the orderly and smooth operations of the Company. Such transactions have warranted their necessity and continuity in the Company's operations.   |                                   |                              |                         |   |  |   |

**Principal activities by regions**

(in RMB'000)

| Region | 2003<br>Revenue from principal activities | 2002<br>Revenue from principal activities | Change % |
|--------|---|---|----------|
| PRC    | 3,891,118                                 | 2,403,758                                 | 61.88    |
| Asia   | 383,400                                   | 406,164                                   | (5.60)   |
| Africa | 2,316                                     | 2,007                                     | 15.40    |
| Others | 28,909                                    | 16,509                                    | 75.11    |
| Total  | 4,305,743                                 | 2,828,438                                 | 52.23    |

**Section 1 Operation of the Company (continued)****2. Major subsidiaries and their operating status**

As at 31st December 2003, the Group's major subsidiaries were as follows:

(in RMB'000)

| Name of enterprise  | Principal activities   | Registered capital | Equity interest held by the Group (%) | Net assets | Net profit |
|---|--|--------------------|---------------------------------------|------------|------------|
| Zhengzhou New Hongda Textile Machinery Company Limited              | Development and manufacture of textile machinery and related components  | 74,500             | 98                                    | 104,039    | 2,600      |
| Qingdao Hongda Textile Machinery Company Limited                    | Manufacture, sales repairing and leasing of textile machinery and related components   | 114,000            | 98                                    | 195,863    | 36,146     |
| Shenyang Hongda Textile Machinery Company Limited                   | Technological development and manufacture of textile machinery and related components; providing technical consultation  | 71,000             | 98                                    | 105,689    | 18,425     |
| Tianjin Hongda Textile Machinery Company Limited                    | Technical development consultation, sales of photocopiers, agriculture processing machinery and related components   | 78,500             | 98                                    | 118,191    | 20,919     |
| Changde Textile Machinery Company Limited                           | Manufacture and trading of textile machinery and other machinery, powder metallurgy  | 42,350             | 95                                    | 66,054     | 27,606     |
| Beijing Jingwei Textile New Technology Company Limited              | Technical development and sale of textile machinery and computer hardware and software, sale of special textile equipment, agricultural machinery, instruments and meters as well as automobile components | 100,000            | 98.4                                  | 110,085    | 9,634      |
| Shanghai Jingwei Dongxing Blowing-Carding Machinery Company Limited | Manufacture and sales of blowing-carding machinery and related components  | 50,000             | 83.95                                 | 61,008     | 5,612      |
| Shangxi Jingwei Heli Machinery Manufacture Company                  | Manufacture and sales of textile machinery   | 100,000            | 28                                    | 121,008    | (1,517)    |

**3. Major customers and suppliers**

The percentage of the Group's purchases for the year ended 31st December 2003 of RMB379,972,000 attributable to the five largest suppliers of the Group was 10.10%.

The percentage of the Group's turnover for the year ended 31st December 2003 of RMB779,450,000 attributable to the five largest customers of the Group was 18.10%.

Except as disclosed above, as at 31st December 2003, none of the directors and supervisors of the Company or any of their associates (as defined by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) or any shareholders (which, to the best knowledge of the Board owns 5% or more of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

**4. Difficulties encountered in operations and solutions**

The textile industry has been adversely affected as a result of the reduced export tax refund rate since 2004 and the rising cotton price since last year. In view of factors such as globalization of the world economy, rapid technological development of textile machinery around the world and severe competition in the market, the technological level of the Company's products has yet to be enhanced. Under the ever changing market situation, our present sales and marketing strategy should be focused on strengthening sales and marketing planning as well as keeping pace with, adapting to and guiding the market. The Company will take effective and practical measures to cope with difficulties so as to ensure the continual stable development of the Company.

In 2004, the Company will speed up the establishment of a technological innovation system. By devoting more efforts to change to a mechanism featuring technological research and development, the Company intends to further facilitate the sharing of technological resources and to inject a greater proportion of technological innovation. Being kept in line with the global technological development of textile machinery, it aims to consolidate its cooperation with both the domestic and overseas leading enterprises and technical experts. The Company strives hard to upgrade the quality as well as the technological level of its products. In addition, the Company has been actively facilitating the integration of sales and marketing system, striving hard to expand both the domestic and overseas textile machinery markets, planning to establish an overseas technical service institution and improving after-sales services in the international market. Meanwhile, it will speed up the integration of domestic sales and marketing network, form a well-established sales and marketing system, and build CRM platform to enable a high degree of sharing of sales and marketing information, a scientific standardization of sales and marketing management, as well as to boost market response. With an intention to reduce operating cost, the Company will continue to enhance financial central management, its budgets and auditing, to promote strategic purchase and to strengthen the management of supply chain.

## Section 2 Investments of the Company

### 1. Use of proceeds from the issue of shares

|  |                  |                                    |                | (All in RMB'000)   |     |
|--|------------------|------------------------------------|----------------|--|-----|
| Aggregate Proceeds                                   |                  | Total amount utilised for the year |                | Accumulated utilised amount  |     |
| 1,234,800  |                  | 202,668                            |                | 1,234,048  |     |
|  |                  |                                    |                | Whether it is in line with the project progress and expected revenue |     |
| Committed project                                    | Intended funding | Any project change                 | Actual funding | Revenue generated (sale revenue)                                     |     |
| New cotton and textile equipment package             | 149,200          | No                                 | 182,520        | 1,159,930  | Yes |
| Non-weaving cloth and post-finish equipment          | 43,000           | No                                 | 58,590         | 1,200  | Yes |
| Joint establishment of technology development centre | 72,200           | No                                 | 101,400        | 173,840  | Yes |
| Development of new non-knitting machine              | 65,600           | No                                 | 79,580         | 403,820  | Yes |
| Localisation of major technology equipment           | 82,500           | No                                 | 92,080         | 143,780  | Yes |
| Industrialisation of high and new technology         | 110,000          | Yes                                | 45,000         | 30,000   | No  |
| Information centre and CIMS system                   | 22,700           | No                                 | 23,520         | 9,700  | Yes |
| Replenished liquidity                                | –                | No                                 | 370,820        | –  | Yes |
| Additional appropriation                             | 200,730          | No                                 | 208,140        | 750,000  | Yes |
| Total  | 745,930          |                                    | 1,161,650      | 2,672,270  |     |

#### Reasons for not being in line with the project progress and expected revenue

In respect of the industrialization of high and new technology, the Company originally intended to apply the proceeds of RMB110,000,000 in the joint establishment of Jintu Office Automation Company Limited. According to its prudent policy in the using of the proceeds, the Company had initially invested RMB45,000,000, with the balance to be applied by instalments based on the operation of the Company. However, in view of the operational loss of the Company and the market situation, the Company considers that it may be subject to greater investment risk exposure with continued capital contribution to the project. As a result, the Company has ceased its continual investment in the project.

#### Reasons for and procedures of changes

The amount of RMB65,000,000 which was not injected into the industrialization of high and new technology has been utilized to be injected into the research and development of new model of high-end jet loom and the equity acquisition of Shangxi Jingwei Heli Machinery Manufacture Company from Jingwei Machinery (Group) Company Limited so as to further strengthen and expand the Company's principal activities. Such change was approved at the 2002 Annual General Meeting of the Company.

#### Changes in projects

| Aggregate funds in revised investment projects   |  | RMB65,000,000                                   |                           |   |  |
|--|--|---|---------------------------|---|--|
| Revised projects   | Corresponding projects originally committed  | Intended funding in revised projects<br>RMB'000 | Actual funding<br>RMB'000 | Revenue generated (sale revenue)<br>RMB'000 | Whether it is in line with the project progress and expected revenue |
| Research and development of new model of high-end jet loom   | Industrialisation of high and new technology | 27,000  | 34,463                    | –   | Yes  |
| Equity acquisition of Shanxi Jingwei Heli Machinery Manufacturing Company from Jingwei Machinery (Group) Company Limited | Industrialisation of high and new technology | 38,000  | 37,935                    | 234,549                                     | Yes  |
| Total  |  | 65,000  | 72,398                    | 234,549                                     |  |

By the end of the reporting period, the amount of proceeds from the issue of shares which has not been used is RMB752,000. All of which is deposited in a bank.



## **Section 2 Investments of the Company (continued)**

### **2. Other investments**

There were no other investments during the period.

### **3. Financial Position of the Group Under the PRC GAAP:**

Detail of the financial position of the Group under the PRC GAAP are set out in note 4 to the supplementary information provided by management.

### **4. Fixed assets**

Detail of the movements in fixed assets are set out in note 12 to the accounts under HK GAAP.

### **5. Retirement benefit scheme**

Details of the retirement benefit scheme of the Group are set out in note 4 to the accounts under HK GAAP.

### **6. Donations**

Donations made by the Group during the year amounted to RMB380,000 (2002: RMB85,000).

### Section 3 Report on the work of the Directors

#### 1. Board meetings held during the period of this report and contents of resolutions passed

- (1) The twelfth meeting of the third term of the Board of Directors was held on 26th March 2003 and the following resolutions were considered and passed:

- 1) The Annual Report and its Summary of the Company for the year 2002;
- 2) The profit allocation proposal of the Company for 2002: The Company realized a net profit of RMB139,068,000, in 2002, 10% of which amounting to RMB13,907,000 will be appropriated to each of the statutory surplus reserve and statutory public welfare fund in accordance with the Articles of Association of the Company. The balance of the current year's profit of RMB111,254,000 available for distribution, when combined with the undistributed profit of RMB229,156,000 at the beginning of the year, amounted to RMB340,410,000 was available for distribution to the shareholders. A final dividend of RMB0.06 (inclusive of tax) per share is proposed, totalling RMB36,228,000. The balance of the undistributed profit of RMB304,182,000 will be carried forward to the following year.
- 3) The profit allocation policy of the Company for 2003: Dividend distribution for 2003 will be made once; the percentage of the net profit available for distribution for 2003 will be at least 10%; the percentage of the undistributed profit available for distribution as at the end of 2002 will not be less than 10%; and the dividend distribution in respect of 2003 will be in the form of cash. The Board of Directors reserves its rights to adjust the dividend distribution policy subject to the actual circumstances then.
- 4) To approve the Rules of Procedures of the General Meetings of the Company and submit the same to the General Meeting of the Company for approval;
- 5) To approve the proposal regarding acquisition of 28% equity interest in Shangxi Jingwei Heli Machinery Manufacture Company from Jingwei Machinery (Group) Company Limited;
- 6) To approve the proposal to change Articles 121 & 122 of the Articles of Association of the Company and submit such proposal to the General Meeting of the Company for approval;
- 7) To approve the proposal for the change of use of a portion of proceeds and submit such proposal to the General Meeting of the Company for approval;
- 8) To approve the proposal for the Board of Directors to repurchase a portion of H shares and submit such proposal to the General Meeting and the Class Meetings of the Company for approval;
- 9) To approve the re-appointment of PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian as the international and PRC auditors of the Company for the year ended 31st December 2003 and submit the same to the General Meeting of the Company for approval;
- 10) To approve the change of the registered address of the Company to the Beijing Economic and Technological Development Zone and submit such change to the General Meeting of the Company for approval;
- 11) The convening of the 2002 Annual General Meeting on 28th May 2003 was approved.

The press announcement regarding relevant resolutions of the board meeting was published in "Securities Times" and in "Wen Wei Po" and "The Standard" in Hong Kong on 27th March 2003.

- (2) On 16th April 2003, the thirteenth meeting of the third term of the Board was convened on which the First Quarterly Report 2003 was discussed and approved.

The relevant announcement was published in "Securities Times" and in "Wen Wei Po" and "The Standard" in Hong Kong on 17th April 2003.



### Section 3 Report on the work of the Directors (continued)

#### 1. Board meetings held during the period of this report and contents of resolutions passed (continued)

- (3) On 7th August 2003, the fourteenth meeting of the third term of the Board was convened to discuss and approve the 2003 Interim Report and to approve the Company to establish, together with Beijing Shuntiantong Real Estate Development Company Limited and Beijing Guanghe Real Estate Company Limited, a joint venture in Shanghai named Shanghai Jingwei Zhonglian Commercial Development Company Limited. The capital contribution was made in the form of the property located at Basement to the 3rd floor, No.4 District 5, Anzhen West Li, Chao Yang District, Beijing City valued at cost of approximately RMB335,420,000.

The relevant announcement was published in “Securities Times” and in “Wen Wei Po” and “The Standard” in Hong Kong on 8th August 2003.

- (4) On 24th October 2003, the fifteenth meeting of the third term of the Board was convened on which the Third Quarterly Report 2003 was discussed and approved.

The relevant announcement was published in “Securities Times” and in “Wen Wei Po” and “The Standard” in Hong Kong on 27th October 2003.

- (5) On 22nd December 2003, the sixteenth meeting of the third term of the Board was convened on which the form and details of the Equity Transfer Agreement regarding the equity transfer of Jintu Information Technology Company Limited to China National Textile Machinery (Group) Co., Ltd. by the Company was approved.

The relevant announcement was published in “Securities Times” and in “Wen Wei Po” and “The Standard” in Hong Kong on 23rd December 2003.

- (6) On 30th December 2003, a provisional Board of Directors was convened on which the form and details of the Equity Transfer Agreement regarding the equity transfer of Shanghai Jingwei Zhonglian Commercial Development Co., Ltd. by the Company was discussed and approved, and the Announcement regarding Equity Transfer of Shanghai Jingwei Zhonglian Commercial Development Co., Ltd. was approved.

The relevant announcement was published in “Securities Times” on 31st December 2003 and 14th January 2004 and in “Wen Wei Po” and “The Standard” in Hong Kong on 2nd January 2004 and 14th January 2004.

#### 2. Implementation of resolutions passed at the general meetings

The Directors of the Company had implemented all the resolutions and had paid dividends to the shareholders of A Shares and H Shares respectively in accordance with the profit distribution proposal approved at the relevant general meetings. The mandate granted by the general meeting to the directors to exercise general powers to repurchase H Shares was not exercised during the reporting period.

### Section 4 Profit allocation proposal

#### Profit allocation proposal for 2003

In 2003, the Company realized a net profit of RMB161,534,000 under PRC GAAP, 10% of which amounting to RMB16,153,000 will be appropriated to each of the statutory surplus reserve and statutory public welfare fund in accordance with the Articles of Association of the Company. The balance of the current year's profit of RMB129,228,000 available for distribution, when combined with the undistributed profit of RMB304,182,000 at the beginning of the year and less the payment of last year's dividend of RMB36,228,000 in this year, amounted to RMB397,182,000 was available for distribution to the shareholders. A final dividend of RMB0.072 per share for 2003 is proposed, totalling RMB43,474,000. The balance of the undistributed profit of RMB353,708,000 will be carried forward to the following year.



**Section 5 Report on other items**

1. Pursuant to the Circular Zheng Jian Fa [2003] No.56 on “Notice to Regularize the Funds Transfer Between Listed Companies and its Controlling Shareholder and Other Related Parties and Issues on Guarantees Provided by Listed Companies”, the independent directors of the Company issued their independent opinions on the accumulated and current guarantees of the Company during the reporting period:

All guarantees of the Company during the reporting period were perused by the independent directors: During the reporting period, there were 19 accumulated guarantees totalling RMB565,830,000 of which 8 totalling RMB180,030,000 had been performed. As at the end of the reporting period, the balance of guarantees amounted to RMB385,800,000, of which the balance of guarantees made to related parties amounted to RMB63,000,000, the balance of guarantees made to its subsidiaries (branches) amounted to RMB82,800,000 and the balance of guarantees made to other companies amounted to RMB240,000,000. There were no overdue guarantees. Independent directors believe that: the Company performs satisfactorily in respect of guarantees. It is able to perform all such guarantees in compliance with the Notice and has signed counter guarantee agreements for every guarantee as required.

2. Narration from PricewaterhouseCoopers Zhong Tian CPAs Limited Company on the utilization of funds by the controlling shareholder of the Company and the other related parties are as follows:

**TO THE BOARD OF DIRECTORS OF  
JINGWEI TEXTILE MACHINERY COMPANY LIMITED:**

We have accepted the appointment to audit the balance sheet of Jingwei Textile Machinery Company Limited (the “Company”) and the consolidated balance sheet of the Company and its subsidiaries (the “Group”) as at 31st December 2003, the related Company’s income statement and the consolidated income statement, the Company’s profit appropriation statement and the consolidated profit appropriation statement and the Company’s cash flow statements and the consolidated cash flow statements for the year then ended. Our audit was conducted in accordance with China Certified Public Accountants Independent Auditing Standards. We have issued an unqualified opinion in our report PwC ZT Shen Zi (2004) No. 1375 on 30th March 2004.

Pursuant to the Circular Zheng Jian Fa [2003] No.56 on “Notice to Regularize the Funds Transfer Between Listed Companies and its Controlling Shareholder and Other Related Parties and Issues on Guarantees Provided by Listed Companies” jointly issued by the China Securities Regulatory Commission and the State-Owned Assets Supervision and Administration Commission on 28 August 2003, the Company prepared the accompanying statement on the utilization of funds by its controlling shareholder and the other related parties (“the statement”) for the year ended 31st December 2003.

The Company’s management is responsible for the preparation of the statement and ensuring the authenticity, legitimacy and completeness of the statement and its disclosure. Our responsibility is to examine the information contained in the statement with the accounting information obtained during our audit of the financial statements for the year ended 31st December 2003. In all material respects, we have not discovered any significant discrepancies. Other than the audit procedures on the related party transactions for the year ended 31st December 2003, we have not carried out any audit procedures on the other information contained in the statement. To enhance the understanding of the statement, the statement should be read in conjunction with the audited consolidated financial statements.

This report is solely intended for the disclosure of the utilization of funds by the controlling shareholder of the Company and the other related parties and should not be used for any other purposes.

Attachment:

Statement of utilization of funds by the controlling shareholder and the other related parties of Jingwei Textile Machinery Company Limited

**PricewaterhouseCoopers  
Zhong Tian CPAs Co., Ltd.**

30th March 2004

**Mou Lei**  
Certified Public Accountant

**Li Xuemei**  
Certified Public Accountant



## Section 5 Report on other items (continued)

(in RMB ten thousands)

| Utilization of funds   | Name of related party                              | Relationship       | Amount of the year |          | Item                 | Year-end balance | Remark   |
|------------------------|--|--------------------|--------------------|----------|----------------------|------------------|--|
|                        |  |                    | Debit              | Credit   |                      |                  |  |
| Operating capital flow | China National Textile Machinery (Group) Co., Ltd. | Holding            | 2,346              | (1,642)  | Accounts receivable  | 1,494            | Sales-generated  |
|                        | Beijing Hongda Industrial Co., Ltd.                | Fellow subsidiary  | 37                 | (8)      | Accounts receivable  | 29               | Sales-generated  |
|                        | Hengyang Textile Machinery Plant                   | Fellow subsidiary  | 20                 | –        | Accounts receivable  | 20               | Generated by sales materials   |
|                        | Hongda Investment Co., Ltd.                        | Fellow subsidiary  | 16                 | (28)     | Accounts receivable  | 17               | Sales-generated  |
|                        | Jingwei Machinery (Group) Company Limited          | Fellow subsidiary  | 199                | (206)    | Accounts receivable  | 46               | Generated by processing and sales  |
|                        | Shaoyang Textile Machinery Co., Ltd.               | Fellow subsidiary  | 29                 | (2)      | Accounts receivable  | 26               | Sales-generated  |
|                        | Tianjin Textile Machinery Plant                    | Fellow subsidiary  | 22                 | –        | Accounts receivable  | 22               | Generated by processing and sales  |
|                        | Yichang CTM Textile Parts Co., Ltd.                | Fellow subsidiary  | 368                | (283)    | Accounts receivable  | 85               | Sales-generated  |
|                        | Zhengzhou Textile Machinery Co., Ltd.              | Fellow subsidiary  | 38,053             | (31,793) | Accounts receivable  | 9,465            | Generated by processing and sales  |
|                        | CTM Group Sales Co.                                | Fellow subsidiary  | 155                | (150)    | Accounts receivable  | 30               | Sales-generated  |
|                        | CTM Group Guangzhou Branch                         | Fellow subsidiary  | 1                  | (2)      | Accounts receivable  | 18               | Sales-generated  |
|                        | Zhongji Trade Society                              | Fellow subsidiary  | –                  | (6)      | Accounts receivable  | 1                | Sales-generated  |
|                        | Hongda Research Institute Co., Ltd.                | Associated company | 512                | (447)    | Accounts receivable  | 66               | Sales-generated  |
|                        | Hongda International Trading Co., Ltd.             | Associated company | 2,573              | (1,459)  | Accounts receivable  | 1,284            | Sales-generated  |
|                        | CTM Group Beijing Automatic Technology Co., Ltd.   | Associated company | –                  | (127)    | Accounts receivable  | –                | Sales-generated  |
|                        | China National Textile Machinery (Group) Co., Ltd. | Holding            | –                  | –        | Advance to suppliers | 614              | Generated by purchase of materials                                       |
|                        | Jingwei Machinery (Group) Company Limited          | Fellow subsidiary  | 12,533             | (10,664) | Advance to suppliers | 5,334            | Generated by purchase of materials and acceptance of processing services |
|                        | Shenyang Hongcheng Textile Machinery Co., Ltd.     | Fellow subsidiary  | 133                | (134)    | Advance to suppliers | 1                | Generated by purchase of materials and acceptance of processing services |
|                        | Taichang Textile Equipment Plant                   | Fellow subsidiary  | –                  | –        | Advance to suppliers | 1                | Generated by purchase of materials and acceptance of processing services |
|                        | Tianjin Textile Machinery Plant                    | Fellow subsidiary  | 5,918              | (3,969)  | Advance to suppliers | 2,038            | Generated by purchase of materials and acceptance of processing services |
|                        | Zhengzhou Textile Machinery Co., Ltd.              | Fellow subsidiary  | 31,109             | (29,341) | Advance to suppliers | 3,641            | Generated by purchase of materials and acceptance of processing services |
|                        | Hongda International Trading Co., Ltd.             | Associated company | 34                 | (337)    | Advance to suppliers | –                | Generated by purchase of materials and acceptance of processing services |

**Section 5 Report on other items (continued)**

(in RMB ten thousands)

| Utilization of funds                                   | Name of related party                               | Relationship       | Amount of the year |         | Item              | Year-end balance | Remark   |
|--|---|--------------------|--------------------|---------|-------------------|------------------|--|
|  |   |                    | Debit              | Credit  |                   |                  |  |
|  | Jingwei Machinery (Group) Company Limited           | Fellow subsidiary  | –                  | (177)   | Notes receivables | –                | Sales-generated  |
|  | Zhengzhou Textile Machinery Co., Ltd.               | Fellow subsidiary  | 6,330              | (1,912) | Notes receivables | 4,418            | Sales-generated  |
|  | Jingwei Machinery (Group) Company Limited           | Fellow subsidiary  | 318                | (535)   | Other receivables | –                | Generated by prepayments in respect of purchase of materials and acceptance of processing services |
|  | Tianjin Textile Machinery Plant                     | Fellow subsidiary  | –                  | (2,467) | Other receivables | –                | Generated by prepayments in respect of purchase of materials and acceptance of processing services |
|  | Shenyang Jingxing Textile Machinery Manufacture Co. | Associated company | 40                 | –       | Other receivables | 140              | Generated by prepayments in respect of purchase of materials and acceptance of processing services |
| Borrowed capital                                       | China National Textile Machinery (Group) Co., Ltd.  | Holding            | 11                 | (4,278) | Other receivables | 911              | Gratuitous   |
|  | Shenzhen Bolue Technology Investment Co., Ltd.      | Associated company | –                  | –       | Other receivables | 500              | Gratuitous   |
|  | Zhengzhou Textile Machinery Co., Ltd.               | Fellow subsidiary  | –                  | (1,900) | Other receivables | 1,000            | Gratuitous   |
| Loans repaid on behalf of related parties              | Hengyang Textile Machinery Plant                    | Fellow subsidiary  | 1,500              | (1,500) | Other receivables | –                | Loans repaid on behalf of related parties  |
|  | Shenyang Textile Machinery Plant                    | Fellow subsidiary  | –                  | (20)    | Other receivables | 310              | Loans repaid on behalf of related parties  |
|  | Tianjin Textile Machinery Plant                     | Fellow subsidiary  | 975                | –       | Other receivables | 975              | Loans repaid on behalf of related parties  |
| Others (e.g. advanced payment, cost and expenses etc.) | Zhengzhou Textile Machinery Co., Ltd.               | Fellow subsidiary  | 7,451              | (7,177) | Other receivables | 274              | Generated by advanced payment and provision of supporting services                                 |
|  | Huangshi Textile Machinery Plant                    | Fellow subsidiary  | –                  | –       | Other receivables | 1                | Generated by advanced payment and provision of supporting services                                 |
|  | Jingwei Machinery (Group) Company Limited           | Fellow subsidiary  | 454                | (439)   | Other receivables | 131              | Generated by advanced payment and provision of supporting services                                 |
|  | Qingdao Textile Machinery Plant                     | Fellow subsidiary  | 749                | (1,005) | Other receivables | 766              | Generated by advanced payment and provision of supporting services                                 |
|  | Shenfang Parts Sales Co.                            | Fellow subsidiary  | –                  | (6)     | Other receivables | 45               | Generated by advanced payment and provision of supporting services                                 |
|  | Shenyang Textile Machinery Plant                    | Fellow subsidiary  | 4,565              | (4,843) | Other receivables | 1,677            | Generated by advanced payment and provision of supporting services                                 |
|  | Hongda Research Institute Co., Ltd.                 | Associated company | 20                 | –       | Other receivables | 20               | Generated by advanced payment and provision of supporting services                                 |

Approved by the board of directors on 30th March 2004

Legal representative:  
**Ye Maixin**Person in charge of  
accounting function:  
**Yao Yuming**Person in charge of  
accounting department:  
**Mao Faqing**