



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

Balance Sheet

As at 31st December 2003

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

ASSETS	NOTE	GROUP 31ST DECEMBER 2003	GROUP 31ST DECEMBER 2002	COMPANY 31ST DECEMBER 2003	COMPANY 31ST DECEMBER 2002
Current assets					
Cash at bank and in hand	VI 1	858,328,025	967,504,852	667,035,578	646,487,786
Short-term investment	VI 2	113,020,744	72,950,088	609,053	22,980,463
Notes receivable	VI 3	334,783,952	147,418,744	142,742,787	36,530,980
Dividends receivable		—	—	43,396,849	14,542,746
Interest receivable		—	—	—	—
Accounts receivable	VI 4, VII 1	547,375,535	457,714,246	319,385,339	270,019,593
Other receivables	VI 4, VII 1	177,132,219	267,350,067	210,506,432	258,746,150
Advances to suppliers	VI 5	294,029,269	225,125,985	143,269,725	109,570,422
Subsidies receivable		—	—	—	—
Inventories	VI 6	1,597,254,971	1,308,194,135	859,226,897	633,522,474
Prepaid expenses	VI 7	3,413,606	2,731,681	1,212,755	551,651
Long-term debt investments maturing within one year		—	—	—	—
Other current assets		—	—	—	—
Total current assets		<u>3,925,338,321</u>	<u>3,448,989,798</u>	<u>2,387,385,415</u>	<u>1,992,952,265</u>
Long-term investments					
Long-term equity investments	VI 8, VII 2	456,305,271	64,989,165	1,273,269,158	886,582,422
Long-term debt investments		—	—	—	—
Total long-term investments		<u>456,305,271</u>	<u>64,989,165</u>	<u>1,273,269,158</u>	<u>886,582,422</u>
Including: Consolidation difference		<u>(202,845)</u>	<u>(4,271,248)</u>	<u>—</u>	<u>—</u>
Fixed assets					
Fixed assets – cost		1,814,699,748	1,789,543,419	867,155,364	1,004,871,443
Less: Accumulated depreciation		<u>(882,008,666)</u>	<u>(736,711,344)</u>	<u>(433,055,512)</u>	<u>(278,796,967)</u>
Fixed assets – net	VI 9	932,691,082	1,052,832,075	434,099,852	726,074,476
Less: Provision for impairment of fixed assets	VI 9	<u>(44,365,785)</u>	<u>(40,639,006)</u>	<u>(32,080,139)</u>	<u>(32,300,577)</u>
Fixed assets – net book value		888,325,297	1,012,193,069	402,019,713	693,773,899
Leasehold improvements		—	—	—	—
Construction materials	VI 10	28,339,091	27,119,527	8,951,786	7,490,007
Construction in progress	VI 11	67,459,577	96,089,906	34,227,163	19,120,045
Fixed assets pending disposal		—	—	—	—
Total fixed assets		<u>984,123,965</u>	<u>1,135,402,502</u>	<u>445,198,662</u>	<u>720,383,951</u>
Intangible assets and other assets					
Intangible assets	VI 12	145,889,259	124,798,605	83,338,267	47,874,148
Long-term prepaid expenses		—	—	—	—
Other long-term assets		—	—	13,620,293	—
Total intangible assets and other assets		<u>145,889,259</u>	<u>124,798,605</u>	<u>96,958,560</u>	<u>47,874,148</u>
Deferred taxes					
Deferred tax debits		—	—	—	—
TOTAL ASSETS		<u>5,511,656,816</u>	<u>4,774,180,070</u>	<u>4,202,811,795</u>	<u>3,647,792,786</u>

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

Legal representative: Ye Maoxin

Person in charge of accounting function: Yao Yuming

Person in charge of accounting department: Mao Faqing

Balance Sheet (continued)**As at 31st December 2003**

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

(All amounts in Rmb Yuan unless otherwise stated)

LIABILITIES AND SHAREHOLDERS' EQUITY	NOTE	GROUP	GROUP	COMPANY	COMPANY
		31ST DECEMBER 2003	31ST DECEMBER 2002	31ST DECEMBER 2003	31ST DECEMBER 2002
Current liabilities					
Short-term loans	VI 13	325,550,000	314,720,000	247,000,000	209,400,000
Notes payable	VI 14	350,301,094	309,717,420	203,676,396	208,385,703
Accounts payable	VI 15	746,278,352	543,453,837	498,123,848	337,787,468
Advances from customers	VI 16	1,005,909,270	923,485,087	644,934,261	488,065,483
Accrued payroll		2,596,327	3,195,739	—	—
Welfare benefits payable		61,834,283	36,068,235	17,065,410	13,312,079
Interest payable		—	—	—	—
Dividends payable	VI 17	—	198,831	—	11,607
Taxes payable	VI 18	13,854,697	16,818,185	538,385	6,954,216
Other levies payable	VI 19	1,482,820	1,314,218	504,997	568
Other payables	VI 20	321,289,648	179,328,800	102,157,366	16,053,701
Accrued expenses	VI 21	11,651,202	7,697,110	3,231,247	3,036,000
Provisions		—	—	—	—
Current portion of long-term liabilities	VI 22	23,000,000	14,208,000	23,000,000	14,208,000
Deferred revenue		—	—	—	—
Other current liabilities		—	—	—	—
Total current liabilities		2,863,747,693	2,350,205,462	1,740,231,910	1,297,214,825
Long-term liabilities					
Long-term loans	VI 23	62,800,000	65,667,000	20,000,000	42,867,000
Debentures payable		—	—	—	—
Long-term payables		—	—	—	—
Grants payable		—	—	—	—
Other long-term payables		—	—	—	—
Total long-term liabilities		62,800,000	65,667,000	20,000,000	42,867,000
Deferred taxes					
Deferred tax credits		—	—	—	—
Total liabilities		2,926,547,693	2,415,872,462	1,760,231,910	1,340,081,825
Minority interest		142,485,476	50,530,543	—	—
Shareholders' equity					
Share capital	VI 24	603,800,000	603,800,000	603,800,000	603,800,000
Capital surplus	VI 25	1,261,716,557	1,252,154,114	1,261,716,557	1,252,154,114
Surplus reserve	VI 26	251,950,791	193,783,720	179,881,595	147,574,699
Including: Statutory public welfare fund		112,093,872	83,010,336	76,059,274	59,905,826
Undistributed profits	VI 27	325,112,537	257,973,127	397,181,733	304,182,148
Including: Proposed final dividend		43,473,600	36,228,000	43,473,600	36,228,000
Foreign currency translation differences		43,762	66,104	—	—
Total Shareholders' equity		2,442,623,647	2,307,777,065	2,442,579,885	2,307,710,961
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		5,511,656,816	4,774,180,070	4,202,811,795	3,647,792,786

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

Legal representative: Ye Maoxin

Person in charge of accounting function: Yao Yuming

Person in charge of accounting department: Mao Faqing



Income Statement

For the year ended 31st December 2003

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

	NOTE	GROUP Year ended 31ST December 2003	GROUP Year ended 31ST December 2002	COMPANY Year ended 31ST December 2003	COMPANY Year ended 31ST December 2002
Revenues from main operations	VI 28, VII 3	4,305,742,834	2,828,438,025	1,670,196,883	1,110,491,564
Less: Cost of main operations	VI 28, VII 4	(3,533,729,023)	(2,238,672,057)	(1,455,638,640)	(923,603,322)
Tax and levies on main operations	VI 29	(16,876,380)	(9,337,418)	(2,962,969)	(1,766,485)
Profit from main operations		755,137,431	580,428,550	211,595,274	185,121,757
Add: Profit from other operations	VI 30	56,221,058	43,273,371	35,398,674	36,107,077
Less: Selling and distribution expenses		(94,142,432)	(89,640,284)	(28,309,894)	(30,739,043)
General and administrative expenses		(495,432,222)	(336,807,750)	(157,238,417)	(107,584,295)
Finance expenses – net	VI 31	(16,877,370)	(27,788,252)	(2,367,919)	(20,249,084)
Operating profit		204,906,465	169,465,635	59,077,718	62,656,412
Add: Investment income/(loss)	VI 32, VII 5	4,448,793	(559,349)	115,267,711	88,870,292
Subsidy income		2,319,827	694,245	–	–
Non-operating income		1,059,437	2,268,713	283,235	575,215
Less: Non-operating expenses		(11,232,150)	(11,734,245)	(2,893,629)	(4,304,196)
Total profit		201,502,372	160,134,999	171,735,035	147,797,723
Less: Income taxes		(36,406,404)	(19,967,758)	(10,200,554)	(8,729,526)
Gain of minority shareholders		(3,561,487)	(2,482,098)	–	–
Net profit		<u>161,534,481</u>	<u>137,685,143</u>	<u>161,534,481</u>	<u>139,068,197</u>

Supplementary information:

ITEMS	GROUP Year ended 31ST December 2003	GROUP Year ended 31ST December 2002	COMPANY Year ended 31ST December 2003	COMPANY Year ended 31ST December 2002
1. Gain/(Loss) on disposal of business units or investments	–	(71,467)	–	(37,326)
2. Loss arising from natural disasters	–	–	–	–
3. Increase/(decrease) in total profit as a result of changes in accounting policies	–	–	–	–
4. Increase/(decrease) in total profit as a result of changes in accounting estimates	–	–	–	–
5. Losses from debt restructuring	–	–	–	–
6. Other	–	–	–	–

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

Legal representative: Ye Maoxin

Person in charge of accounting function: Yao Yuming

Person in charge of accounting department: Mao Faqing

Profit Appropriation Statement For the year ended 31st December 2003

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

	Note	GROUP Year ended 31ST December 2003	GROUP Year ended 31ST December 2002	COMPANY Year ended 31ST December 2003	COMPANY Year ended 31ST December 2002
Net profit		161,534,481	137,685,143	161,534,481	139,068,197
Add: Undistributed profit at beginning of year	VI 27	257,973,127	200,917,415	304,182,148	229,155,591
Other transfers		—	—	—	—
Distributable profit		419,507,608	338,602,558	465,716,629	368,223,788
Less: Transfer to statutory surplus reserve		(29,083,535)	(22,200,716)	(16,153,448)	(13,906,820)
Transfer to statutory public welfare fund		(29,083,536)	(22,200,715)	(16,153,448)	(13,906,820)
Transfer to employee bonus and welfare fund		—	—	—	—
Profit available for distribution to shareholders		361,340,537	294,201,127	433,409,733	340,410,148
Less: Dividend for preferred stock		—	—	—	—
Transfer to discretionary surplus fund		—	—	—	—
Dividend payable for common stock		(36,228,000)	(36,228,000)	(36,228,000)	(36,228,000)
Dividend for common stock transferred to shares		—	—	—	—
Undistributed profit at end of year	VI 27	<u>325,112,537</u>	<u>257,973,127</u>	<u>397,181,733</u>	<u>304,182,148</u>

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

Legal representative: Ye Maoxin

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Person in charge of accounting department: Mao Faqing



Cash Flow Statement

For the year ended 31st December 2003

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

	GROUP	COMPANY
1. Cash flows from operating activities		
Cash received from sale of goods or rendering of services	6,368,795,779	2,388,598,257
Refund of taxes and levies	—	—
Cash received relating to other operating activities	136,237,963	98,843,313
Sub-total of cash inflows	<u>6,505,033,742</u>	<u>2,487,441,570</u>
Cash paid for goods and services	(5,348,533,286)	(2,042,099,447)
Cash paid to and on behalf of employees	(450,515,827)	(170,033,230)
Payments of taxes and levies	(215,044,667)	(88,398,741)
Cash paid relating to other operating activities	(229,240,217)	(27,818,758)
Sub-total of cash outflows	<u>(6,243,333,997)</u>	<u>(2,328,350,176)</u>
Net cash flows from operating activities	<u>261,699,745</u>	<u>159,091,394</u>
2. Cash flows from investing activities		
Cash received from disposal of investments, other than subsidiaries	128,347,834	24,077,369
Cash received from disposal of subsidiaries	—	—
Cash received from returns on investments	1,534,629	51,463,682
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	7,320,433	2,198,289
Cash received relating to other investing activities	—	17,269,110
Sub-total of cash inflows	<u>137,202,896</u>	<u>95,008,450</u>
Cash paid to acquire fixed assets, intangible assets and other long-term assets	(205,248,668)	(67,853,610)
Cash paid to acquire investments, other than subsidiaries	(122,731,712)	(17,000,000)
Cash paid to acquire subsidiaries	(23,276,111)	(65,176,221)
Cash decrease from subsidiaries ready for sales	(3,680,361)	—
Cash paid relating to other investing activities	—	(14,638,209)
Sub-total of cash outflows	<u>(354,936,852)</u>	<u>(164,668,040)</u>
Net cash flows from investing activities	<u>(217,733,956)</u>	<u>(69,659,590)</u>
3. Cash flows from financing activities		
Cash received from capital contributions	2,050,995	—
Including: Cash received from issuing shares to minority shareholders by subsidiaries	2,050,995	—
Cash received from borrowings	281,100,000	249,000,000
Cash received relating to other financing activities	—	—
Sub-total of cash inflows	<u>283,150,995</u>	<u>249,000,000</u>
Cash repayments of amounts borrowed	(301,235,000)	(268,675,000)
Cash payments for interest expenses and distribution of dividends or profits	(69,468,171)	(49,209,012)
Including: cash payments to minority shareholders for distribution of dividends or profits	(2,814,623)	—
Cash payments relating to other financing activities	—	—
Including: cash payments to minority shareholders for distribution of capital	—	—
Sub-total of cash outflows	<u>(370,703,171)</u>	<u>(317,884,012)</u>
Net cash flows from financing activities	<u>(87,552,176)</u>	<u>(68,884,012)</u>
4. Effect of foreign exchange rate changes on cash and cash equivalents	<u>(22,342)</u>	<u>—</u>
5. Net increase/(decrease) in cash and cash equivalents	<u>(43,608,729)</u>	<u>20,547,792</u>

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

Legal representative: Ye Maoxin

Person in charge of accounting function: Yao Yuming

Person in charge of accounting department: Mao Faqing

Cash Flow Statement (continued)

For the year ended 31st December 2003

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

Supplementary information	GROUP	COMPANY
1. Reconciliation of Net Profit to Cash Flows from Operating Activities Net Profit		
Adjust for: Share of profit by minority shareholders	161,534,481	161,534,481
Provision for asset impairment	3,561,487	—
Depreciation of fixed assets	48,137,709	16,557,474
Amortisation of intangible assets	95,774,390	53,261,080
Amortisation of long-term prepaid expenses	4,973,563	2,186,047
Decrease (Increase) in prepaid expenses	—	—
Increase (Decrease) in accrued expenses	(520,332)	(646,849)
Losses (Gains) on disposal of fixed assets, intangible assets and other long term assets	2,019,317	195,247
Losses (Gains) on disposal of fixed assets	6,556,232	456,464
Financial expenses (income)	—	—
Investment losses (income)	30,194,312	12,969,405
Deferred tax credit (debit)	(4,448,793)	(115,267,711)
Decrease (Increase) in inventories	—	—
Decrease (Increase) in operating receivables	(161,243,845)	(130,509,931)
Increase (Decrease) in operating payables	(228,772,009)	(145,143,647)
Others	303,933,233	303,499,334
	—	—
Net cash flows from operating activities	<u>261,699,745</u>	<u>159,091,394</u>
2. Investing and financing activities that do not involve cash receipts and payments		
Conversion of debt into capital	—	—
Reclassification of current portion of convertible bonds to current liabilities	—	—
Fixed assets capitalized under finance leases	—	—
3. Net increase/(decrease) in cash and cash equivalents		
Cash at end of year	858,328,025	667,035,578
Less: Cash at beginning of year	(901,936,754)	(646,487,786)
Add: Cash equivalents at end of year	—	—
Less: Cash equivalents at beginning of year	—	—
Net increase/(decrease) in cash and cash equivalents	<u>(43,608,729)</u>	<u>20,547,792</u>

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

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



Notes to the Accounts

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

I COMPANY BACKGROUND

Jingwei Textile Machinery Company Limited (the “Company”) was established on 15th August 1995 as a joint stock limited company with China National Textile Machinery Corporation (Group) Company Limited (“CTMC”, or the “holding company” and formerly known as China National Textile Machinery Corporation) as the sole promoter.

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

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

II CHANGES IN SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

CHANGES IN ACCOUNTING POLICIES

Effective 1st July 2003, the Group has adopted the revised “Accounting Standard for Business Enterprises-Events Occurring After the Balance Sheet Date”. Prior to the adoption of the revised standard, profit distribution was transferred out of shareholders’ equity and cash dividends was recognised as payables in the period related to which the Board of Directors proposed the distribution plan. Subsequent to 1st July 2003, profit distribution is recognised in the period when the distribution plan is approved at the general meeting of the shareholders. As a result of the adoption of the revised standard, the change in accounting policy has been adjusted retrospectively (note VI 27).

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

(a) Basis of preparation

The financial statements have been prepared in accordance with Accounting Standards for Business Enterprises and the “Accounting System for Business Enterprises” as promulgated by the State of the People’s Republic of China.

(b) Accounting period

The Group’s accounting year starts on 1st January and ends on 31st December.

(c) Recording currency

The recording currency of the Group is the Renminbi (RMB).

(d) Basis of accounting and measurement bases

The Group follows the accrual basis of accounting. Except for assets that were accounted for based on value appraised by the State Appraisal Bureau during the reorganisation, all other assets were recorded at their acquired costs. Subsequently, if they are impaired, impairment provisions will be made accordingly.

(e) Foreign currency translation

Foreign currency transactions are translated into RMB at the exchange rates stipulated by the People’s Bank of China (“the stipulated exchange rates”) at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into RMB at the stipulated exchange rates at the balance sheet date. Exchange differences arising from these translations are expensed, except for those attributable to foreign currency borrowings that have been taken out specifically for the constructions of fixed assets, which are capitalized as part of the fixed asset costs.

(f) Translation of financial statements denominated in foreign currency

In respect of foreign subsidiaries, all assets and liabilities are translated into Rmb at the exchange rates stipulated by the People’s Bank of China at the balance sheet date. All items in the shareholders’ equity account, with the exception of retained earnings, are translated at the transaction dates. The retained earnings figure is taken directly from the profit and loss figure and the results are translated using average monthly rates. The exchange differences arising on the translation of foreign subsidiaries and the Group’s share of exchange difference are taken directly to the foreign currency translation difference.

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

Notes to the Accounts

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

III. ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

(g) Cash and cash equivalents

For the purpose of the cash flow statement, cash comprises all cash in hand and call deposits. Cash equivalents refer to short-term, and highly-liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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

(h) Short-term investments

Short-term investments, comprising debentures, bonds and fund investments, are those investments that the Group does not have the intention to hold for more than one year and are readily convertible into known amounts of cash. It is recorded as cost less declared dividends and due interests receivables at the time of purchase. Apart from those dividends and interests that have been recorded as receivables, dividends and interests received during the holding period are deducted against the investment cost. Short-term investments are carried at the lower of cost and market value as at the balance sheet date. An impairment provision against diminution in short-term investment values is made by individual investment when market value is lower than cost. When the market value of short-term investments is greater than the carrying value, the provision for impairment loss is reversed to the extent of the impairment loss previously recognized.

(i) Receivables and provision for bad debts

Receivables refer to accounts receivable and other receivables. The Group provides an allowance for bad debts. Accounts receivable is presented at actual amounts net of provision for bad debts.

(1) Accounts receivable

The accounts receivable comprises related-party receivables and receivables from non-related parties ("third-party receivables").

The Company makes provision for bad debts based on an assessment of the recoverability of accounts receivable. Specific provisions are applied to related-party receivables and third-party receivables where events or changes in circumstances indicate that the balances may not be collectible. A general provision for the remaining third-party receivables that have not been specifically provided for is made based on the ageing of receivables, at the following percentages:

Ageing	Ratio
Within 1 year	0%
Within 1 to 2 years	20%
Within 2 to 3 years	50%
Over 3 years	100%

Where evidence exists that balances cannot be recovered, such as the debtor has been liquidated, declared bankrupt, or is unable to meet its liabilities when they fall due or is experiencing significant cash flow problems, the bad debts are recognized and the balances are written off against the provision for bad debts.

(2) Other receivable

The Group analyses the recoverability of other receivables and applies specific provision as necessary.

(j) Inventories

Inventories include raw materials, work in progress, finished goods, and goods issued on instalment basis, and are presented at the lower of cost and net realizable value.

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

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to completion and the estimated costs necessary to conclude the sale.



Notes to the Accounts

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

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

III. ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

(k) Long-term equity investments

Long-term equity investments comprising equity investments in subsidiaries and associates and other investments in companies that the Company intends to hold for more than one year.

Subsidiaries are investees in which the Company has, directly or indirectly, an interest of more than 50% of the voting rights, or otherwise has power to govern the investees' financial and operating policies. Associates generally represent investees in which the Company has an interest of between 20% to 50% of the voting rights or otherwise has significant influence over the financial and operating policies.

Long-term equity investments are recorded at the actual cost of acquisition. The Company accounts for long-term equity investments in subsidiaries and associates using the equity method of accounting. Other equity investments, which the Company intends to hold for more than one year, are accounted for using the cost method of accounting.

When long-term equity investments acquired prior to 17th March 2003 are accounted for using the equity method of accounting, the difference between the initial cost of investment and the proportionate share of the net assets of the investee is amortized using the straight-line method over 10 years. Where long-term equity investments acquired after 17th March 2003 are accounted for using the equity method of accounting, if the initial cost of investment is less than the proportionate share of the net assets of the investee, the difference is accounted for as capital surplus. If there is an excess of the initial cost of investment over the proportionate share of net assets of the investee, the excess is amortized using the straight-line method over 10 years.

Under the equity method of accounting, the attributable share of the investees' net profit or loss for the period is recognized as an investment income or loss. When the investees declare dividends, the carrying amount of the investment is reduced accordingly. Under the cost method of accounting, investment income is recognized when the investees declare dividends.

(l) Fixed assets and depreciation

Fixed assets include buildings, machinery and equipment used in production, held for rental to others, or held for management purposes, which have useful lives of more than one year. Effective 1st January 2001, when construction takes place upon the Group's land and the construction is for the Group's own use, the carrying value of the land use rights is capitalized as part of the building costs within fixed assets.

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

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

The estimated useful lives, estimated residual values expressed as a percentage of cost and depreciation rates are as following:

	Estimated useful lives	Estimated residual value	Depreciation rate
Plant and buildings			
– Cost	9 – 50 years	5%	1.9% to 10.56%
– Land use rights	20 years	60%	2%
Machinery and equipment	7 – 22 years	5%	4.32% to 13.57%
Motor vehicles	9 years	5%	10.56%

When fixed assets are sold, transferred, disposed of or destroyed, gains and losses on disposal are determined by comparing the proceeds with the carrying amount of the assets, reduced by related taxes and expenses, and are included in non-operating income/expenses.

Repairs and maintenance of fixed assets are expensed as incurred. Subsequent expenditures for major reconstruction, expansion, improvement and renovation are capitalized when it is probable that future economic benefits in excess of the original assessment of performance will flow to the Group. Capitalized expenditures arising from major reconstruction, expansion and improvement are depreciated using the straight-line method over the remaining useful lives of the fixed assets. Capitalized expenditures arising from the renovation of fixed assets are depreciated over the expected beneficial period.

Notes to the Accounts

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

III. ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

(m) Construction in progress

Construction in progress represents fixed assets under construction or installation and is stated at cost. Cost comprises construction cost and other direct costs, original cost of plant and equipment and installation costs. Borrowing costs on specific borrowings for financing the construction or acquisition of fixed assets are capitalized as part of the cost of the fixed assets until the assets are ready for their intended use. Construction in progress is transferred to fixed assets and depreciation commences when the assets are ready for their intended use.

(n) Intangible assets and amortisation

Intangible assets include land use rights, trade marks, patents and softwares and are presented at cost net of accumulated amortization.

Land use rights purchased or obtained through payment of land transfers fees are initially recorded at cost and classified as intangible assets before being developed for construction. Land use rights are amortised on a straight-line basis over 50 years. Effective 1st January 2001, if construction takes place on the Company's land held for own use, the carrying value of the related land use rights is transferred to the construction in progress account.

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

Softwares are initially stated at cost and are amortised on the straight-line basis over 5 years.

(o) Long-term prepaid expenses

Long-term prepaid expenses include those expenses which have been paid and will be amortized over one year (not including one year). Long-term prepaid expenses are amortized on the straight-line basis over the expected beneficial period and are presented at cost net of accumulated amortization.

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

(p) Impairment of assets

In addition to the recognition of provisions for impairment loss on short-term investments, receivables and inventories, which have been described in their respective accounting policies, individual assets for which there are indications that the carrying values are higher than their recoverable amounts, arising from the occurrence of events or changes in circumstances, are reviewed for impairment. If the carrying value of such assets is higher than the recoverable amount, the excess is recognized as an impairment loss.

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

When there is an indication that the need for an impairment provision record in a prior period no longer exists or has decreased, the provision for impairment loss is reversed to the extent of the impairment loss previously recognized.

(q) Borrowing costs

Borrowings are initially recognized at the amount of the proceeds received. Ancillary costs incurred in connection with the borrowing arrangement are expensed as incurred.

Borrowing costs, including interest, ancillary costs and exchange differences, incurred in connection with specific borrowings obtained for the acquisition or construction of fixed assets are capitalized as costs of the fixed assets when capital expenditures and borrowing costs have been incurred and the activities have commenced to enable the assets to be ready for their intended use. The capitalization of borrowing costs ceases when the assets are ready for their intended use and borrowing costs are recognized as expenses thereafter.

Borrowing cost include interest calculated based on the weighted average cost of fixed assets purchased or constructed and the weighted average rate of related borrowings during the period. The amount of borrowing costs capitalised during the period should not exceed the amount of borrowing costs actually incurred during that period.

All other borrowing costs are expensed when incurred.



Notes to the Accounts

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

III. ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

(r) Employee social security benefits

The Company and its subsidiaries participate in employee social security plans, including pension, medical, housing and other welfare benefits, organised and administered by the government authorities in accordance with relevant regulations.

According to the relevant regulations, the premiums and welfare benefit contributions that should be borne by the Company are calculated based on percentages of the total salary of employees (or on other basis) subject to a certain ceiling, and are paid to the labor and social welfare authorities. Contributions to the plans are capitalized as production costs or expensed as incurred.

(s) Profit distribution

Distribution of cash dividends is recognized as a transfer from shareholders' equity in the period when the profit appropriation plan is approved by the general meeting of shareholders.

(t) Revenue recognition

(i) Sales of goods

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

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

(ii) Other revenues are recognised on the following bases

Interest income is recognised on a time proportion basis taking into account deposit balances and effective yield.

Subsidy income is recognised when received.

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

(u) Income tax

The Group accounts for enterprise and local income tax using the tax payable method. Tax expense is recognised based on current period taxable income and tax rates.

(v) Basis of preparation of consolidated financial statement

Consolidated financial statements, which includes the Company and all subsidiaries consolidated, are prepared in accordance with the Document [1995] No. 11 "Provisional Regulations for Consolidated Financial Statements" issued by the Ministry of Finance of the People's Republic of China.

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

Where there is inconsistency in accounting policies between the subsidiaries and the Company, and when the discrepancies arising from the inconsistency have a material impact on the consolidated accounts, they will be adjusted according to the Company's accounting policies.

Notes to the Accounts

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

IV. TAXATION

The major taxes of the Group are listed as follows:

Category	Rate	Basis of tax computation
Income tax	15-33%	Taxable income
Value Added Tax	17%	17% of sales revenue of textile machinery and spare parts less deductible input VAT
Business tax	5%	Rental income

Pursuant to the approval document [1995] No. 48 issued by Shanxi Municipal Administration of State Taxation on 28th September 1995, the Company enjoys the preferential tax policy for new technology enterprises and enjoys a preferential income tax rate of 15% from January to September in 2003. On 8th October 2003, the Company's tax registration address has been changed from 15th Wucheng Road, Taiyuan, Shanxi Province to 8th Yongchangzhong Road, Beijing Economic & Technological Development Zone. Pursuant to the approval document [2004] No.21 issued by Beijing Municipal Administration of State Taxation, the Company enjoys the preferential income tax rate of 15%, whilst the branches are applicable to 33% income tax rate.

Pursuant to the approval document [2001] No. 2 issued by Branch of Beijing Municipal Administration of State Taxation in Beijing Economic & Technological Development Zone on 17th January 2001, Beijing Jingwei Textile Machinery New Technology Company Limited enjoys the preferential tax policy for new technology enterprises and enjoys a preferential income tax rate of 15% and half exemption from 2003 to 2005.

Pursuant to the approval document [2003] No. 51 issued by Liaoning Science and Technology Administration on 22nd December 2003, Shenyang Hongda Textile Machinery Company Limited enjoys the preferential income tax rate of 15% for new technology enterprises in 2003.

Pursuant to the approval document issued by Tianjin New Technology Industry Zone on 19th March 2001, Tianjin Hongda Textile Machinery Company Limited enjoys the preferential income tax rate of 15% for new technology enterprises in 2003.

Pursuant to the approval document [2001] No. 62 issued by Henan Municipal Administration of State Taxation, Zhengzhou Hongda Textile Machinery Company Limited enjoys the preferential income tax rate of 15% for new technology enterprises in 2003.

Pursuant to the approval document issued by Qingdao Science and Technology Committee on 20th December 2000, Qingdao Hongda Textile Machinery Company Limited enjoys the preferential income tax rate of 15% for new technology enterprises in 2003.

Pursuant to the approval document [2003] No. 184 issued by Taiyuan Municipal Administration of State Taxation in Shanxi Province on 18th July 2003, Taiyuan Jingwei Textile Electrical Company Limited enjoys the preferential tax rate of 15% for new technology enterprises in 2003.

Pursuant to the approval document 09 Mian (03) Gao No.14 issued by Jiading Branch of Shanghai Municipal Administration of State Taxation and Shanghai Local Taxation Bureau on 11th April 2003, Shanghai Jingwei Dongxing Blomming-Carding Machinery Company Limited enjoys the preferential income tax rate of 15% for high technology enterprises in 2003.

One of the subsidiaries was registered in Hong Kong which is applicable to 17.5% income tax rate.

All other subsidiaries are applicable to 33% income tax rate.



Notes to the Accounts

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

V. SUBSIDIARIES

The name, registered capital, main business, investment amount and percentage of investment in the subsidiaries are disclosed in Note VIII "Related party relationships and transactions".

(1) Acquisition of subsidiaries

- (i) On 26th March 2003, the Company and Jingwei Machinery (Group) Company Limited ("Jingwei Group Company") entered into an agreement, pursuant to which the Company acquired 28% equity interest of Shanxi Jingwei Heli Machinery Manufacture Company ("Heli") at a consideration of 37,935,414. The consideration for such acquisition was based on the net assets of Heli amounting to 135,483,621 as at 30th November 2002 as stated in the appraisal report issued by the PRC independent accountant multiplied by the percentage of shareholding being 28% acquired by the Company. The acquisition has been accomplished on 1st July 2003 and Heli has been under consolidation as the Company can exert control on it through its board of directors.

- (ii) In January 2003, the Company acquired 52.63% equity interests in Beijing Hongda Fangji Enterprise Management Consulting Company Limited ("Hongda Fangji") from its holding company China National Textile Machinery (Group) Company Limited at an consideration of 2,000,000. Thereafter Hongda Fangji has been under consolidation since 2003.

The acquisition contribution to the financial position of the Company as of the end of reporting period and results of its operation from the completion of the transaction to the end of reporting period is disclosed in Note VI (33).

- (iii) In May 2003, the Company contributed 27,240,807 to the joint establishment of Wuxi Jingwei Textile Technology Testing Company Limited with China National Textile Machinery (Group) Company Limited, the controlling shareholder of the Company, representing 55% of the registered capital of Rmb49,530,000 of the joint venture. Thereafter Wuxi Jingwei Textile Technology Company Limited has been under consolidation since 2003.

(2) Subsidiaries ready for sale or disposal

The Company signed the Equity Transfer Agreement with China National Textile Machinery (Group) Company Limited in December 2003, pursuant to which the Company intended to dispose 58.92% equity interest in Jintu Information Technology Company Limited ("Jintu Information") held by the Company. The consideration of 24,866,602 for such disposal was based on the percentage of shareholding of Jintu Information held by the Company multiplied by the unaudited net asset value of Jintu Information as shown in its management accounts as at 30th November 2003. Such transaction would be accomplished in 2004 and Jintu Information was excluded from the Company's consolidation as at 31st December 2003.

One of the Company's subsidiaries, Beijing Garden Automobile Lease Company Limited ("Garden Automobile") discontinued its operation from April 2003. Thereafter, Garden Automobile has been excluded from the Company's consolidation, and the Company accounts for the investment in Garden Automobile using the cost method of accounting as at 31st December 2003.

The contribution of above changes to the financial position of the Company at the end of the reporting period and results of its operation for the reporting period is disclosed in Note VI(34).

(3) Transfer of a subsidiary to branch

The Company has finished the procedures of transferring Yichang Textile Machinery Company Limited ("Yichang") to branch in 2003. Yichang has been combined into the financial statements of the Company instead of being under consolidation.

Notes to the Accounts

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

VI NOTES TO THE FINANCIAL STATEMENTS**1. CASH AT BANK AND IN HAND**

	31st December 2003	31st December 2002
Cash in hand	1,093,416	531,758
Cash at bank	836,455,788	888,344,893
Include: Deposits in CTMC Finance Company	15,405,102	28,994,427
Other cash balances:		
– Other deposits	–	749,078
– Credit card deposits	274,119	–
– Time deposits over three months	–	42,542,275
– Deposit of bank draft	–	23,025,823
– Deposit placed in security account	20,504,702	12,311,025
	<u>858,328,025</u>	<u>967,504,852</u>

Deposits in China National Textile Machinery Group (“CTMC”) Finance Company carry an interest rate of 1.98% per annum (2002: 1.44%).

Cash and bank balances at 31st December 2003 include foreign currencies as follows:

Type of foreign currencies	Foreign Currencies	Exchange rate	Rmb equivalent
USD	2,578,438	8.2767	21,340,958
HKD	23,262,706	1.0657	24,791,066
SFR	87,393	5.2544	459,198
EUR	31,795	10.3383	328,706
			<u>46,919,928</u>

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

	31st December 2003
As at 31st December 2003 cash and cash equivalents	858,328,025
Less: As at 31st December 2002 cash and cash equivalents	(901,936,754)
Net decrease of cash and cash equivalents	<u>(43,608,729)</u>

2. SHORT TERM INVESTMENTS

	31st December 2002		31st December 2003
Investment cost			
Trading securities	28,892,784		1,789,365
Futures	51,385		–
Government bonds	21,015,000		100,261,379
Other bonds	20,764,173		–
Funds	6,470,000		10,970,000
Total	77,193,342		113,020,744
Provision		Addition	Write back
Trading securities	(2,111,916)	–	2,111,916
Other bonds	(1,707,878)	–	1,707,878
Funds	(423,460)	–	423,460
	<u>(4,243,254)</u>	<u>–</u>	<u>4,243,254</u>
	<u>72,950,088</u>		<u>113,020,744</u>

As at 31st December 2003, the closing price of trade securities listed in Shanghai Stock Exchange is 5,208,612, while the market value of the funds at the net value promulgated by fund manager is 11,257,700. Thus no investment provision was made.

There is no significant restriction on the ability of the Company to realise its short-term investment as at 31st December 2003.

**Notes to the Accounts**

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

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

VI NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**3. NOTES RECEIVABLE**

The Group's notes receivable as at 31st December 2003 are bank drafts and these amount to Rmb334,783,952 (2002: Rmb147,418,744).

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

	31st December 2003	31st December 2002
– Due from Jingwei Group Company and its subsidiaries and associated companies	<u>44,176,074</u>	<u>1,774,000</u>

4. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES**(1) Accounts receivable**

	31st December 2003	31st December 2002
Accounts receivable	696,592,888	544,758,930
Less: General provision	<u>(149,217,353)</u>	<u>(87,044,684)</u>
	<u>547,375,535</u>	<u>457,714,246</u>

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

	31st December 2003			31st December 2002		
	Amount	%	Bad debt provision	Amount	%	Bad debt provision
Aging:						
Within 1 year	462,072,298	66	–	379,626,283	70	–
Within 1 to 2 years	68,843,475	10	(13,651,739)	55,136,332	10	(12,033,952)
Within 2 to 3 years	44,698,206	7	(14,935,626)	19,586,372	4	(7,876,235)
Over 3 years	120,978,909	17	(120,629,988)	90,409,943	16	(67,134,497)
	<u>696,592,888</u>	<u>100</u>	<u>(149,217,353)</u>	<u>544,758,930</u>	<u>100</u>	<u>(87,044,684)</u>

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

	31st December 2003	31st December 2002
– Due from the holding company	14,939,632	7,901,673
– Due from fellow subsidiaries	110,636,125	35,821,539
– Due from Jingwei Group Company and its subsidiaries and associated companies	<u>453,507</u>	<u>522,516</u>
	<u>126,029,264</u>	<u>44,245,728</u>

The five largest individual balance of accounts receivable at the year end amount to 221,839,725 and this accounts for 32% of the total accounts receivable (2002:134,584,140, 25%).

No general provision has been made for related party balances included in accounts receivable with aging over one year.

Notes to the Accounts

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

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

	31st December 2003	31st December 2002
Other receivables	193,245,074	271,071,463
Less: Specific provisions	(16,112,855)	(3,721,396)
	<u>177,132,219</u>	<u>267,350,067</u>

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

	31st December 2003			31st December 2002		
	Amount	%	Bad debt provision	Amount	%	Bad debt provision
Aging:						
Within 1 year	87,412,415	45	—	221,842,213	82	—
Within 1 to 2 years	53,328,486	28	—	36,014,869	13	(1,747,468)
Within 2 to 3 years	5,319,525	3	(582,522)	10,015,435	4	(127,800)
Over 3 years	47,184,648	24	(15,530,333)	3,198,946	1	(1,846,128)
	<u>193,245,074</u>	<u>100</u>	<u>(16,112,855)</u>	<u>271,071,463</u>	<u>100</u>	<u>(3,721,396)</u>

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

	31st December 2003	31st December 2002
– Due from the holding company	9,106,000	51,779,065
– Due from fellow subsidiaries	57,076,954	93,246,421
– Due from Jingwei Group Company and its subsidiaries and associated companies	1,309,373	37,778,346
	<u>67,492,327</u>	<u>182,803,832</u>

The five largest individual balance of other receivables at the year end amount to 129,811,508 and this accounts for 67% of the total other receivables(2002:154,082,718, 57%).

5. ADVANCES TO SUPPLIERS

	31st December 2003		31st December 2002	
	Amount	%	Amount	%
Aging:				
Within 1 year	283,683,957	96	204,507,404	91
Within 1 to 2 years	4,552,494	2	7,796,307	3
Within 2 to 3 years	2,962,403	1	7,920,986	4
Over 3 years	2,830,415	1	4,901,288	2
	<u>294,029,269</u>	<u>100</u>	<u>225,125,985</u>	<u>100</u>

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

	31st December 2003	31st December 2002
– Holding company	6,144,587	6,144,587
– Fellow subsidiaries	56,808,262	22,696,602
– Jingwei Group Company and its subsidiaries and associated companies	53,335,202	195,036
	<u>116,228,051</u>	<u>29,036,225</u>

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

**Notes to the Accounts**

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

VI NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**6. INVENTORIES**

	31st December 2002			31st December 2003
Goods in transit	8,157,080			12,720,534
Raw materials	241,522,743			345,982,103
Work in progress	346,115,721			350,247,463
Finished goods	729,297,117			919,130,269
Instalment goods	4,408,113			—
	<u>1,329,500,774</u>			<u>1,628,080,369</u>
Provision—				
		Addition	Write back	
Raw materials	(6,052,013)	(6,599,433)	6,051,561	(6,599,885)
Work in progress	(3,106,427)	(3,898,161)	1,842,603	(5,161,985)
Finished goods	(12,148,199)	(6,915,329)		(19,063,528)
	<u>(21,306,639)</u>	<u>(17,412,923)</u>	<u>7,894,164</u>	<u>(30,825,398)</u>
	<u>1,308,194,135</u>			<u>1,597,254,971</u>

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

7. PREPAID EXPENSES

	31st December 2002			31st December 2003
		Addition	Amortisation	
VAT input pending deduction	8,005	2,463,801	(1,849,233)	622,573
Heating fee	962,022	1,381,149	(1,613,466)	729,705
Others	1,761,654	9,001,032	(8,701,358)	2,061,328
	<u>2,731,681</u>	<u>12,845,982</u>	<u>(12,164,057)</u>	<u>3,413,606</u>

8. LONG TERM EQUITY INVESTMENT

	31st December 2002	Newly acquired subsidiaries	Addition	Disposal	31st December 2003
Investment in associated companies (1)	68,108,419	—	16,942,247	(1,733,272)	83,317,394
Other equity investment (2)	1,289,194	3,983,005	370,241,778	(500,000)	375,013,977
Consolidation difference (3)	(4,271,248)	—	3,628,470	439,933	(202,845)
Long-term equity investment	65,126,365	3,983,005	390,812,495	(1,793,339)	458,128,526
Provision for long term equity investment	(137,200)	(1,323,255)	(500,000)	137,200	(1,823,255)
	<u>64,989,165</u>	<u>2,659,750</u>	<u>390,312,495</u>	<u>(1,656,139)</u>	<u>456,305,271</u>

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

The provision of long term equity investments relates to investment in Beijing Garden Automobile Lease Company Limited. As of 31st March 2003, net book value of the investment of this subsidiary was 1,365,397, representing 80% of capital shares, which comprised with original cost of 1,600,000 and accumulated loss of 234,603. As Beijing Garden Automobile Lease Company Limited Company Limited ceased operation since April 2003, a provision of 500,000 was made.



Notes to the Accounts

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

VI NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. LONG TERM EQUITY INVESTMENT (CONTINUED)

(1) Associated companies

Name of investee	Investment period	Equity Interest Held(%)		Investment Cost		Accumulated Equity Movement			Balance	
		31st	31st	31st	31st	31st	Movement	31st	31st	31st
		December	December	December	December	December	in equity	December	December	December
		2002	2003	2002	2003	2002		2003	2002	2003
Hongda Research Company Limited	2001 to 2101	40	40	20,000,000	20,000,000	529,055	1,007,937	1,536,992	20,529,055	21,536,992
Shenzhen Bolue Technology Investment Company Limited	2001 to 2031	40.94	40.94	35,000,000	35,000,000	828,041	152,072	980,113	35,828,041	35,980,113
Zhengzhou Hongda Non-woven Fabric Textile Machinery Company Limited	2003 to 2007	-	42.5	-	17,000,000	-	(1,205,439)	(1,205,439)	-	15,794,561
Beijing Hongda Fangji Enterprise's Management Consulting Company Limited	2001 to 2021	47.37	-	1,800,000	-	(66,728)	66,728	-	1,733,272	-
Beijing Hongda International Trading Company Limited	2000 to 2010	20	20	6,000,000	6,000,000	55,107	(19,457)	35,650	6,055,107	6,035,650
Qingdao Jinyi Pressing and Casting Company Limited	2000 to 2010	24.39	24.39	300,000	300,000	60,000	-	60,000	360,000	360,000
Qingdao Jinshan City Company Limited	2002 to permanent	20	20	200,000	200,000	-	-	-	200,000	200,000
Qingdao Lanlifeng Laser Technology Company Limited	2002 to 2004	31.25	31.25	1,000,000	1,000,000	-	-	-	1,000,000	1,000,000
Qingdao Qingfeng Technology Company Limited	2002 to 2005	35.8	35.8	1,400,000	1,400,000	-	-	-	1,400,000	1,400,000
Shenyang Jingxing Textile Machinery Company Limited	2002 to 2022	31.25	31.25	1,000,000	1,000,000	2,944	7,134	10,078	1,002,944	1,010,078
				66,700,000	81,900,000	1,408,419	8,975	1,417,394	68,108,419	83,317,394

(2) Other Equity Investment

Name of investee	Investment period	Investment Cost	Equity Interest Held (%)
Shanghai Jingwei Zhonglian Commercial Development Limited(i)	2003 to 2005	337,933,063	47.92%
Jintu Information Technology Limited(ii)	2001 to 2004	24,866,602	58.92%
Beijing Garden Automobile Lease Company Limited	2001 to 2005	1,365,397	80%
Others		10,848,915	
		<u>375,013,977</u>	

**Notes to the Accounts**

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

VI NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**8. LONG TERM EQUITY INVESTMENT (CONTINUED)****(2) Other Equity Investment (Continued)**

- (i) In September 2003, the Company established, together with other investors, a joint venture in Shanghai named Shanghai Jingwei Zhonglian Commercial Development Company Limited ("Zhonglian Commercial"). The capital contribution was made in the form of the property valued at cost of approximately Rmb335,410,140 (cost: 335,416,940, net value: 325,854,497), which was owned as to 47.92% by the Company. Zhonglian Commercial was accounted for using equity method.

According to the Minutes of board of directors in December 2003 as well as the Equity Transfer Agreement, the Company intended to dispose 47.92% equity interest in Zhonglian Commercial held by the Company to Beijing Hualian Group Investment Holdings Company Limited ("Beijing Hualian") at a consideration of 335,416,940, whose payment term is as follows: Beijing Hualian will credit each of 50% of the consideration to the Company before 31st December 2004 and 31st December 2005 respectively. Both parties agreed that during the period from the effective date of the Agreement until the dates of transfer of the registered title, the Company will appoint Beijing Hualian to manage the relevant equity and enjoy the fixed investment income of the invested amount, while Beijing Hualian will guarantee the payment of it. Consequently, the investment in Zhonglian Commercial was accounted from equity method to cost method since December 2003.

- (ii) On 22nd December 2003, the Company and CTMC entered into an agreement for the disposal of the Company's 58.92% equity interests in Jintu to CTMC at a consideration of 24,866,602. Jintu is excluded from the Group's consolidation scope and the Group's interest in Jintu is accounted with cost method as at 31st December 2003. (note v)

(3) Consolidation difference

	Original cost	Amortisation Period	31st December 2002	Addition	Amortisation	Accumulated Amortisation	31 st December 2003
Impartible investment difference for 4 Hongda subsidiaries(i)	(6,213,559)	10 years	(4,271,248)	–	621,356	2,563,667	(3,649,892)
Shanxi Jingwei Heli Machinery Manufacturing Company Limited(ii)	3,628,470	10 years	–	3,628,470	(181,423)	(181,423)	3,447,047
	<u>(2,585,089)</u>		<u>(4,271,248)</u>	<u>3,628,470</u>	<u>439,933</u>	<u>2,382,244</u>	<u>(202,845)</u>

- (i) In the course of assets exchange with holding company in 1999, there is a difference of 6,213,559 between the cost of the long-term investment and the net assets of the acquired subsidiaries.
- (ii) The difference refers to the positive difference between the cost of the long-term investment and the net assets of the acquired subsidiary at the date of purchase (note V(1)(i)).



Notes to the Accounts

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

VI NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. FIXED ASSETS AND ACCUMULATED DEPRECIATION

	Buildings	Machinery and equipment	Motor vehicles	Total
Cost				
At 31st December 2002	663,203,770	1,070,477,764	55,861,885	1,789,543,419
Purchases from third parties	3,899,679	54,768,359	13,687,539	72,355,577
Newly acquired subsidiaries	72,511,093	106,109,363	7,087,598	185,708,054
Newly established subsidiaries	27,248,207	17,339,314	730,380	45,317,901
Transfer from CIP	63,581,631	84,129,044	1,134,914	148,845,589
Disposal of subsidiaries	(315,000)	(6,978,029)	(2,333,401)	(9,626,430)
Investment with fixed assets	(335,416,940)	—	—	(335,416,940)
Other disposals	(3,109,411)	(73,703,435)	(5,214,576)	(82,027,422)
At 31st December 2003	491,603,029	1,252,142,380	70,954,339	1,814,699,748
Accumulated depreciation				
At 31st December 2002	124,884,550	593,782,450	18,044,344	736,711,344
Charge for the year	16,058,498	74,646,205	5,069,687	95,774,390
Newly acquired subsidiaries	27,875,831	73,970,244	3,994,622	105,840,697
Newly established subsidiaries	10,279,350	13,211,844	354,365	23,845,559
Disposal of subsidiaries	(61,110)	(628,114)	(394,993)	(1,084,217)
Investment with fixed assets	(9,562,443)	—	—	(9,562,443)
Other disposals	(1,296,533)	(65,046,237)	(3,173,894)	(69,516,664)
At 31st December 2003	168,178,143	689,936,392	23,894,131	882,008,666
Fixed Assets Impairment Provision				
At 31st December 2002	—	40,639,006	—	40,639,006
Newly acquired subsidiaries	1,543,164	2,815,145	10,792	4,369,101
Addition	—	109,920	—	109,920
Reversal	—	(752,242)	—	(752,242)
At 31st December 2003	1,543,164	42,811,829	10,792	44,365,785
Net book value				
At 31st December 2003	321,881,722	519,394,159	47,049,416	888,325,297
At 31st December 2002	538,319,220	436,056,308	37,817,541	1,012,193,069

In accordance with the accounting regulations the Group assesses the recoverability of the fixed assets, and the excess of net book value over the recoverable amount is recognized as fixed asset impairment provision.

As at 31st December 2003, there was no pledged fixed assets (2002: Fixed assets with net value of 112,812,243 was use for pledged loan amounted to 52,055,000).

As at 31st December 2003, there was no leased fixed assets (2002: Fix assets with net value of 353,121,940 was used for leasing).

10. CONSTRUCTION MATERIALS

	31st December 2003	31st December 2002
Special equipment	2,184,157	2,188,307
Prepayment for equipment	26,154,934	24,931,220
	<u>28,339,091</u>	<u>27,119,527</u>

**Notes to the Accounts**

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

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

	Budget	31st December 2002	Addition	Newly acquired subsidiaries	Transfer to fixed assets	Disposal of subsidiaries	Other disposal	31st December 2003	Source of capital	Project amount incurred as a percentage of budget(%)
Scientific research base	32,388,573	49,899,301	7,308,744	-	(31,844,486)	-	-	25,363,559	Proceeds from additional share issue	177
Assembly line	14,970,000	10,153,944	1,038,530	-	(9,548,380)	-	(1,644,094)	-	Proceeds from additional share issue	-
Nanhu development project	8,000,000	8,195,527	2,964,676	-	(7,461,798)	-	(3,620,965)	77,440	Proceeds from additional share issue	100
Science and Technology center	22,000,000	6,393,254	15,549,752	-	-	-	-	21,943,006	Proceeds from additional share issue and self-financing	99
35T boiler	5,000,000	5,893,945	-	-	(5,893,945)	-	-	-	Loan	-
CIMS project for Zhengzhou Hongda	10,000,000	2,643,972	450,980	-	-	-	(2,546,032)	348,920	Proceeds from additional share issue	31
Bobbin winders	1,181,240	1,974,073	5,965,625	-	(7,939,698)	-	-	-	Loan	-
Assembly factory										
CIMS project for Tianjin Hongda	4,500,000	1,481,651	688,224	-	(1,768,834)	-	(401,041)	-	Proceeds from additional share issue	-
Horizontal boring & milling machine	4,500,000	-	4,934,524	-	-	-	-	4,934,524	Self-financing	110
NC Lathe	2,000,000	-	1,500,000	-	-	-	-	1,500,000	Self-financing	75
Equipment in opening & blowing machines manufacturer	6,800,000	-	2,344,600	-	-	-	-	2,344,600	Self-financing	34
Others		9,454,239	87,977,527	560,512	(84,388,448)	(25,876)	(2,830,426)	10,747,528		
Total		96,089,906	130,723,182	560,512	(148,845,589)	(25,876)	(11,042,558)	67,459,577		
Including: Capitalised interest expense		1,742,032	319,183	-	-	-	-	2,061,215		

Notes:

- Others include projects less than 1,000,000.
- Construction in progress includes capitalised interest expense of 2,061,215 (2002: 1,742,032), capitalised interest rate is 5.94% (2002: 5.94% to 6.53%).

12. INTANGIBLE ASSETS

Item	Cost	31st December 2002	Addition for the year	Newly acquired subsidiaries	Disposal of subsidiaries	Amortisation for the year	Accumulated Amortisation	31st December 2003	Remaining amortisation year	Acquisition method
Land use rights	153,236,230	121,702,849	5,876,665	14,587,531	-	(2,981,380)	(14,050,565)	139,185,665	43.3 to 49.9	Purchase
Trademark and patents	3,376,000	1,274,953	-	750	(9,767)	(940,936)	(3,051,000)	325,000	1.5 to 3.5	Purchase
Software	10,258,783	1,820,803	5,818,237	-	(209,199)	(1,051,247)	(3,880,189)	6,378,594	3.5 to 4.7	Purchase
Total	166,871,013	124,798,605	11,694,902	14,588,281	(218,966)	(4,973,563)	(20,981,754)	145,889,259		

Notes to the Accounts

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

VI NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**13. SHORT TERM LOANS**

Categories	31st December 2003	31st December 2002
Guaranteed	302,000,000	252,920,000
Unsecured	23,450,000	23,200,000
Secured	100,000	38,600,000
Total	<u>325,550,000</u>	<u>314,720,000</u>

The guarantors and the guaranteed amount are as follows:

Guarantor	Loans guaranteed
Jingwei Machinery (Group) Company Limited	262,000,000
Zhengzhou Textile Machinery Company Limited	20,000,000
Jingwei Textile Machinery Company Limited	20,000,000
	<u>302,000,000</u>

As at 31st December 2003, the total amount of overdue loans were 5,000,000(2002: 5,000,000), which is working capital loan of 5,000,000 from China Textile Association with the interest rate 5.31% (2002: 6.39%) per annum. The amount is not repaid as China Textile Association is still undergoing a restructuring exercise.

As at 31st December 2003, the above secured short-term loans were mortgaged by government bonds amounted to 100,000.

The range of the interest rate of short term-loans in 2003 was from 4.54% to 6.21% per annum.

14. NOTES PAYABLE

	Due Date	31st December 2003	31st December 2002
Trade acceptance	March 2004	52,500,000	—
Bank acceptance		297,801,094	309,717,420
		<u>350,301,094</u>	<u>309,717,420</u>

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

	31st December 2003	31st December 2002
Due to fellow subsidiaries	12,900,000	—
Due to Jingwei Group Company and its subsidiaries and associated companies	58,300,000	—
	<u>71,200,000</u>	<u>—</u>

15. ACCOUNTS PAYABLE

Accounts payable mainly represents the payable for purchase of materials.

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

	31st December 2003	31st December 2002
Due to the holding company	—	345,124
Due to fellow subsidiaries	37,551,050	18,661,538
Due to Jingwei Group Company and its subsidiaries and associated companies	45,621,417	37,365,552
	<u>83,172,467</u>	<u>56,372,214</u>

**Notes to the Accounts**

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

VI NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**16. ADVANCES FROM CUSTOMERS**

Included in advances from customers are related companies as follows:

	31st December 2003	31st December 2002
Due to holding company	21,340,759	14,860,842
Due to fellow subsidiaries	6,229,809	43,019,171
Due to Jingwei Group Company and its subsidiaries and associated companies	1,535,167	28,162,004
	<u>29,105,735</u>	<u>86,042,017</u>

Advances from customers mainly represent the advances received in accordance with sales contracts.

17. DIVIDENDS PAYABLE

	31st December 2003	31st December 2002
Due to H share investors	—	11,607
Due to minority shareholders	—	187,224
	<u>—</u>	<u>198,831</u>

18. TAXES PAYABLE

	31st December 2003	31st December 2002
Value added tax (recoverable)	(662,711)	(2,420,880)
Business tax payable	327,091	776,945
City construction tax payable	1,961,684	1,030,537
Income tax payable	10,716,402	16,754,083
Others	1,512,231	677,500
	<u>13,854,697</u>	<u>16,818,185</u>

19. OTHER ACCRUALS

	31st December 2003	31st December 2002
Education fee levy	996,240	1,288,213
Others	486,580	26,005
	<u>1,482,820</u>	<u>1,314,218</u>

Education fee levy is accrued based on 3% of value added tax and business tax paid.

20. OTHER PAYABLES

	31st December 2003	31st December 2002
Due to the holding company	—	9,969,685
Due to Jingwei Machinery (Group) Company limited	66,501,939	—
China Energy Investment Group (HongKong) Company Limited中國能源投資集團(香港)有限公司	54,442,851	—
Social insurance	31,194,667	18,090,172
Others	169,150,191	151,268,943
	<u>321,289,648</u>	<u>179,328,800</u>

Included in the other payables are payable to the related companies as follows:

	31st December 2003	31st December 2002
Due to the holding company	—	9,969,685
Due to fellow subsidiaries	25,362,646	5,831,559
Due to Jingwei Group and other subsidiaries and associated company	66,501,939	—
	<u>91,864,585</u>	<u>15,801,244</u>

Notes to the Accounts

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

VI NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**21. ACCRUED EXPENSES**

	31st December 2003	31st December 2002
Interest expense	955,535	92,324
Audit fee	1,700,000	1,900,000
Trial expenses of bobbin winders	2,792,414	2,337,792
Agency fee for the disposal of chemical fibre business	—	1,000,000
Consultation expenses	1,900,000	580,000
Sales agent fees	388,220	821,987
Qingdao Hongda CIMS expenses	812,000	525,000
Maintenances fees	1,860,000	—
Others	1,243,033	440,007
	<u>11,651,202</u>	<u>7,697,110</u>

22. PORTION OF LONG TERM LIABILITY DUE WITHIN ONE YEAR

	Note	31st December 2003	31st December 2002
Guaranteed	(1)	23,000,000	10,620,000
Secured		—	3,588,000
		<u>23,000,000</u>	<u>14,208,000</u>

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

Name of banks	Amount	Maturity date	Annual Rate	Guarantor	Terms
China Industrial & Commercial Bank	23,000,000	3rd September 2004	5.94%	Jingwei Machinery (Group) Company Limited	Guaranteed

The interest of the current portion of long term loan of the Group is paid quarterly.

23. LONG TERM LOANS

	Note	31st December 2003	31st December 2002
Guaranteed	(1)	62,800,000	55,800,000
Secured		—	9,867,000
		<u>62,800,000</u>	<u>65,667,000</u>

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

Name of banks	Amount	Maturity date	Annual Rate	Guarantor	Terms
China Industrial & Commercial Bank	20,000,000	22nd January 2006	5.49%	Jingwei Textile Machinery Company Limited	Guaranteed
Bank of China	20,000,000	15th May 2007	5.58%	Jingwei Textile Machinery Company Limited	Guaranteed
China Construction Bank	22,800,000	29th May 2005	5.46%	Jingwei Textile Machinery Company Limited	Guaranteed
	<u>62,800,000</u>				

The interest of the long term loan of the Group is paid quarterly.

**Notes to the Accounts**

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

VI NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**24. SHARE CAPITAL**

	31st December 2002	Rights issue	Bonus issue	Placing	Shares transfer from reserve funds	Others	Sub-total	31st December 2003
Shares not permitted to be traded								
Shares held by promoter	220,000,000	-	-	-	-	-	-	220,000,000
Including:								
State-owned shares	-	-	-	-	-	-	-	-
Shares owned by domestic legal persons	220,000,000	-	-	-	-	-	-	220,000,000
Shares owned by foreign legal persons	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
Subscriber legal person shares	-	-	-	-	-	-	-	-
Employee shares	-	-	-	-	-	-	-	-
Preferred shares and others	-	-	-	-	-	-	-	-
Including:								
Bonus issue shares	-	-	-	-	-	-	-	-
Sub-total	220,000,000	-	-	-	-	-	-	220,000,000
Shares permitted to be traded								
Domestically listed domestic shares (A Shares)	203,000,000	-	-	-	-	-	-	203,000,000
Domestically listed foreign shares	-	-	-	-	-	-	-	-
Overseas listed foreign shares	180,800,000	-	-	-	-	-	-	180,800,000
Others	-	-	-	-	-	-	-	-
Sub-total	383,800,000	-	-	-	-	-	-	383,800,000
Total number of shares in issue	603,800,000	-	-	-	-	-	-	603,800,000

25. CAPITAL SURPLUS

	31st December 2002	Addition	Deduction	31st December 2003
Share premium	1,247,954,114	-	-	1,247,954,114
Equity Investment Provision	-	9,562,443	-	9,562,443
Surplus on revaluation of assets	4,200,000	-	-	4,200,000
Total	1,252,154,114	9,562,443	-	1,261,716,557

The Company established, 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, which was owned as to 47.92% by the Company. The net book value of the property was 325,854,497 at the date of investment.

According to the "Accounting system for Business Enterprises", the difference of 9,562,443 between the cost of the investment and net book value of the property has been recorded as capital surplus-equity investment provision.

Notes to the Accounts

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

VI NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**26. SURPLUS RESERVE**

	Statutory surplus fund	Discretionary surplus fund	Statutory public welfare	Total
Balance at 31st December 2002	83,010,337	27,763,047	83,010,336	193,783,720
Addition	29,083,535	—	29,083,536	58,167,071
Balance at 31st December 2003	<u>112,093,872</u>	<u>27,763,047</u>	<u>112,093,872</u>	<u>251,950,791</u>

- (a) According to “Company Law of the People’s Republic of China” and the Company’s and its subsidiaries’ Articles of Association, as well as the resolutions of the Board of Directors, each of the Company and its subsidiaries is required to transfer 10% of its profit after taxation to its Statutory Surplus Reserve Fund until the reserve reaches 50% of its registered capital. Upon approval from the authorities, the Statutory Surplus Reserve Fund can be used to offset accumulated losses or to increase share capital. When utilized to increase share capital, the remaining balance of the Statutory Surplus Reserve Fund cannot fall below 25% of the share capital. The Company and its subsidiaries appropriated 29,083,535 to the Statutory Surplus Reserve Fund in 2003 (2002: 22,200,716).
- (b) According to the Company’s and its subsidiaries’ Articles of Association, 10% of profit after taxation is required to be transferred to the Statutory Public Welfare Fund. The Statutory Public Welfare Fund can only be used to fund collective welfare benefits for employees and cannot be distributed to shareholders. When utilizing the Statutory Public Welfare Fund, the amount used is transferred to the Discretionary Surplus Reserve Fund. The related expenditure are either capitalized as an asset of the Company or expensed, as applicable. The Company and its subsidiaries appropriated 29,083,536 to the Statutory Public Welfare Fund in 2003 (2002: 22,200,715).
- (c) According to the Company’s and the subsidiaries’ Articles of Association, the Board of Directors, after obtaining approval from the shareholders, has the discretion to provide for Discretionary Surplus Reserve Fund. Upon approval from the authorities, the discretionary surplus reserve can be used to make up any losses incurred or to increase share capital.

After the transfer of the above reserves, profit available for distribution to shareholders is the lower of the profit after taxation prepared in accordance with the PRC Accounting Standards and System or prepared in accordance with Generally Accepted Accounting Principles of Hong Kong.

27. UNDISTRIBUTED PROFITS

	2003	2002
Undistributed profit at the beginning of the year	257,973,127	164,689,415
Less: Retrospective adjustment	—	36,228,000
Undistributed profit at the beginning of the year after retrospective adjustment	257,973,127	200,917,415
Add: Profit for the year	161,534,481	137,685,143
Less: Transfer to statutory surplus reserve	(29,083,535)	(22,200,716)
Transfer to statutory public welfare fund	(29,083,536)	(22,200,715)
Dividend for common stock		
– Last year cash dividends approved by general meeting of shareholders	(36,228,000)	(36,228,000)
Balance at 31st December 2003	<u>325,112,537</u>	<u>257,973,127</u>

As mentioned in note II, as effective from 1st July 2003, the Group adopted the revised “Accounting Standards for Business Enterprises – Events Occurring After the Balance Sheet Date”. Distribution of cash dividends is recognised as a transfer from shareholders’ equity to liability in the period when the profit appropriation plan is approved by the general meeting of the shareholders. As a result of the adoption of the revised standard, the change in accounting policy has been adjusted retrospectively, resulting in an increase of 36,228,000 undistributed profits as at 31st December 2002 and 2001 respectively.

In addition, pursuant to the Board of Directors’ meeting held on 30th March 2004, the Company proposed to distribute a final cash dividend of 0.72 for every ten shares held by shareholders, totalling 43,473,600. As the proposal is subject to shareholders’ approval, such distribution of dividend has not been presented as a liability in the financial statements. Upon approval by the shareholders in the forthcoming 2003 annual general meeting, the dividend distribution will be recorded as a payable in the 2004 accounts.

**Notes to the Accounts**

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

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

VI NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**28. REVENUES FROM MAIN OPERATIONS AND COST OF GOODS SOLD****Primary reporting format – business segment**

The Group's segment revenues, expenses and results are primarily attributable to manufacture and sale of textile machinery.

Other operations of the Group include sale of textile machinery components, special parts and other products, neither of which are of a sufficient size to be reported separately.

Secondary reporting format – geographical segment

Location	2003		2002	
	Revenue from main operations	Cost of Goods Sold	Revenue from main operations	Cost of Goods Sold
China	3,891,117,989	3,144,556,843	2,403,758,482	1,848,886,144
Africa	2,315,710	2,230,006	2,006,559	1,471,446
Asia	383,400,221	360,617,480	406,163,583	374,112,192
Others	28,908,914	26,324,694	16,509,401	14,202,275
Total	<u>4,305,742,834</u>	<u>3,533,729,023</u>	<u>2,828,438,025</u>	<u>2,238,672,057</u>

The top five customers' revenue is 779,450,297, as 18% of the Group's total revenue (2002: 520,753,000, 18%).

29. TAX AND LEVIES ON MAIN OPERATIONS

	2003	2002
Business tax	127,788	221,188
City construction tax	12,419,851	6,843,965
Education levy	4,328,741	2,272,265
Total	<u>16,876,380</u>	<u>9,337,418</u>

30. PROFITS FROM OTHER OPERATIONS

	2003	2002
Income from other operations		
Operating lease income	24,033,659	32,985,860
Sales of materials and others	817,971,887	155,359,846
Other	21,017,895	5,111,158
Subtotal	<u>863,023,441</u>	<u>193,456,864</u>
Cost of other operations		
Operating lease cost	(1,221,743)	(1,345,126)
Cost of materials and others	(788,004,251)	(148,344,462)
Other	(17,576,389)	(493,905)
Subtotal	<u>(806,802,383)</u>	<u>(150,183,493)</u>
Total	<u>56,221,058</u>	<u>43,273,371</u>

31. FINANCIAL EXPENSES

	2003	2002
Interest expense	30,194,312	45,310,874
Less: Interest income	(14,640,870)	(19,049,535)
Exchange loss, net	18,927	61,188
Others	1,305,001	1,465,725
	<u>16,877,370</u>	<u>27,788,252</u>

Notes to the Accounts

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

VI NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**32. INCOME/(LOSS) FROM INVESTMENT**

	2003	2002
Share of associated companies' income	141,865	743,740
Provision for short term investment loss	—	(3,356,338)
Amortisation of investment difference	439,932	34,162
Interest income from entrusted loans	—	1,297,350
(Loss)/Income from investment in futures	(1,204,005)	36,969
Other investment income	5,071,001	684,768
	<u>4,448,793</u>	<u>(559,349)</u>

As at 31st December 2003, there is no significant restriction on the remittance of earnings of the Group.

33. THE CASH FLOW RELATING TO THE ACQUISITION OF THE SUBSIDIARY COMPANIES

The Company acquired 28% equity interest of Shangxi Jingwei Heli Machinery Manufacture Company ("Heli") from Jingwei Machinery (Group) Company Limited at a consideration of 37,935,414 in July 2003. The consideration for such acquisition was based on the net assets of Heli Company amounting to 135,483,621 as at 30th November 2002 as stated in the appraisal report issued by the PRC independent accountant multiplied by the percentage of shareholding being 28% acquired by the Company. Relevant net assets of Heli was 34,306,944 at the purchase date. The difference between consideration and relevant net assets was 3,628,470.

In January 2003, the Group acquired 52.63% equity interests in Beijing Hongda Fangji Management Consulting Company Limited (Hongda Fangji) from its holding company of China National Textile Machinery (Group) Company Limited at a consideration of 2,000,000. Thus, the Group holds 100% of capital share of Hongda Fangji.

(1) Details of the transaction:

	Hongda Fangji	Heli	Total
	As at 1st January 2003	As at 1st July 2003	
Cash received on acquisition of the subsidiaries	3,526,966	13,132,337	16,659,303
Non-cash assets: Inventories	—	128,222,612	128,222,612
Fixed assets-cost	43,345	185,664,708	185,708,053
Less: Accumulated depreciation	(7,708)	(105,832,989)	(105,840,697)
Less: Provision for impairment of fixed assets	—	(4,369,100)	(4,369,100)
Long term investment	—	2,659,751	2,659,751
Intangible assets	—	1,290,570	1,290,570
Accounts receivable	—	55,477,293	55,477,293
Other current assets	179,192	40,869,690	41,048,882
Liability: Short term loans	—	(28,750,000)	(28,750,000)
Accounts payable	—	(86,322,718)	(86,322,718)
Other current liabilities	(8,523)	(79,517,355)	(79,525,878)
Minority interest	—	(88,217,855)	(88,217,855)
Net assets	3,733,272	34,306,944	38,040,216
Carrying value of investment in associated company as of 31st December 2002	(1,733,272)	—	(1,733,272)
Investment difference	—	3,628,470	3,628,470
Purchase consideration	<u>2,000,000</u>	<u>37,935,414</u>	<u>39,935,414</u>
Cash paid on acquisition	<u>(2,000,000)</u>	<u>(37,935,414)</u>	<u>(39,935,414)</u>

**Notes to the Accounts**

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

VI NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**33 THE CASH FLOW RELATING TO THE ACQUISITION OF THE SUBSIDIARY COMPANIES (continued)**

(2) Effect on the current operating result:

	Hongda Fangji The period from 1st January to 31st December 2003	Heli The period from 1st July to 31st December 2003	Total
Sales revenue	—	234,548,833	234,548,833
Less: Cost of sales	—	(204,089,070)	(204,089,070)
Sales tax	—	(970,035)	(970,035)
Selling expenses	—	(901,854)	(901,854)
Financial expenses	25,364	(1,230,631)	(1,205,267)
General and administrative expenses	(128,090)	(27,409,762)	(27,537,852)
Add: Other operating income	—	480,119	480,119
Non-operating income	—	142,440	142,440
Subsidy revenue	—	1,487,622	1,487,622
Less: Non-operating expenses	—	(1,119,611)	(1,119,611)
Total profit/(loss)	(102,726)	938,051	835,325
Income tax	—	(2,455,338)	(2,455,338)
Net loss	(102,726)	(1,517,287)	(1,620,013)

34 THE CASH FLOW RELATING TO THE PROPOSED DISPOSAL OF THE SUBSIDIARY COMPANIES

The Company signed the Equity Transfer Agreement with China National Textile Machinery (Group) Company Limited in December 2003, pursuant to which the Company intended to dispose 58.92% equity interest in Jintu Information Technology Company Limited ("Jintu Information") held by the Company. The consideration of 24,866,602 for such disposal was based on the percentage of shareholding of Jintu Information held by the Company multiplied by the unaudited net asset value of Jintu Information as shown in its management accounts as at 30th November 2003. Such transaction would be accomplished in 2004 and Jintu Information was excluded from the Company's consolidation as at 31st December 2003.

One of the Company's subsidiaries, Beijing Garden Automobile Lease Company Limited ("Garden Automobile") discontinued its operation from April 2003. Thereafter, Garden Automobile has been excluded from the Company's consolidation, and the Company accounts for the investment in Garden Automobile using the cost method of accounting as at 31st December 2003.

	Jintu Information	Huayuan Automobile	Total
Non-cash assets:			
Inventories	7,043,940	—	7,043,940
Fixed assets-cost	8,008,630	1,617,800	9,626,430
Less: Accumulated depreciation	(754,221)	(329,996)	(1,084,217)
Construction in progress	25,876	—	25,876
Long term deferred expenses	398,534	—	398,534
Intangible assets	9,767	209,199	218,966
Other current assets	30,747,551	387,098	31,134,649
Liability: Accounts payable	(56,285)	—	(56,285)
Other current liabilities	(921,855)	(726,581)	(1,648,436)
Long term loan	—	—	—
Minority interest	(20,154,170)	(341,349)	(20,495,519)
Long term investment	(27,478,902)	(1,365,397)	(28,844,299)
Cash decrease on proposed disposal of subsidiaries	(3,131,135)	(549,226)	(3,680,361)

Notes to the Accounts

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

VII NOTES TO FINANCIAL STATEMENTS – COMPANY**1. ACCOUNTS RECEIVABLES AND OTHER RECEIVABLES****(1) Accounts receivables**

	31st December 2003			31st December 2002		
Accounts receivables			356,866,007			284,866,120
Less: bad debt provision			(37,480,668)			(14,846,527)
			<u>319,385,339</u>			<u>270,019,593</u>
	31st December 2003			31st December 2002		
	Amount	%	Provision	Amount	%	Provision
Aging:						
Within 1 year	286,879,682	81	–	204,616,616	72	–
1 to 2 years	15,410,013	4	(3,016,475)	42,945,588	15	(5,494,895)
2 to 3 years	25,397,285	7	(5,285,166)	6,701,548	2	(1,484,492)
Over 3 years	29,179,027	8	(29,179,027)	30,602,368	11	(7,867,140)
	<u>356,866,007</u>	<u>100</u>	<u>(37,480,668)</u>	<u>284,866,120</u>	<u>100</u>	<u>(14,846,527)</u>

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

	31st December 2003	31st December 2002
– Due from the holding company	14,837,588	226,954
– Due from fellow subsidiaries	109,005,097	33,597,974
– Due from Jingwei Group Company and its subsidiaries and associated companies	181,136	522,516
	<u>124,023,821</u>	<u>34,347,444</u>

The total amount of the five largest individual balance of accounts receivables is 209,296,782 and this accounts for 59% of the total accounts receivables balance (2002: 134,584,140, 47%).

The accounts receivables with aging of 2 to 3 years include the amounts due by subsidiaries and thus no bad debt provision is made.

(2) Other receivables

	31st December 2003		31st December 2002	
Other receivables		<u>210,506,432</u>		<u>258,746,150</u>
	31st December 2003		31st December 2002	
Ageing	Amount	%	Amount	%
Within 1 year	175,726,104	83	243,047,885	94
1 to 2 years	23,627,629	11	2,237,601	1
2 to 3 years	60,842	–	9,740,138	4
Over 3 years	11,091,857	6	3,720,526	1
	<u>210,506,432</u>	<u>100</u>	<u>258,746,150</u>	<u>100</u>

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

	31st December 2003	31st December 2002
– Due from the holding company	9,000,000	38,072,261
– Due from fellow subsidiaries	10,836,348	8,300,000
– Due from Jingwei Group Company and its subsidiaries and associated companies	1,309,373	37,778,346
	<u>21,145,721</u>	<u>84,150,607</u>

The total amount of the five largest individual balance of other receivables is 105,680,909 and this accounts for 50% of the total other receivables balance (2002: 100,871,792, 39%).

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

**Notes to the Accounts**

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

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

	31st December 2002	Addition	Disposal	31st December 2003
Investment in				
associated companies (a)	62,412,203	16,935,113	–	79,347,316
Investment in subsidiaries (b)	828,441,467	112,373,969	(109,490,414)	831,325,022
Other equity investment (c)	–	362,799,665	–	362,799,665
Investment difference	(4,271,248)	3,628,470	439,933	(202,845)
Total	<u>886,582,422</u>	<u>495,737,217</u>	<u>(109,050,481)</u>	<u>1,273,269,158</u>

(a) Investment in associated companies

Name of investee	Investment period	Equity Interest Held(%)		Investment Cost		Accumulated Equity Movement			Balance	
		31st December 2002	31st December 2003	31st December 2002	31st December 2003	31st December 2002	Changes in equity	31st December 2003	31st December 2002	31st December 2003
Hongda Research Company Limited	2001 to 2101	40	40	20,000,000	20,000,000	529,055	1,007,937	1,536,992	20,529,055	21,536,992
Shenzhen Bolue Technology Co., Ltd.	2001 to 2031	40.94	40.94	35,000,000	35,000,000	828,041	152,071	980,112	35,828,041	35,980,112
Hongda International Trade Limited	2000 to 2010	20	20	6,000,000	6,000,000	55,107	(19,456)	35,651	6,055,107	6,035,651
Zhengzhou Non- woven Fabric Company Limited	2003 to 2007	–	42.5	–	17,000,000	–	(1,205,439)	(1,205,439)	–	15,794,561
				<u>61,000,000</u>	<u>78,000,000</u>	<u>1,412,203</u>	<u>(64,887)</u>	<u>1,347,316</u>	<u>62,412,203</u>	<u>79,347,316</u>

(b) Investment in subsidiaries

Name of investee	Investment period	Equity Interest Held(%)		Investment Cost		Accumulated Equity Movement			Balance	
		31st December 2002	31st December 2003	31st December 2002	31st December 2003	31st December 2002	Changes in equity	31st December 2003	31st December 2002	31st December 2003
Beijing Jingpeng Investment Management Company Limited	2001 to 2051	80	80	16,000,000	16,000,000	1,572,402	982,804	2,555,206	17,572,402	18,555,206
Jintu Information Technology Company Limited	2001 to 2031	58.9	–	30,000,000	–	(2,521,098)	2,521,098	–	27,478,902	–
Shanghai Chuangan Trade Company Limited	2001 to 2011	90	90	1,800,000	1,800,000	225,496	202,545	428,041	2,025,496	2,228,041
Hongkong Huaming Company Limited	2000 to 2030	100	100	4,966,416	4,966,416	(473,046)	495,991	22,945	4,493,370	4,989,361
Beijing Jingwei Textile Machinery New Technology Company Limited	2000 to 2050	98.4	98.4	98,407,084	98,407,084	1,420,250	9,480,238	10,900,488	99,827,334	109,307,572
Tianjin Hongda Textile Machinery Company Limited	1999 to 2009	98	98	71,390,523	71,390,523	34,453,289	9,916,176	44,369,465	105,843,812	115,759,988
Shenyang Hongda Textile Machinery Company Limited	1999 to 2009	98	98	81,742,695	81,742,695	5,184,996	16,646,353	21,831,349	86,927,691	103,574,044
Zhengzhou Hongda New Textile Machinery Company Limited	1999 to 2009	98	98	81,243,200	81,243,200	18,163,376	2,547,889	20,711,265	99,406,576	101,954,465
Qingdao Hongda Textile Machinery Company Limited	1999 to 2009	98	98	96,863,612	96,863,612	77,171,550	17,908,071	95,079,621	174,035,162	191,943,233
Yichang Textile Machinery Company Limited	2002 to 2052	100	–	62,360,488	–	4,060,734	(4,060,734)	–	66,421,222	–
Changde Textile Machinery Company Limited	2002 to 2012	95	70	47,879,902	35,279,928	20,953,638	(9,961,508)	10,992,130	68,833,540	46,272,058
Jinzhong Jingwei Ring Manufacturing Company Limited	1993 to 2003	98	98	500,000	500,000	384,797	205,417	590,214	884,797	1,090,214
Jingwei Textile Machinery Yuci Material Company	1996 to 2003	99.2	99.2	5,000,000	5,000,000	100,413	2,383	102,796	5,100,413	5,102,796



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VII NOTES TO FINANCIAL STATEMENTS – COMPANY (CONTINUED)

2. LONG TERM EQUITY INVESTMENT (Continued)

(b) Investment in subsidiaries (Continued)

Name of investee	Investment period	Equity Interest Held(%)		Investment Cost		Accumulated Equity Movement			Balance	
		31st December 2002	31st December 2003	31st December 2002	31st December 2003	31st December 2002	Changes in equity	31st December 2003	31st December 2002	31st December 2003
Taiyuan Jingwei Electrical Company Limited	1997 to 2047	98	98	9,412,000	9,412,000	(3,518,475)	13,593	(3,504,882)	5,893,525	5,907,118
Shanghai Jingwei Dongxing Blowing- Carding Machinery Company Limited	2001 to 2011	73.95	73.95	36,974,000	36,974,000	6,382,237	1,870,678	8,252,915	43,356,237	45,226,915
Shanxi Jingwei Computer Technology Development Company Limited	1995 to permanent	60	-	640,000	-	436,851	(436,851)	-	1,076,851	-
Ningbo Daxie Machinery and Develop Zone Wu Fang Hongda Company Limited	1999 to 2009	98	98	2,352,000	2,352,000	2,919,966	(1,142,546)	1,777,420	5,271,966	4,129,420
Shanghai Weixin Electrical & Machinery Company Limited	2000 to 2050	90	90	14,400,000	14,400,000	(407,829)	(220,438)	(628,267)	13,992,171	13,771,733
Wuxi Jingwei Textile Technology Testing Company Limited	2003 to 2013	-	55	-	27,240,807	-	387,155	387,155	-	27,627,962
Shanxi Jingwei Heli Machinery Manufacture Company	2003 to permanent	-	28	-	34,306,944	-	(422,048)	(422,048)	-	33,884,896
				661,931,920	617,879,209	166,509,547	46,936,266	213,445,813	828,441,467	831,325,022

(c) Other Equity Investment

Name of investee	Investment period	Investment cost	Equity interest held (%)
Shanghai Jingwei Zhonglian Commercial Development Company Limited	2003 to 2005	337,993,063	47.92%
Jintu Information Technology Company Limited	2001 to 2004	24,866,602	58.92%
		<u>362,799,665</u>	

3. REVENUES FROM MAIN OPERATIONS

	2003	2002
Mainland China	1,352,580,821	769,445,858
Africa	2,156,410	7,997
Asia	298,439,656	332,894,546
Other	17,019,996	8,143,163
	<u>1,670,196,883</u>	<u>1,110,491,564</u>

4. COST OF GOODS SOLD

	2003	2002
Mainland China	1,144,042,711	595,601,774
Africa	2,118,496	7,875
Asia	292,790,863	320,421,075
Other	16,686,570	7,572,598
	<u>1,455,638,640</u>	<u>923,603,322</u>

**Notes to the Accounts**

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

VII NOTES TO FINANCIAL STATEMENTS – COMPANY (CONTINUED)**5. INCOME/(LOSS) FROM INVESTMENT**

	2003	2002
Share of associated companies' income	26,731	781,665
Adjustment for the changes in the equity of subsidiaries and associated companies	114,865,919	86,709,766
Amortisation of investment difference	439,933	1,355,117
Provision for short term investment loss	–	(1,225,000)
Interest income from entrusted loans	–	1,297,350
Other investment loss	(64,872)	(48,606)
	<u>115,267,711</u>	<u>88,870,292</u>

As at 31st December 2003, there is no significant restriction on the remittance of the Company's investment income.

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

Name	Registered Address	Main business	Relation with the Company	Nature or type	Legal representative
China National Textile Machinery (Group) Co., Ltd ("CTMC")	PRC	Manufacturing and trading textile machinery	Holding company of the Company	Limited company	Wang Tiankai
Shanxi Jingwei Computer Technology Development Company Limited	PRC	Distribution of computers and related services	Subsidiary	Limited company	Ye Maoxin
Jinzhong Jingwei Ring Manufacturing Company Limited	PRC	Manufacture of textile machinery components	Subsidiary	Limited company	He Lizhao
Jingwei Textile Machinery Yuci Material Company Limited	PRC	Trading of furnace materials, metals textile machinery components and charcoal	Subsidiary	Limited company	Guan Xuefeng
Taiyuan Jingwei Electrical Company Limited	PRC	Manufacture and sales of transformers and electrical components	Subsidiary	Limited company	Guan Xuefeng
Ningbo Daxie Development Zone Wu Fang Hongda Company Limited	PRC	Sales of textile machinery and related components; providing related services	Subsidiary	Limited company	Yao Yuming
Qingdao Hongda Textile Machinery Company Limited	PRC	Manufacture, sales, repairing and leasing of textile machinery and related components	Subsidiary	Limited company	Ye Maoxin
Tianjin Hongda Textile Machinery Company Limited	PRC	Technical development consultation, sales of textile machinery, related components and other machinery	Subsidiary	Limited company	Zhang Jianguo
Zhengzhou New Hongda Textile Machinery Company Limited	PRC	Developing and manufacturing textile machinery and related components	Subsidiary	Limited company	Tang Qiwei

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

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

Name	Registered Address	Main business	Relation with the Company	Nature or type	Legal representative
Shenyang Hongda Textile Machinery Company Limited	PRC	Developing and processing textile machinery and related components; providing technical consultation	Subsidiary	Limited company	Ye Maoxin
Beijing Jingwei Textile Machinery New Technology Company Limited	PRC	Technical developing, sales of textile machinery and computer hardware, agricultural machinery equipment instrument automobile components	Subsidiary	Limited company	Ye Maoxin
Shanghai Weixin Electrical & Machinery Company Limited	PRC	Textile machinery, automobile component and general machinery's developing and manufacturing	Subsidiary	Limited company	Ye Maoxin
Beijing Ximen Information Technology Company Limited	PRC	Manufacturing, wholesale and retail	Subsidiary	Limited company	Liu Shitong
Hong Kong Huaming Company Limited	HK, PRC	Imports and exports, general trading and consulting services	Subsidiary	Limited company	Ye Maoxin
Beijing Jingpeng Investment Management Company Limited	PRC	Investment management, sales of electronic & chemical products (other than dangerous products), machinery, construction materials, wood, automotive parts, local products, fashion and exhibitions and provision of technology information	Subsidiary	Limited company	Ye Maoxin
Shanghai Chuangan Trade Company Limited	PRC	Trading sales of textile, electronic products, chemical products (other than dangerous products), metal construction materials, wood, cement, mining-related sub-products.	Subsidiary	Limited company	Yao Yuming
Jinan Jin Hongda Textile Machinery Company Limited	PRC	Research of electronics and general machinery technology and production consultation and services, processing and sales of textile industry equipment, switch control equipment, agriculture equipment, general equipment component and parts	Subsidiary	Limited company	Li Xiangjie

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

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

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

Name	Registered Address	Main business	Relation with the Company	Nature or type	Legal representative
Shanghai Jingwei Dongxing Blowing-Carding Machinery Company Limited	PRC	Manufacturing and sales of blowing-carding machinery and related components	Subsidiary	Limited company	Guan Xuefeng
Changde Textile Machinery Company Limited	PRC	Manufacturing and trading of textile machinery and other machinery, powder metallurgy (regulated by the special regulations)	Subsidiary	Limited company	Ye Maoxin
Wuxi Jingwei Textile Technology Testing Company Limited	PRC	Production and sales of cotton yarn, research and development of textile machinery and related technology	Subsidiary	Limited company	Ye Maoxin
Beijing Hongda Fangji Enterprise's Management Consulting Company Limited	PRC	Enterprise management; technical development, consulting, service and training; organization of culture and art communication activities	Subsidiary	Limited company	Liu Shitong
Shanxi Jingwei Heli Machinery Manufacture Company	PRC	Manufacturing, design, installation and sales of machinery and electrical equipment and mineral production; import and export	Subsidiary	Joint Corporation	Guan Xuefeng

Notes to the Accounts

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

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

VIII RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)**(2) Changes in the registered capital of related party with controlling relationship**

Name of enterprise	Beginning balance	Increase	Decrease	Year end balance
China National Textile Machinery (Group) Co., Ltd (“CTMC”)	1,555,269,000	—	—	1,555,269,000
Shanxi Jingwei Computer Technology Development Company Limited	1,600,000	—	—	1,600,000
Jinzhong Jingwei Ring Manufacturing Company Limited	500,000	—	—	500,000
Jingwei Textile Machinery Yuci Material Company	5,000,000	—	—	5,000,000
Taiyuan Jingwei Electrical Company Limited	5,000,000	—	—	5,000,000
Ningbo Daxie Development Zone Wu Fang Hongda Company Limited	2,400,000	—	—	2,400,000
Qingdao Hongda Textile Machinery Company Limited	114,000,000	—	—	114,000,000
Tianjin Hongda Textile Machinery Company Limited	78,500,000	—	—	78,500,000
Zhengzhou Hongda New Textile Machinery Company Limited	74,500,000	—	—	74,500,000
Shenyang Hongda Textile Machinery Company Limited	71,000,000	—	—	71,000,000
Beijing Jingwei Textile Machinery New Technology Company Limited	100,000,000	—	—	100,000,000
Shanghai Weixin Electrical & Machinery Company Limited	16,000,000	—	—	16,000,000
Beijing Ximen Information Technology Company Limited	6,600,000	5,400,000	—	12,000,000
Hong Kong Huaming Company Limited	4,966,416	—	—	4,966,416
Beijing Jingpeng Investment Management Company Limited	20,000,000	—	—	20,000,000
Shanghai Chuangan Trade Company Limited	2,000,000	—	—	2,000,000
Jinan Jin Hongda Textile Machinery Company Limited	5,000,000	—	—	5,000,000
Wuxi Jingwei Textile Technology Testing Company Limited	—	49,530,000	—	49,530,000
Shanghai Jingwei Dongxing Bowing-Carding Machinery Company Limited	50,000,000	—	—	50,000,000
Beijing Hongda Fangji Enterprise's Management Consulting Company Limited	3,800,000	—	—	3,800,000
Yichang Textile Machinery Company Limited	64,007,600	—	(64,007,600)	—
Shanxi Jingwei Heli Machinery Manufacture Company	100,100,000	—	—	100,000,000
Changde Textile Machinery Company Limited	42,349,900	—	—	42,349,900

**Notes to the Accounts**

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

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

VIII RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)**(3) Changes in the stock or owner's equity of the related party which controls the Company**

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

(4) For changes in the equity of those subsidiaries in which the Company has control, please refer to notes to the accounts VII 2 (2).**(5) Fellow subsidiaries in which the Company has no control:**

Name of related party	Relation with the Company
Tianjin Textile Machinery Plant	Fellow subsidiaries
Jingwei Machinery (Group) Company Limited	Fellow subsidiaries
Hengyang Textile Machinery Plant	Fellow subsidiaries
Shenyang Textile Machinery Plant	Fellow subsidiaries
Wuxi Textile Machinery & Special Parts Plant	Fellow subsidiaries
Changde Textile Machinery Plant	Fellow subsidiaries
Changzhou Textile Machinery Plant	Fellow subsidiaries
Taichang Textile Machinery Plant	Fellow subsidiaries
Qingdao Textile Machinery Plant	Fellow subsidiaries
Zhengzhou Textile Machinery Company Limited	
Zhengzhou Textile Machinery Plant	Fellow subsidiaries
Weinan Textile Machinery Plant	Fellow subsidiaries
China National Textile Machinery (Group) Company Limited	
Guangzhou branch office	Fellow subsidiaries
China National Textile Machinery Group Sales Company	Fellow subsidiaries
Huangshi Textile Machinery Plant	Fellow subsidiaries
Shaoyang Textile Machinery Company Limited	Fellow subsidiaries
Beijing Hongda Shiye Company Limited	Fellow subsidiaries
Trading Committee of Zhongji Company	Fellow subsidiaries
Shenyang Hongsheng Textile Machinery Company Limited	Fellow subsidiaries
Shenyang Textile Machinery Spare Parts Sales Company	Fellow subsidiaries
Yichang China National Textile Machinery Components Company Limited	Fellow subsidiaries
China National Textile Machinery Group Finance Company	Associated companies of CTMC
Luhuan Construction Company limited	Associated companies
Hongda International Trading Company Limited	Associated companies
Hongda Research Company Limited	Associated companies
Qingdao Jinyi Pressing and Casting Company Limited	Associated companies
Shenyang Jingxing Textile Machinery Company Limited	Associated companies
China National Textile Machinery Group Beijing Automatic Controlling Technology Company Limited	Associated companies
Shenzhen Bolue Science and Technology investment Company Limited	Associated companies

Related companies include the holding company, the subsidiaries and associated companies, Jingwei Machinery (Group) Co., Ltd. (herewith known as "Jingwei Group Company"), its subsidiaries and associated companies.

Jingwei Group Company was formerly known as Jingwei Textile Machinery Plant.

The above fellow subsidiaries other than Jingwei Group Company are collectively referred to as "fellow subsidiaries".

Notes to the Accounts

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

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

VIII RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)**(6) Related party transactions**

- (a) The following is a summary of significant related party transactions entered into by the Group in the normal course of business:

Transactions with CTMC	Note	2003 Amount	2002 Amount
Sale of finished goods	(i)	7,461,509	11,275,583
Interest income	(i)	—	1,297,350
Purchase of raw materials and components	(i)	372,736	—
Disposal of chemical fiber business	(iv)	—	29,072,261
Purchase of subsidiary companies	(iii)	<u>2,000,000</u>	<u>88,027,584</u>
Transactions with Jingwei Group Company			
Sale of finished goods	(i)	9,174,822	37,751,348
Sale of raw materials and components	(i)	1,610,539	3,278,090
Fees received for the provision of supporting services	(i)	1,303,950	4,768,616
Purchase of tools and moulds	(i)	12,413,738	18,811,935
Purchase of raw materials and components	(i)	101,816,939	7,162,145
Processing fees paid	(i)	9,131,592	23,758,302
Fees paid for transportation services	(i)	2,477,991	3,139,152
Fees paid for repairs and maintenance services	(i)	17,551,951	28,194,223
Fees paid for other supporting services	(i)	11,601,839	14,539,116
Rental expenses	(i)	450,000	605,029
Acquisition of subsidiaries	(iii)	37,935,414	—
Bank loan guarantees in favour of the Company	(i)	<u>301,000,000</u>	<u>253,020,000</u>
Transactions with an associated company of Jingwei Group Company			
Purchase of raw materials and components	(i)	—	17,192,573
Sale of finished goods	(i)	2,265	—
Sale of raw materials and components	(i)	4,390	—
Purchase of package	(i)	<u>21,450,027</u>	<u>—</u>

**Notes to the Accounts**

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

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

VIII RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)**(6) Related party transactions (continued)**

- (a) The following is a summary of significant related party transactions entered into by the Group in the normal course of business (continued):

Transactions with other fellow subsidiaries	Note	2003 Amount	2002 Amount
Sale of finished goods	(i)	21,298,903	51,599,063
Sale of raw materials and components	(i)	384,040,355	46,157,857
Processing fees received	(i)	177,465	384,631
Provision of services	(i)	897,566	275,610
Rental income	(i)	1,029,000	253,488
Interest income	(i)	—	—
Purchase of tools and moulds	(i)	2,002,831	15,187,634
Purchase of castings	(i)	165,288,656	106,835,812
Purchase of package	(i)	7,360,742	3,460,063
Purchase of energy	(i)	21,971,177	14,889,000
Purchase of raw materials and components	(i)	227,709,104	78,402,241
Processing fees paid	(i)	88,501,645	65,756,222
Transportation fee paid	(i)	9,085,835	5,771,343
Repairs and maintenance fee paid	(i)	2,258,537	2,231,389
Fees paid for other supporting services	(i)	162,630,765	9,714,680
Rental expenses	(i)	28,264,183	25,149,904
Interest expense	(i)	1,146,633	—
Building maintenance fees paid	(i)	2,617,088	327,203
Bank loan guarantees in favour of the Company		20,000,000	20,000,000
Purchase of the fixed assets	(ii)	—	76,677,932

Notes:

- (i) The transactions were conducted in accordance with the composite service agreements entered into on 5th February 2002.
- (ii) The transactions have been carried out in accordance with the assets purchasing agreements entered into on 5th February 2002.
- (iii) The transactions have been carried out in accordance with the agreement of acquiring 28% of equity interest of Heli from Jingwei Group Company entered into on 26th March 2003, and the agreement of acquiring 52.63% of equity interest of Hongda Fangji with CTMC entered into on 16th November 2002 respectively.
- (iv) The transactions have been carried out in accordance with the assets selling agreements entered into on 5th February 2002.

(b) Pricing policy

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

The general pricing policy for ongoing connected transactions:

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

- (i) Entered into in the ordinary and usual course of business of the Group;
- (ii) Enter into on normal commercial terms or on terms no less favourable to the Company than terms available to or from independent third parties;
- (iii) Fair and reasonable so far as the independent shareholders are concerned.

Notes to the Accounts

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

IX CONTINGENT LIABILITIES

	Company	
	2003 Amount	2002 Amount
Guarantees for bank loans of subsidiaries	<u>82,800,000</u>	<u>142,830,000</u>
	Group	
	31st December 2003 Amount	31st December 2002 Amount
Guarantees for bank loans of third party	240,000,000	60,000,000
Guarantees for bank loans of related parties	<u>63,000,000</u>	<u>10,980,000</u>
	<u>303,000,000</u>	<u>70,980,000</u>

The guarantee denotes such guarantee given to Jingwei Machinery (Group) Company Limited by the subsidiary of the Company, Shanxi Jingwei Heli Machinery Manufacture Company. The Group does not anticipate any significant financial impact arising from the above bank guarantee.

X CAPITAL AND LEASE COMMITMENTS

As at 31st December 2003, the following capital commitments and leasing commitments, principally for construction and equipment purchases, were outstanding:

Capital commitments

	31st December 2003 Amount	31st December 2002 Amount
Contracted but not provided for investment	—	44,240,000
Contracted but not provided for others	<u>13,502,153</u>	<u>47,450,000</u>
	<u>13,502,153</u>	<u>91,690,000</u>

Lease commitments

	31st December 2003 Amount	31st December 2002 Amount
Lease in respect of land		
Within 1 year	2,045,103	2,045,103
1-2 years	2,045,103	2,045,103
2-3 years	2,045,103	2,045,103
3 years and above	<u>7,526,006</u>	<u>9,571,109</u>
	<u>13,661,315</u>	<u>15,706,418</u>
	31st December 2003 Amount	31st December 2002 Amount
Lease in respect of a building		
Within 1 year	3,037,606	1,669,691
1-2 years	1,064,662	1,669,691
2-3 years	1,064,662	1,669,691
3 years and above	<u>2,129,324</u>	<u>3,193,986</u>
	<u>7,296,254</u>	<u>8,203,059</u>

XI DEBT RESTRUCTURING

The Group does not have any major debts restructuring during the year.

**Notes to the Accounts**

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

XII NET PROFIT AFTER DEDUCTING EXTRAORDINARY ITEMS

	2003
Net Profit	161,534,481
Add (Less): Extraordinary items	
– Loss on disposal of fixed assets	7,221,422
– Government subsidies	(120,000)
– Income of short-term investment	(3,866,996)
– Non-operating income	(1,059,437)
– Non-operating expense	4,010,728
– Reversal of the impairments recognised in previous years	(4,000,862)
Income tax impact of extraordinary items	(327,728)
Net profit after deducting the extraordinary items	<u>163,391,608</u>

XIII COMPARATIVE FIGURES

Certain prior year figures have been reclassified to conform to the current year presentation.