

# AUDITORS' REPORT

## **Xian Xigema Certified Public Accountants Firm Limited**

Xi Hui Shen Zi Audit Report (2004) No.0518

### **Auditors' report**

#### **To the shareholders of Jiaoda Kunji High-Tech Company Limited**

We have audited the Group's and the Company's balance sheet as of 31st December, 2003 and the Group's and the Company's profit and loss account and profits distribution and cash flow statement for the year then ended. These financial statements are the responsibility of the Company. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Independent Auditing Standards for Chinese Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting policies used and significant accounting estimates made by management, as well as evaluating the overall presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements are prepared in conformity with the "Accounting Standard for Business Enterprises", and the "Accounting Regulations for Business Enterprises" and, in all material respects, present fairly the financial positions of the Company as at 31st December, 2003 and the results of its operations and cash flow for the year then ended.

#### **Xian Xigema Certified Public Accountants Firm Limited**

Xian, the PRC

#### **Chinese Certified Public Accountants**

Wang Xia

#### **Chinese Certified Public Accountants**

Fan Min Hua

18th April, 2004

# BALANCE SHEET

Unit: RMB

ASSETS	Notes	31st December, 2003		31st December, 2002	
		The Group	The Company	The Group	The Company
CURRENT ASSETS:					
Bank balances and cash	5.1	194,990,479.05	139,866,908.23	202,607,335.06	161,859,778.00
Short-term investments		—	—	13,500.00	13,500.00
Bills receivable	5.2	46,962,787.36	16,342,787.36	1,820,000.00	—
Dividends receivable		—	—	—	—
Interest receivable		—	—	—	—
Accounts receivable	5.3	58,337,393.58	24,342,298.64	56,122,278.56	36,228,058.96
Other receivables	5.4	17,218,265.34	31,763,264.07	15,588,695.53	31,198,992.15
Prepayments	5.5	45,297,556.05	4,099,345.89	11,024,017.82	748,803.00
Subsidies receivable		—	—	—	—
Inventories	5.6	246,791,009.13	191,884,511.25	195,479,029.72	169,384,078.11
Prepaid expenses	5.7	88,073.00	—	270,578.27	—
Net loss on deferred current assets		—	—	—	—
Long-term debt investment due within one year		—	—	—	—
TOTAL CURRENT ASSETS		609,685,563.51	408,299,115.44	482,925,434.96	399,433,210.22
LONG-TERM INVESTMENTS:					
Long-term equity investments	5.8	11,186,269.67	94,186,997.87	13,813,775.46	71,149,477.07
Of which: consolidated difference in value		11,186,269.67	11,186,269.67	13,563,775.46	13,563,775.46
Of which: difference in equity investments		11,186,269.67	11,186,269.67	13,563,775.46	13,563,775.46
Long-term debt investment		—	—	—	—
Total long-term investments		11,186,269.67	94,186,997.87	13,813,775.46	71,149,477.07
FIXED ASSETS:					
Fixed assets at cost	5.9	387,865,544.74	348,986,147.46	366,513,174.09	330,375,454.74
Less: Accumulated depreciation	5.9	143,892,855.74	130,898,093.87	127,055,068.32	116,899,689.78
FIXED ASSETS, NET BOOK VALUE	5.9	243,972,689.00	218,088,053.59	239,458,105.77	213,475,764.96
Less: Provision for impairment loss	5.9	2,084,560.17	2,084,560.17	2,592,053.18	2,592,053.18
FIXED ASSETS, NET REALISABLE VALUE	5.9	241,888,128.83	216,003,493.42	236,866,052.59	210,883,711.78
Project materials		—	—	—	—
CONSTRUCTION IN PROGRESS, NET REALISABLE VALUE					
Disposal of fixed assets	5.10	46,311,094.07	27,159,121.47	43,545,559.49	39,139,163.34
Loss on deferred fixed assets, net		—	—	—	—
TOTAL FIXED ASSETS		288,199,222.90	243,162,614.89	280,411,612.08	250,022,875.12
INTANGIBLE AND OTHER ASSETS					
Intangible assets	5.11	56,048,518.11	26,220,722.91	60,969,335.05	40,770,394.22
Long-term deferred expenditures	5.12	683,804.11	345,629.91	1,349,053.98	691,259.91
Other long-term investments		—	—	—	—
TOTAL INTANGIBLE AND OTHER ASSETS		56,732,322.22	26,566,352.82	62,318,389.03	41,461,654.13
DEFERRED TAXATION:					
Deferred taxation		—	—	—	—
TOTAL ASSETS		965,803,378.30	772,215,081.02	839,469,211.53	762,067,216.54

Company's Representative: Yue Huafeng  
Financial Controller: Liu Jian  
Prepared by: Zhao Qiongfeng

# BALANCE SHEET

Unit: RMB

		31st December, 2003		31st December, 2002	
ASSETS	Notes	The Group	The Company	The Group	The Company
CURRENT LIABILITIES:					
Short-term loans	5.13	119,000,000.00	119,000,000.00	159,000,000.00	159,000,000.00
Bills payable		—	—	—	—
Accounts payable	5.14	48,120,874.13	13,855,693.25	18,879,494.35	6,405,614.39
Advances from customers	5.15	193,023,605.38	77,275,176.41	55,070,305.70	28,309,204.96
Accrued salary	5.16	3,276,822.70	3,233,812.24	75,773.76	—
Accrued welfare		4,397,425.79	2,811,771.67	2,064,732.63	465,424.04
Dividends payable		1,060,761.27	—	1,060,761.27	—
Taxes payable	5.17	11,089,376.32	7,672,637.54	8,927,275.32	5,793,232.39
Other payable	5.18	364,056.53	204,249.00	119,223.56	—
Other accrual	5.19	11,347,413.27	5,165,462.42	9,771,281.41	1,278,891.43
Accrued expenses	5.20	2,790,505.57	2,255,318.89	4,097,326.66	3,250,000.00
Estimated liabilities		—	—	—	—
Long-term loans due within one year	5.21	342,168.90	342,168.90	30,013,210.00	30,013,210.00
Other current liabilities		10,800.00	10,800.00	—	—
TOTAL CURRENT LIABILITIES		394,823,809.86	231,827,090.32	289,079,384.66	234,515,577.21
LONG-TERM LIABILITIES:					
Logn-term loans	5.22	1,500,000.00	1,500,000.00	6,000,000.00	3,000,000.00
Long-term payable	5.23	10,695,593.90	3,495,593.90	11,037,761.90	3,837,761.90
Specific project payable	5.24	2,971,423.01	2,971,423.01	2,490,406.41	2,490,406.41
Deferred gain	5.25	10,579,910.07	10,579,910.07	11,445,425.23	11,445,425.23
TOTAL LONG-TERM LIABILITIES		25,746,926.98	18,546,926.98	30,973,593.54	20,773,593.54
DEFERRED TAXATION:					
Deferred taxation		—	—	—	—
TOTAL LIABILITIES		420,570,736.84	250,374,017.30	320,052,978.20	255,289,170.75
MINORITY INTEREST		23,391,577.74	—	12,638,187.54	—
SHAREHOLDERS' EQUITY:					
Share capital	5.26	245,007,400.00	245,007,400.00	245,007,400.00	245,007,400.00
Less: Returned on investment		—	—	—	—
Share capital, net		245,007,400.00	245,007,400.00	245,007,400.00	245,007,400.00
Capital reserves	5.27	305,280,480.12	305,280,480.12	305,280,480.12	305,280,480.12
Surplus reserves	5.28	16,812,657.84	16,812,657.84	16,812,657.84	16,812,657.84
Including: Statutory public welfare fund		8,406,328.92	8,406,328.92	8,406,328.92	8,406,328.92
Unappropriated profits	5.29	(45,259,474.24)	(45,259,474.24)	(60,322,492.17)	(60,322,492.17)
TOTAL SHAREHOLDERS' EQUITY		521,841,063.72	521,841,063.72	506,778,045.79	506,778,045.79
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		965,803,378.30	772,215,081.02	839,469,211.53	762,067,216.54

Company's Representative: Yue Huafeng  
Financial Controller: Liu Jian  
Prepared by: Zhao Qiongfeng

# STATEMENT OF INCOME AND APPROPRIATION

Unit: RMB

ITEMS	Notes	2003		2002	
		The Group	The Company	The Group	The Company
1. Principal operating income	5.30	330,613,353.32	200,027,331.41	179,628,485.00	146,248,122.87
Less: Principal operating cost	5.30	228,563,883.95	138,533,234.26	120,047,698.20	94,861,385.87
Principal operation tax and addition	5.31	930,360.88	—	235,953.58	88,075.70
2. Principal operating profit		101,119,108.49	61,494,097.15	59,344,833.22	51,298,661.30
Add: Profit from other operations	5.32	1,742,711.07	1,693,535.65	2,840,696.07	2,733,696.07
Less: Selling expenses		22,448,647.65	14,293,934.74	11,520,948.85	9,908,746.80
Administrative expenses		56,831,336.54	37,204,939.18	37,381,994.38	37,205,390.00
Financial expenses	5.33	5,577,147.17	5,154,305.09	7,805,693.35	6,888,029.99
3. Operating profit		18,004,688.20	6,534,453.79	5,476,892.71	30,190.58
Add: Investment income	5.34	(1,425,758.37)	6,128,396.77	1,013,988.85	5,127,483.10
Subsidy income	5.35	1,642,310.61	1,000,000.00	1,322,691.43	1,322,691.43
Non-operating income	5.36	1,476,377.77	1,456,027.77	299,833.79	166,250.33
Less: Non-operating expenses	5.37	89,997.89	55,860.40	379,343.19	375,843.19
4. Profit before income tax		19,607,620.32	15,063,017.93	7,734,063.59	6,270,772.25
Less: Income tax	5.38	2,297,840.74	—	722,834.86	193,293.95
Minority interest		2,246,761.65	—	933,750.43	—
5. Net profit for the period		15,063,017.93	15,063,017.93	6,077,478.30	6,077,478.30
Add: Accumulated losses at beginning of the year		(60,322,492.17)	(60,322,492.17)	(66,399,970.47)	(66,399,970.47)
6. Profit for distribution		(45,259,474.24)	(45,259,474.24)	(60,322,492.17)	(60,322,492.17)
Less: Statutory surplus reserve		—	—	—	—
Statutory public welfare fund		—	—	—	—
Employee welfare and bonus		—	—	—	—
Reserve fund		—	—	—	—
Corporate development fund		—	—	—	—
Return on investment		—	—	—	—
7. Profit available for distribution to shareholders		(45,259,474.24)	(45,259,474.24)	(60,322,492.17)	(60,322,492.17)
Less: Preference shares dividend		—	—	—	—
Surplus reserve		—	—	—	—
Ordinary share dividend paid		—	—	—	—
Convertible share dividend		—	—	—	—
8. Unappropriated profit		(45,259,474.24)	(45,259,474.24)	(60,322,492.17)	(60,322,492.17)

Unit: RMB

SUPPLEMENTARY INFORMATION	2003		2002	
	The Group	The Company	The Group	The Company
1. Profit from sale and disposal of investee companies	—	—	—	—
2. Loss arising from natural disasters	—	—	—	—
3. Increase (decrease) in profit due to change in accounting policies	—	—	—	—
4. Increase (decrease) in profit due to change in accounting estimate	—	—	—	—
5. Loss arising from debt restructuring	—	—	—	—
6. Others	—	—	—	—

Company's Representative: Yue Huafeng  
Financial Controller: Liu Jian  
Prepared by: Zhao Qiongfeng

# CASH FLOW STATEMENT

ITEMS	Notes	Unit: RMB	
		The Group	The Company
1. Cash flows from operating activities:			
Cash received from sales of goods or rendering of services		468,820,257.54	276,405,322.75
Refund of taxes and surcharges received		1,642,310.61	1,000,000.00
Other cash received relating to operating activities		—	—
Sub-total of cash inflows		470,462,568.15	277,405,322.75
Cash paid for goods and services		269,233,877.45	132,869,138.15
Cash paid to and on behalf of employees		48,594,722.45	40,826,743.56
Taxes and surcharges paid		22,342,187.56	15,349,390.54
Other cash paid relating to operating activities	5.40	36,308,639.73	15,717,115.74
Sub-total of cash outflows		376,479,427.19	204,762,387.99
Net cash flows from operating activities		93,983,140.96	72,642,934.76
2. Cash flow from investing activities:			
Cash received from refund of investment		10,763,500.00	10,513,500.00
Cash received for investment income		26,875.97	820,875.97
Net cash received from disposal of fixed assets, intangible assets and other long term assets		3,747,513.00	2,818,794.00
Other cash received relating to investing activities		—	—
Sub-total of cash inflows		14,537,888.97	14,153,169.97
Cash paid to acquire fixed assets, intangible assets and long term assets		35,345,748.39	16,778,679.01
Cash paid for investment		—	5,209,500.00
Other cash paid relating to investing activities		—	—
Sub-total of cash outflows		35,345,748.39	21,988,179.01
Net cash flows from investing activities		(20,807,859.42)	(7,835,009.04)
3. Cash flows from financing activities			
Cash from proceeds for use of investment		9,630,000.00	—
Including: Cash from proceeds arising from minority fund		9,630,000.00	—
Cash from borrowings		149,000,000.00	149,000,000.00
Other cash received relating to financing activities		—	—
Sub-total of cash inflows		158,630,000.00	149,000,000.00
Cash repayments of borrowings		223,032,192.50	220,032,192.50
Cash payments for distribution of dividends or profits and payments of interest expenses		5,889,945.05	5,268,602.97
Including: dividend paid by subsidiaries to minority shareholders		198,500.00	—
Other cash paid relating to financing activities		—	—
Sub-total of cash outflows		228,922,137.55	225,300,795.47
Net cash flows from financing activities		(70,292,137.55)	(76,300,795.47)
4. Effect of foreign exchange rate changes on cash		—	—
5. Net increase in cash and cash equivalents		2,883,143.99	(11,492,869.75)

Company's Representative: Yue Huafeng  
Financial Controller: Liu Jian  
Prepared by: Zhao Qiongfen

# CASH FLOW STATEMENT

SUPPLEMENTARY INFORMATION		Notes	The Group	Unit: RMB The Company
1.	Reconciliation of profit to cash flows from operating activities:			
	Net profit		15,063,017.93	15,063,017.93
	Add: Gain or loss of minority shareholders		2,246,761.65	—
	Provision for diminution in value of assets		3,733,098.17	341,145.09
	Amortization of deferred income		(865,515.16)	(865,515.16)
	Depreciation of fixed assets		20,389,166.30	17,430,007.96
	Amortization of intangible assets		5,414,846.94	2,523,201.31
	Amortization of long term deferred expenses		665,249.87	345,630.00
	Decrease in deferred expenses (less: increase)		182,505.27	—
	Increase in accruals (less: decrease)		(1,306,821.09)	(994,681.11)
	Loss on disposal of fixed assets, intangible assets and other long term assets (less: income)		(1,380,085.78)	(1,411,406.77)
	Loss on deserted fixed assets		—	—
	Financial expenses		5,577,147.17	5,154,305.09
	Investment loss (less: income)		1,425,758.37	(6,128,396.77)
	Credit on deferred tax (less: borrowing)		—	—
	Decrease in inventory (less: increase)		(45,423,955.67)	(17,634,855.40)
	Decrease in operating receivables (less: increase)		(88,449,520.40)	(9,145,952.75)
	Increase in operating payables (less: decrease)		176,711,487.39	67,966,435.32
	Others		—	—
	Net cash flows from operating activities		93,983,140.96	72,642,934.74
2.	Financing and investing activities not involved in cash:			
	Debts capitalized		—	—
	Convertible bond due within one year		—	—
	Fixed assets under financial lease		—	—
3.	Net increase in cash and cash equivalents:			
	Cash and bank balances at the end of the period	5.39	164,984,979.05	113,224,408.23
	Less: cash and bank balances at the beginning of the period	5.39	162,101,835.06	124,717,278.00
	Add: cash equivalents at the end of the period		—	—
	Less: cash equivalents at the beginning of the period		—	—
	Net increase in cash and cash equivalents		2,883,143.99	(11,492,869.77)

Company's Representative: Yue Huafeng  
Financial Controller: Liu Jian  
Prepared by: Zhao Qiongfeng

# DETAILED SUMMARY OF ALLOWANCE AND IMPAIRMENT OF CONSOLIDATED ASSETS

Unit: RMB

ITEMS	At 31st January, 2003	Addition this year	Written back due to the increase of asset value	Reduction/ transfer out this year	Total	At 31st December, 2003
1. Bad debt provision	17,923,780.48	10,301,201.77	X	X	680,079.86	27,544,902.39
Comprising: Accounts receivable	14,472,240.32	9,622,161.29	X	X	680,079.86	23,414,321.75
Other receivables	3,451,540.16	679,040.48	X	X	-	4,130,580.64
2. Provision for diminution in value of short-term investment	-	-	-	-	-	-
Comprising: Investment in shares	-	-	-	-	-	-
Investment in debts	-	-	-	-	-	-
3. Provision of diminution in inventory	44,695,969.00	2,198,589.26	4,414,994.47	3,671,618.53	8,086,613.00	38,807,945.26
Comprising: Finished goods	19,874,957.00	-	4,414,994.47	2,649,172.53	7,064,167.00	12,810,790.00
Raw materials	595,586.00	2,198,589.26	-	1,022,446.00	1,022,446.00	1,771,729.26
Work in progress	24,225,426.00	-	-	-	-	24,225,426.00
4. Provision for diminution in value of long-term investment	2,000,000.00	-	-	-	-	2,000,000.00
Comprising: Long-term equity investment	2,000,000.00	-	-	-	-	2,000,000.00
Long-term debt investment	-	-	-	-	-	-
5. Provision for diminution in value of fixed assets	2,592,053.18	-	-	507,493.01	507,493.01	2,084,560.17
Comprising: Buildings	-	-	-	-	-	-
Plant and machinery	2,102,555.18	-	-	441,752.11	441,752.11	1,660,803.07
Furniture, fixture and equipment	489,498.00	-	-	65,740.90	65,740.90	423,757.10
6. Provision for diminution in value of intangible assets	-	-	-	-	-	-
Comprising: Patents	-	-	-	-	-	-
Trademarks	-	-	-	-	-	-
7. Provision for diminution in value of construction in progress	651,597.07	-	-	-	-	651,597.07
8. Provision for diminution in value of designated loans	-	-	-	-	-	-
9. Total	67,863,399.73	12,499,791.03	4,414,994.47	4,179,111.54	9,274,185.87	71,089,004.89

Company's Representative: Yue Huafeng  
Financial Controller: Liu Jian  
Prepared by: Zhao Qiongfeng

# STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Unit: RMB

ITEMS	The Group		The Company	
	As at 31st December, 2003	As at 31st 31st December, 2002	As at 31st 31st December, 2003	As at 31st 31st December, 2002
1. Issued Share Capital				
At beginning of the year	245,007,400.00	245,007,400.00	245,007,400.00	245,007,400.00
Increase during the year	-	-	-	-
Comprising: Transfer from capital surplus	-	-	-	-
Transfer from statutory surplus reserve	-	-	-	-
Transfer from retained profits	-	-	-	-
Increase in issued share capital	-	-	-	-
Decrease for the year	-	-	-	-
At end of the year	<u>245,007,400.00</u>	<u>245,007,400.00</u>	<u>245,007,400.00</u>	<u>245,007,400.00</u>
2. Capital surplus:				
At beginning of the year	305,280,480.12	305,280,480.12	305,280,480.12	305,280,480.12
Increase during the year	-	-	-	-
Comprising: Share premium	-	-	-	-
Donation of non-cash items	-	-	-	-
Cash donation	-	-	-	-
Shares investment reserve	-	-	-	-
Transfer of general funds	-	-	-	-
Exchange reserve	-	-	-	-
Others capital revenue	-	-	-	-
Decrease for the year	-	-	-	-
Comprising: Transfer of capital	-	-	-	-
At end of the year	<u>305,280,480.12</u>	<u>305,280,480.12</u>	<u>305,280,480.12</u>	<u>305,280,480.12</u>
3. Statutory and discretionary surplus revenue:				
At beginning of the year	8,406,328.92	8,406,328.92	8,406,328.92	8,406,328.92
Increase for the year	-	-	-	-
Comprising: Transfer from retained earnings	-	-	-	-
Comprising: Statutory surplus reserve	-	-	-	-
Discretionary surplus reserve	-	-	-	-
General reserve fund	-	-	-	-
Enterprise development fund	-	-	-	-
Transfer from statutory public welfare fund	-	-	-	-
Decrease for the year	-	-	-	-
Comprising: Losses	-	-	-	-
Transfer of share capital	-	-	-	-
Distribution of dividend or profits	-	-	-	-
Distribution of stock dividend	-	-	-	-
At end of the year	<u>8,406,328.92</u>	<u>8,406,328.92</u>	<u>8,406,328.92</u>	<u>8,406,328.92</u>
Comprising: Statutory surplus reserve	<u>8,406,328.92</u>	<u>8,406,328.92</u>	<u>8,406,328.92</u>	<u>8,406,328.92</u>
General reserve fund	-	-	-	-
Enterprise development fund	-	-	-	-
4. Statutory reserve fund				
At beginning of the year	8,406,328.92	8,406,328.92	8,406,328.92	8,406,328.92
Increase for the year	-	-	-	-
Comprising: Transfer from retained profits	-	-	-	-
Decrease for the year	-	-	-	-
At end of the year	<u>8,406,328.92</u>	<u>8,406,328.92</u>	<u>8,406,328.92</u>	<u>8,406,328.92</u>
5. Retained profits (losses):				
At beginning of the year	(60,322,492.17)	(66,399,970.47)	(60,322,492.17)	(66,399,970.47)
Net profit for the year	15,063,017.93	6,077,478.30	15,063,017.93	6,077,478.30
Appropriations	-	-	-	-
Retained profit (accumulated losses) at end of the year	<u>(45,259,474.24)</u>	<u>(60,322,492.17)</u>	<u>(45,259,474.24)</u>	<u>(60,322,492.17)</u>

Company's Representative: Yue Huafeng  
Financial Controller: Liu Jian  
Prepared by: Zhao Qiongfen



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 1. GENERAL

Jiaoda Kunji High-Tech Company Limited (formerly known as Kunming Machine Tool Company Limited) (“the Company”) was established in the People’s Republic of China as a sino-foreign joint stock limited company as part of the reorganization of a state-owned enterprise known as Kunming Machine Tool Plant (“KMT Plant”). Pursuant to the reorganization, the operations, assets and liabilities of KMT Plant were divided between the Company and Kunming Kun Ji Group Company (“Kun Ji Group Company”). The Company was established on 19th October, 1993. The Company’s A shares and H shares have been listed on the Shanghai Securities Exchange in Shanghai and the Stock Exchange of Hong Kong Limited in Hong Kong respectively. The Company is engaged principally in the design, development, production and sale of machine tool, precision measuring equipment and precision transducers.

On 25th December, 2000, Xian Jiaotong University Industrial (Group) Incorporation (“Jiaotong Group”) entered into an agreement with Yunnan Provincial People’s Government (“Yunnan Government”), the Company’s former controlling shareholder whereby Yunnan Government would transfer a 29% interest of 71,052,146 state-owned shares in the Company to Jiaotong Group. The Ministry of Finance signed approval of State-owned shares transfer of Jiaoda Kunji High-tech Company Limited (Cao Qi [2001] No. 283), and approved the share transfer. Upon completion of share transfer procedure on 5th June, 2001, Jiaotong Group became substantial shareholder of the Company.

Pursuant to extraordinary general meeting of the Company held on 31st December, 2001. After the assets restructuring, the Company changed from a traditional machinery manufacturing company which focused on production of machine tools to a high-tech and diversified production company.

With effective from 29th March, 2002, the Company uses the name “Jiaoda Kunji High Tech Company Limited”. The amount of registered capital RMB245,007,400. The place of registration is 23 Ciba Road, Kunming City, Yunnan Province. The business registration number is Qi Gu Dian Zong Zi No. 000682.

## 2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF FINANCIAL STATEMENTS

### 1. Accounting Standards and Accounting System

The financial statements have been prepared in accordance with “Accounting Standards for Business Enterprises”, “Accounting System for Business Enterprises” and the complementary regulation.

### 2. Accounting Fiscal Year

The accounting year of the Company commences on 1st January and ends on 31st December each year.

### 3. Reporting Currency

The reporting currency of the Company is Renminbi (“RMB”)

### 4. Recording Principles and Accounting Basis

The Company adopts the accrual basis as the basis of accounting and the historical cost as the principle of valuation.

### 5. Foreign Currency Translation

Transactions in foreign currencies are translated at the market exchange rates (middle rate), ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated into RMB at the market exchange rates (middle rate), ruling on the balance sheet date. Profits and losses arising on exchange are included in financial expenses apart from those relating to the construction in progress.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF FINANCIAL STATEMENTS *(Continued)*

### 6. Recognition Criteria for Cash equivalents

Cash equivalents included in the cash-flow statement are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are within three months of maturity and subject to limited risk on changes in value.

### 7. Accounting for Bad Debts

#### (1) Recognition criteria for bad debt

1. The irrecoverable amount of a debtor who has gone bankrupt or has died and has insufficient asset or estate to repay;
2. The irrecoverable amount, demonstrated by sufficient evidence, of a debtor who does not comply with his/her repayment obligation after the debt fall due.

The irrecoverable amount stated above is cancelled as bad debt after hierarchical approval ratified by the Board of Directors.

#### (2) Accounting for bad debt

The cost of bad debts is calculated on the provision method. Provision for bad debts is made using the provision method based on aging analysis.

The provision percentage is reasonably estimated based on the past experiences of management of the Company, the financial position and cash flows condition of the relevant debtor, as well as other relevant information.

The estimated bad debt loss percentage excluding special provision is as follows: The estimated provision percentage is 5% when the accounts receivable age is within 1 year; The estimated provision percentage is 50% when the accounts receivable age is 1 to 2 years; the estimated provision percentage is 100% when the accounts receivable age is over 2 years.

### 8. Accounting for Inventories

- (1) Inventory category: Inventories include merchandise inventory, self-made semi-finished goods, raw materials, low value consumables and packaging materials.
- (2) Valuation method of inventories. Buying-in of raw materials, packaging materials and low value consumables are stated at cost incurred. Inventory issued and inventory shipped are recorded based on the weighted average cost method.
- (3) Amortization of low value consumables: Low value consumables are fully charged to cost when they are issued.
- (4) Inventories are recorded at the lower of cost and net realizable value and provision for loss on realization of inventories is recognized using the single-item comparison method.

Net realizable value represents the estimated selling price less the estimated cost of completion and the estimated costs to be incurred in marketing, selling and distribution in general operation.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF FINANCIAL STATEMENTS *(Continued)*

### 9. Accounting for Short-term Investment

- (1) Short-term investment is stated at the historical cost. Gain on an investment is recognized when the investment is transferred or repaid on maturity.
- (2) Short-term investment is recorded at the lower of cost and market value at the end of each period. Provision for impairment on short-term investment should be recognized according to the investment collectively.

### 10. Accounting for long-term investment

- (1) Long-term bond investment

Long-term bond investment is recorded at its initial cost on acquisition. Premium and discount are amortized during the period when bonds are held using the straight-line method. Accrual interest is made at the period end.

- (2) Long-term equity investment

The cost method is adopted when the amount of the investment is below 20 percent of the amount of registered capital of the investee enterprise; the equity method is adopted when the amount of the investment is above 20 percent of the amount of registered capital of the investee enterprise; the equity method is adopted and the financial statements are consolidated when the amount of the investment is above 50 percent of the amount of registered capital of the investee enterprises.

- (3) Method of amortizing equity investment difference; the debit balance of the equity investment difference is amortized on a straight-line basis for the terms in investment as stated in the contract and charged to the profit and loss account. If there is no specific term stated in the contract, amortization is carried out over within 10 years; the credit balance of the equity investment difference is recorded in the account of capital reserve-provision for equity investment.
- (4) If the recoverable amount of any long-term equity investment is lower than the carrying amount of that investment as a result of a continuing decline in market value or changes in operating conditions of investee enterprises and the reduced value can not be recovered in the foreseeable future period, provision should be made for the difference between the recoverable amount and the carrying amount of the investment.

### 11. Accounting for and Depreciation of Fixed Assets

- (1) Fixed assets are stated at initial cost.
- (2) Recognition Criteria for Fixed Assets: Fixed assets include buildings, plant, machinery and equipment, transportation equipment and other equipment, tools having useful lives over one year and used in production and operation. Other major equipment which is not used in production or operation but with unit value over RMB2,000 and having useful lives over two years are recognized as fixed assets.
- (3) Depreciation of Fixed Assets: Depreciation is provided using the straight-line method at the following rates per annum:

Category of fixed assets	Estimated useful lives	Residual value rate (%)	Annual depreciation rate (%)
Buildings	40	4	2.40
Plant and machinery	12-50	4	1.92-8.00
Furniture, fixture and equipment	10-14	4	6.86-9.60
Motor vehicles	10-14	4	6.86-9.60

The depreciation policy for assets held under finance bases are consistent with that for owned assets. If there is reasonable certainty that the lease will obtain ownership at the end of lease, the asset should be appreciated over the shorter of the lease term and the life of the asset.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF FINANCIAL STATEMENTS *(Continued)*

### 11. Accounting for and Depreciation of Fixed Assets *(Continued)*

#### (4) Provision on impairment loss on fixed assets

The Company recognizes an impairment loss on fixed assets when realizable value fall lower than book value as a result of a continuing decline in market value, lagging behind in technology, damage and long-term idling. Provision on impairment loss on fixed assets is provided according to total amount of fixed assets if there exists:

1. Fixed assets have been idled in the long-term and will not be reused in the foreseeable future. They have no transfer value as well;
2. Fixed assets cannot be utilized because of their obsolete technology;
3. Large quantity of unqualified products are produced when fixed assets are used;
4. Fixed assets have been damaged and have no usage value and transfer value;
5. Fixed assets in substance cannot produce economic benefits for the Company.

### 12. Accounting for Construction in progress

Construction in progress is stated at initial cost. Costs on completed construction works are transferred to other categories of fixed assets. Interest incurred before the construction works are ready for their intended use is capitalized as part of the engineered cost. Interest incurred after the construction works are ready for their intended use is provided in the income statement.

Provision on impairment loss on construction in progress

At the period end, based on the investigation on each construction in progress, if there exists

1. construction in progress has been ceased for construction for a long period of time and no re-commencement of work is expected in the future 3 years;
2. construction in progress was technically and physically obsolete and its economics benefits to the Company are uncertain;
3. other evidences can prove the existence of the circumstance of the decline in value on construction in progress, the difference of the recoverable amount and the carrying amount of construction in progress can be made as provision on impairment loss on construction in progress.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF FINANCIAL STATEMENTS *(Continued)*

### 13. Intangible Assets

#### (1) Amortisation of Intangible Assets

1. If the contract stipulates the benefiting period and the law does not prescribe the effective period, intangible assets are amortized over the effective period.
2. If the contract does not stipulate the benefiting period and the law prescribes the effective period, intangible assets are amortized over the effective period.
3. If the contract stipulates the benefiting period and the law prescribes the effective period, intangible assets are amortized over the shorter of the benefiting period and the effective period.
4. If the contract does not stipulate the benefiting period and the law does not prescribe the effective period, intangible assets are amortized over 10 years.

#### (2) Provision on impairment loss on intangible assets

At the period end, based on investigation on the intangible assets and estimation of their ability of producing economic benefits, provision should be made for the difference between realizable value and book value, when

1. one term of intangible assets has been replaced by other new technology and its ability of producing economic benefits has been affected significantly;
2. the market value of one item of intangible assets drops sharply in the current period and estimatedly cannot be recovered in the rest of the year.
3. one item of intangible assets unprotected by the law still has usage value.
4. other evidence indicates the loss on value of intangible assets.

### 14. Amortization of Initial Expenses and Long-term deferred expenditures

1. Initial cost is fully charged to income in the current month when operations begin.
2. Long-term deferred expenditures are evenly amortized during the benefiting period.

### 15. Borrowing Costs

Interest except for those incurred in connection with specific borrowings for the purchase of fixed assets should be recognized as financial expenses and recorded in the income statement in the current period accordingly.

Interest incurred in connection with specific borrowings for the purchase of fixed assets is capitalized before the relevant fixed asset being acquired or constructed is ready for its intended use. If acquisition and construction of one item of fixed assets are abnormally discontinued for 3 months, interest is temporarily ceased to be capitalized and the interest incurred in this period is recognized as a financial expense. Interest incurred after the construction work is ready for its intended use is made as financial expenses.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF FINANCIAL STATEMENTS *(Continued)*

### 16. Accounting for Bonds Payables

Bonds payables are stated at initial cost. Premiums and discounts are amortized during the existent period of bonds using the straight-line method.

### 17. Recognition Criteria for Revenue

- (1) Sales of goods: Revenue from sales of goods is recognized when the Company has transferred to the buyers the risk and ownership of the goods and received the relevant revenue or obtained the evidence proving the sales proceeds and the cost relating to sale of goods can be measured reliably.
- (2) Provision of services: When the provision of services is started and completed within the same accounting year, revenue is recognized at the time of completion of the services. When the provision of services is started and completed in different accounting years and the outcome of a transaction involving the rendering of services can be estimated reliably, the Company recognizes the service revenue at the balance sheet date by the use of the percentage of completion method.
- (3) Revenue from assets used by other parties: Interest revenue is calculated based on the length of time for which other parties use cash of the Company and the applicable interest rate; Occupancy expense revenue is calculated by the length of time and the method as stipulated in the contract.

Fund occupancy expense is provided to write off the financial expenses in the current period when fund occupancy expenses which relevant parties pay to the Company can be recognized as revenue and the Company received them. If the amount of fund occupancy expenses received exceed the amount of interest calculated at the rate of one-year-deposit placed with banks, the amount equivalent to that of the latter writes off the amount of the financial expense in the current period and the difference between the former and the latter is provided in capital surplus.

#### (4) Revenue from Finance Leases and Operating Leases

1. Rents from operation leases are recognized as revenue in each period using the straight-line method;
2. Revenue from finance leases in the current period is recognized adopting the real interest rate method. Unrecognized revenue from finance leases is allocated to each period over the lease term in accordance with the straight-line method. Rents the Company has not received after one period of rent payment should not been recognized as revenue from finance leases. If recognized, recognized revenue should be offset. Revenue from finance leases included in rents is recognized as revenue in the current period when actual receipts incur.

For the two items of finance leases stated above, the initial cost which is incurred in the course of negotiation and contracting and can be attributed directly to items of leases should be recognized as current cost. Contingent rents incurred should be recognized as revenue in the current period.

#### 3. Sale and Leaseback Transactions

For finance leases resulting from sale and leaseback transactions, any difference between the sales proceeds and the original carrying amount of the assets involved are deferred and amortized as an adjustment to depreciation according to the depreciation pattern of the leased asset. For operating leases resulting from sale and leaseback transactions, any difference between the sales proceeds and the original carrying amount of the assets involved are deferred and amortized according to the proportion of the lease payments during the lease term.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF FINANCIAL STATEMENTS *(Continued)*

### 18. Accounting for Income Taxes

Income taxes are calculated using the taxes receivable method.

### 19. Tax Refund

Tax refund is recorded in current year's profit when actual receipts incur.

### 20. Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and investee enterprises in which the Company holds more than half of the equity or where the Company controls the operation of the investee enterprises.

If there exists some difference between the accounting policies used by subsidiaries included in the consolidation and that used by the Company, the financial statements of subsidiaries are adjusted in accordance to the accounting policies used by the Company.

Pursuant to Cai Kuai Zi (1995) No. 11 "Notice on issuing 'Provisional Regulation on Consolidation of Financial Statements'", the financial statements of the Company and subsidiaries included in the consolidation and relevant materials, the amount of each item in the financial statements is consolidated and the following items are eliminated on consolidation:

- (1) equity investment of the Company and relevant parts of ownership interests of subsidiaries in the scope of consolidation.
- (2) all significant intercompany transactions and balances between the Company and subsidiaries in the scope of consolidation.

## 3. TAXATION

### 1. Value Added Tax

The amount of taxes payable is recorded after deducting input value added tax in the current period from output value added tax in the current period. Output value added tax is calculated at 17% of the revenue.

Except for Shanxi Hengtong Intelligent Machine Company Limited, the other subsidiaries of the Company is regarded as the same value added tax payer as the Company and the applicable tax rate is 17%; Shanxi Hengtong Intelligent Machine Company Limited is a small scale value added tax payer, the applicable tax rate is 6%.

### 2. Income Tax

According to the notice of Cai Shui Zi (1994) No. 017 jointly issued by the Ministry of Finance and the State Administration of Taxation, the applicable income tax rate of the Company is 15%.

Shanxi Hengtong Intelligent Machine Company Limited, Xian Jiaotong University Siyuan Intelligent Electric Apparatus Company Limited and Winko Machines Company Limited, subsidiaries of the Company, are all high-tech companies. The applicable income tax rate for them is 15%. The income tax rate for Xian Ser Turbo Machinery Company Limited is 33%.

### 3. Business Tax

Business tax is calculated and paid at 3%, 5% of operating income.

### 4. Other Taxes

Other tax is calculated and paid according to the Law of Taxation.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 4. SUBSIDIARIES AND JOINT VENTURES

(1) General of the Company's Subsidiaries and Joint Ventures

Name of subsidiaries and joint ventures	Place of Registration	Scope of Business	Registered Capital (thousand dollars)	Investment Proportion (%)	Economic Nature	Date of Investment
Xian Ser Turbo Machinery Company Limited ("Xian Ser")	Xian City	Design, develop and sales of turbo-machinery	200.00	80.00%	Limited liability	December 2001
Shanxi Hengtong Intelligent Company Limited (Shanxi Hengtong)	Xian City	Develop and sale of Machine manufacturing moulds, machinery, equipment, electronic products, software and hardware	2,796.00	65.34%	Limited liability	December 2001
Xian Jiaotong University Siyuan Intelligent Electric Apparatus Company Limited	Xian City	Develop, manufacture and Sale of electronic products, electronic machine and products of electronic power; Provide technology services	3,500.00	78.03%	Limited liability	December 2001
Winko Machines Company Limited	Kunming City	Develop, apply and integrate hardware and software; Retail, wholesale, purchase on behalf of others and consign electronic products, machinery and electronic machine.	2,023.00	90.91%	Limited liability	November 2002

(2) The subsidiaries stated above have been included in the consolidation. The scope of consolidated financial statements is consistent with that of the previous years.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (REPORTING CURRENCY: RMB)

### 1. Bank Balances and Cash

Items	At 31st December, 2003		At 1st January, 2003	
	Foreign currency	RMB	Foreign currency	RMB
Cash on hand		662,254.53		1,030,018.85
RMB		405,064.37		840,606.00
HKD	29,934.64	31,901.35	29,934.64	32,351.22
USD	13,890.65	114,968.74	13,890.65	114,927.47
DEM			7,633.00	42,134.16
EUR	9,729.86	110,320.07		
Bank		184,328,224.52		118,921,540.21
RMB		149,929,968.15		81,249,518.00
Including: time deposit		3,363,000.00		3,363,000.00
HKD	7,277,616.00	7,755,756.37	193,610.30	205,460.33
USD			39,152.57	324,061.88
Time deposit in HKD	25,000,000.00	26,642,500.00	35,000,000.00	37,142,500.00
Other currency		10,000,000.00		82,655,776.00
Total		194,990,479.05		202,607,335.06

Note:

(1) Time deposit of HK dollar amounting to HKD 25,000,000 (equals to RMB26,642,500) has been pledged to secure short-term loan.

(2) Other currency are deposits in stock companies.

### 2. Bill Receivable

Items	At 31st December, 2003	At 1st January, 2003
Bank acceptance notes	46,762,787.36	1,820,000.00
Commercial acceptance notes	200,000.00	—
Total	46,962,787.36	1,820,000.00

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (REPORTING CURRENCY: RMB) (Continued)

### 3. Accounts Receivable

Age	At 31st December, 2003			At 1st January, 2003		
	Amount	Proportion (%)	Bad debt provision	Amount	Proportion (%)	Bad debt provision
Within 1 year	54,248,145.87	66.36	2,299,626.20	49,266,766.80	69.79	1,895,424.67
1-2 years	8,790,526.21	10.75	3,770,820.49	10,492,945.19	14.86	4,561,472.60
2-3 years	8,475,515.82	10.37	7,669,852.57	4,335,858.00	6.14	4,335,858.00
Over 3 years	10,237,527.43	12.52	9,674,022.49	6,498,948.89	9.21	3,679,485.05
Total	<u>81,751,715.33</u>	<u>100.00</u>	<u>23,414,321.75</u>	<u>70,594,518.88</u>	<u>100.00</u>	<u>14,472,240.32</u>

Note:

(1) There is no balance due from shareholders whose shares exceed 5% (including 5%) of the total shares of the Company.

(2) The total amount of the 5 largest debtors is RMB13,410,992, constituting 16.40% of the total amount of accounts receivable.

### 4. Other Receivables

Age	At 31st December, 2003			At 1st January, 2003		
	Amount	Proportion (%)	Bad debt provision	Amount	Proportion (%)	Bad debt provision
Within 1 year	17,041,881.74	79.83	852,094.09	13,590,037.76	71.37	679,501.88
1-2 years	2,056,955.39	9.63	1,028,477.70	4,020,416.51	21.12	1,918,208.26
2-3 years	1,025,154.39	4.80	1,025,154.39	1,262,777.98	6.63	686,826.58
Over 3 years	1,224,854.46	5.74	1,224,854.46	167,003.44	0.88	167,003.44
Total	<u>21,348,845.98</u>	<u>100.00</u>	<u>4,130,580.64</u>	<u>19,040,235.69</u>	<u>100.00</u>	<u>3,451,540.16</u>

Note:

(1) The balance due from shareholders whose shares exceed 5% (including 5%) of the total shares of the Company is disclosed in Note 7 "Relevant Party Relationship and Transactions".

(2) The total amount of other receivables from the 5 largest debtors is RMB5,791,978, constituting 27.13% of the total amount of accounts receivable.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (REPORTING CURRENCY: RMB) (Continued)

### 5. Prepayments

Age	At 31st December, 2003		At 1st January, 2003	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	43,533,988.07	96.11	9,659,196.82	87.62
1-2 years	1,137,599.95	2.51	1,364,821.00	12.38
2-3 years	625,968.03	1.38	—	—
Over 3 years	—	—	—	—
Total	45,297,556.05	100.00	11,024,017.82	100.00

Note:

- (1) There is no prepayments to shareholders whose shares exceed 5% (including 5%) of the total shares of the Company.
- (2) As at 31st December, 2003, the amount of prepayments increased by 310.90% over that at the end of last year, mainly because the increase of orders in Xian Ser, one of the subsidiaries of the Company has made the amount of prepayments for raw materials increase.

### 6. Inventories

Items	At 31st December, 2003		At 1st January, 2003	
	Amount	Provision for loss on realization	Amount	Provision for loss on realization
Finished goods	95,452,752.79	12,810,790.00	71,747,268.95	19,874,957.00
Raw materials	37,900,070.18	1,293,796.00	22,757,246.23	595,586.00
Low value consumables	3,589,088.53	—	4,271,246.00	—
Work in progress	148,138,408.80	24,225,426.00	132,515,986.99	24,225,426.00
Materials on consignment for future processing	—	—	1,307,093.00	—
Materials purchased	518,634.09	477,933.26	7,140,016.78	—
Merchandise on consignment sales	—	—	424,382.77	—
Packaging materials	—	—	11,758.00	—
Total	285,598,954.39	38,807,945.26	240,174,998.72	44,695,969.00

### 7. Prepaid Expenses

Items	At 1st January, 2003	Addition In the current period	Amortization in the current period	At 31st December, 2003
Office buildings reconstruction	150,000.00	—	150,000.00	—
Rentals	30,312.00	268,410.00	255,630.00	43,092.00
Others	90,266.27	145,124.00	190,409.27	44,981.00
Total	270,578.27	413,534.00	596,039.27	88,073.00

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (REPORTING CURRENCY: RMB) (Continued)

### 8. Long-term Equity Investment

(1) General of investee enterprises

Name of Investee	Initial investment cost	Investment proportion	Investment period	Accounting
Yunan Cheng Jiang Copper Products Plant	2,000,000	40.00%	—	Cost method

(2) Changes in Long-term Equity Investment

Name of Investee	Changes in the current period			Changes in accumulated equity		At 31st December, 2003
	At 1st January, 2003	Investment cost	Equity adjustment	Investment Cost	Equity adjustment	
Yunan Cheng Jiang Copper Products Plant	2,000,000.00	—	—	—	—	2,000,000.00
Xian Tongda Siyuan Electric Appliance Company Limited	250,000.00	(250,000.00)	—	—	—	—
Less: Provision for diminution in value of long-term equity investment	2,000,000.00	—	—	—	—	2,000,000.00
	<u>250,000.00</u>	<u>(250,000.00)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

(3) Difference in long-term equity investment

Name of Investor	Initial investment cost	At 1st January, 2003	Addition in the current period	Amortization in the current period	At 31st December, 2003	Amortization period
Xian Ser	7,296,277.00	6,566,649.28	—	729,627.72	5,837,021.56	10 years
Shanxi Hengtong	6,849,713.19	6,997,126.18	(924,871.45)	723,006.62	5,349,248.11	10 years
Total	<u>14,145,990.19</u>	<u>13,563,775.46</u>	<u>(924,871.45)</u>	<u>1,452,634.34</u>	<u>11,186,269.67</u>	

Note:

- (1) Provision for impairment on long-term investment is provided on the basis of the total amount of investment the Company has made to Yunnan Cheng Jiang Copper Products Plant because the plant has lost of the ability of sustainable operation.
- (2) There is no significant difference between the accounting policies used by the investee enterprises and that used by the Company. There is no significant restrictions to realization of investment and investment income outflow as foreign currency.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (REPORTING CURRENCY: RMB) (Continued)

### 9. Fixed Assets and Accumulated Depreciation

Category	at 1st January, 2003	Increase this year	Decrease this year	at 31st December, 2003
Buildings	119,876,782.00	14,696,866.03	82,443.00	134,491,205.03
Furniture, fixture and equipment	28,516,202.24	6,638,079.50	216,659.60	34,937,622.14
Plant and machinery	208,272,857.01	6,093,916.20	10,053,798.69	204,312,974.52
Motor vehicles	9,847,332.84	4,767,585.21	1,008,907.00	13,606,011.05
Leasehold improvement	—	517,732.00	—	517,732.00
Sub-total	366,513,174.09	32,714,178.94	11,361,808.29	387,865,544.74
ACCUMULATED DEPRECIATION:				
Buildings	19,953,999.32	3,369,528.43	33,066.43	23,290,461.32
Furniture, fixture and equipment	16,264,318.34	1,944,430.40	162,730.53	18,046,018.21
Plant and machinery	87,421,070.03	14,121,239.97	3,215,796.14	98,326,513.86
Motor vehicles	3,415,680.63	928,307.72	179,568.78	4,164,419.57
Leasehold improvement	—	65,442.78	—	65,442.78
Sub-total	127,055,068.32	20,428,949.30	3,591,161.88	143,892,855.74
Net book value	239,458,105.77			243,972,689.00
PROVISION FOR IMPAIRMENT:				
Buildings	—	—	—	—
Plant and machinery	2,102,555.18	—	441,752.11	1,660,803.07
Furniture, fixture and equipment	489,498.00	—	65,740.90	423,757.10
Sub-total	2,592,053.18	—	507,493.01	2,084,560.17
NET REALIZABLE VALUE	236,866,052.59	—	—	241,888,128.83

Note:

- (1) Provision on impairment is recognized because the book value is higher than the net realizable value.
- (2) Buildings amounting to RMB63,238,701 in original cost and RMB52,614,599 in net realizable value have been pledged to secure loans amounting to RMB44,000,000.
- (3) The original book value of fixed assets from finance leases is RMB4,264,181. The amount of accumulated depreciation is RMB1,312,350 and the net realizable value is RMB2,951,831 accordingly.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (REPORTING CURRENCY: RMB) (Continued)

### 10. Construction in progress

Construction name	At 1st January, 2003	Additions this year	Transfer to fixed assets	Other transfer out	At 31st December, 2003	Source of funds
95 Technical improvement projects	26,095,245.25	3,195,879.00	17,269,339.00	—	12,021,785.25	Loans
including Capitalised interest	3,421,111.00	114,297.00	2,302,076.00	—	1,233,332.00	Loans
Resources Office Building	4,207,968.00	14,178,946.90	—	—	18,386,914.90	Funds owned
Others	13,893,943.24	6,520,454.68	3,860,407.00	—	16,553,990.92	Funds owned
Total	44,197,156.49	23,895,280.58	21,129,746.00	—	46,962,691.07	
Less: provision on impairment loss on construction in progress	651,597.00				651,597.00	
Net realizable value	43,545,559.49	23,895,280.58	21,129,746.00	—	46,311,094.07	

Note:

Payment of capitalized interest in construction in progress in the current accounting year is RMB114,297. Capitalized interest rate is 6%.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (REPORTING CURRENCY: RMB) (Continued)

### 11. Intangible Assets

Items	Acquired method	Original cost	At 1st January, 2003	Addition this year	Transfer out this year	Amortization this year	At 31st December, 2003	Amortization Period left (year)
Good-Will (Note 1)	Acquisition of business	5,638,632	5,074,768.68	—	—	563,863.00	4,510,905.68	8
Goodwill (Note 2)	Acquisition of business	3,720,569	3,348,512.15	—	—	372,056.90	2,976,455.25	8
The All Over Controlled Vortex Technology		11,630,000	10,466,999.96	—	—	1,163,000.04	9,303,999.92	8
Technical know-how of fast moulding		14,730,000	13,257,000.00	12,520,500.00	12,520,500.00	1,473,000.50	11,783,999.50	8
Intelligent know-how		9,044,400	8,139,960.02	—	—	813,996.00	7,325,964.02	8
Technical know-how of embroidery machine		4,039,667	3,635,699.98	—	—	405,229.23	3,230,470.75	8.75
Land use right	Contributed	15,988,980	13,054,062.18	—	—	320,345.04	12,733,717.14	39.75
Usage right to staff quarter	Acquisition of business	4,485,988	3,831,782.09	—	—	93,458.04	3,738,324.05	40
Financial software	Acquisition of business	129,200	123,816.65	—	—	12,920.04	110,896.61	8.58
Company website development expenses	Acquisition of business	38,000	36,733.34	—	—	7,599.96	29,133.38	3.83
95 Technical improvement ORACLE software		494,030	—	494,030.00	—	189,378.19	304,651.81	6.17
Total		69,939,466	60,969,335.05	13,014,530.00	12,520,500.00	5,414,846.94	56,048,518.11	

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (REPORTING CURRENCY: RMB) (Continued)

### 11. Intangible Assets (Continued)

Note:

- (1) Goodwill is made for the difference between the transaction price and the book value when Xian Jiaotong University Industrial Group acquired two subsidiaries from Intelligent Electronic Machine and Automatic Machine, in December 2001 during the course of the assets restructuring. The company made the investment of the assets in the two subsidiaries and relevant goodwill stated above and established Xian Jiaotong University Siyuan Intelligent Electric Apparatus Company Limited and Winko Machines Company Limited in this year. These two items of goodwill are amortized over 10 years.
- (2) Technical know-how is that the Company acquired from Xian Jiaotong University Industrial Group in December 2001 during the course of the assets restructuring. The Company made the investment of "Intelligent Technical Know-how" and "Embroidery Machine Technical Know-how" and established Xian Jiaotong University Siyuan Intelligent Electric Apparatus Company Limited and Winko Machines Company Limited. In 2003, the capital injection of the Company in Shanxi Hengtong was based on the carrying value of "Fast Moulding Technical Know-how" in amount of RMB12,520,500.00 and cash value in amount of RMB5,209,500.00. Addition to this technical know-how is recorded at the carrying amount of intangible assets when the subsidiary accept it. Transfer out is recorded for the carrying amount of intangible assets when the Company made the investment of intangible assets.
- (3) Land use right was contributed by Yunnan Government as capital.

### 12. Long-term Deferred Expenditures

Items	Original costs	At 1st January, 2003	Addition this year	Amortization this year	Accumulated amortization	At 31st December, 2003	Remaining amortization period left
Office buildings reconstruction	298,876	238,087.60	—	60,788.40	121,576.80	177,299.20	3
Workshop reconstruction	91,674	39,332.00	—	39,332.00	91,674.00	—	—
Old united workshop	691,259	691,259.91	—	345,630.00	345,630.00	345,629.91	1
Repairs expenses Plant fitment	594,875	380,374.47	—	219,499.47	434,000.00	160,875.00	0.75
Total	1,676,684	1,349,053.98	—	665,249.87	992,880.80	683,804.11	



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (REPORTING CURRENCY: RMB) (Continued)

### 13. Short-term Loans

Category	At 31st December, 2003		At 1st January, 2003	
	Amount	Exchange rate currency	Amount	Exchange rate currency
Guaranteed loans	—	RMB	10,000,000.00	RMB
Secured loans	44,000,000.00	RMB	44,000,000.00	RMB
Pledge loans	25,000,000.00	RMB	35,000,000.00	RMB
Credit Loans	50,000,000.00	RMB	70,000,000.00	RMB
Total	119,000,000.00		159,000,000.00	

Note:

(1) All the secured loans are secured by buildings in possession of the Company.

(2) All the pledge loans are pledged by Hong Kong dollar time deposit.

### 14. Accounts payables

As at 31st December, 2003 and at 31st December, 2002, the balance of accounts payables amounts to RMB48,120,874.13, RMB18,879,494.35 respectively. The balance of accounts payables contain the amounts due to shareholders whose shares exceed 5% (including 5%) of total shares of the Company are disclosed in Note 7 "Related Party Relationship and Transactions".

### 15. Advances from customers

(1) As at 31st December 2003, the balance of advances from customers increases by 250.50% over that at 31st December, 2002 amounting to RMB55,070,305.70, which results from the increase of sale orders of Xian Ser, one of subsidiaries of the Company.

(2) No advances from shareholders whose shares exceed 5% (including 5%) of total shares of the Company.

### 16. Accrued salary

Accrued salary is made for the salary due to the employees of the Company. As at 31st December, 2003 and at 31st December, 2002, the balance of accrued salary totals up to RMB3,276,822.70 and RMB75,773.76 respectively.

### 17. Taxes payables

Items	At 31st December, 2003	At 1st January, 2003
Value added tax	7,796,169.02	7,371,928.11
Business tax	297,953.47	229,151.84
City construction tax	291,175.42	90,584.03
Income tax	2,651,427.23	1,206,106.89
Personal income tax	24,100.34	—
Others	28,550.84	29,504.45
Total	11,089,376.32	8,927,275.32

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (REPORTING CURRENCY: RMB) (Continued)

### 18. Other payables

Items	At 31st December, 2003	At 1st January, 2003
Additional educational fee	126,889.33	38,821.63
Flood-controlling funds	31,808.46	80,401.93
Housing funds	205,358.74	—
Total	<u>364,056.53</u>	<u>119,223.56</u>

### 19. Other accrual

As at 31st December, 2003 and at 31st December, 2002, the balance contains RMB11,347,413.27 and RMB9,771,281.41 respectively. The details of the balance due to shareholders whose shares exceed 5% (including 5%) of total shares of the Company are disclosed in Note 5 "Connected Party Relationship and Transaction".

### 20. Accrued Expenses

Items	At 31st December, 2003	At 1st January, 2003
Accrued rental	366,600.00	514,011.00
Accrued audit fee	1,810,332.00	1,600,000.00
Accrued water and electricity fee	168,586.68	328,875.66
Accrued consulting fee, lawyer fee etc.	444,986.89	1,650,000.00
Others	—	4,440.00
Total	<u>2,790,505.57</u>	<u>4,097,326.66</u>

### 21. Long-term Loans Due Within One Year

Items	At 31st December, 2003	At 1st January, 2003
Long-term loans due within 1 Year	—	29,800,000.00
Obligation under finance leases due within on 1 year	342,168.90	213,210.00
Total	<u>342,168.90</u>	<u>30,013,210.00</u>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (REPORTING CURRENCY: RMB) (Continued)

### 22. Long-term loans

Category	At 31st December, 2003 Amount	Currency	At 1st January, 2003 Amount	Currency
Secured loans	—		29,800,000.00	RMB
Pledge loans	—		3,000,000.00	
Credit loans	1,500,000.00	RMB	3,000,000.00	RMB
Total	1,500,000.00		35,800,000.00	
Less: amount due within 1 year	—		29,800,000.00	
Amount due after 1 year	1,500,000.00		6,000,000.00	

### 23. Long-term payable

Category	Period	Original amount	Amount at 1st January, 2003	Increase this year	Decrease this year	Amount at 31st December, 2003
Obligation under Finance lease	20 years	6,843,378.00	6,501,208.10	—	342,167.90	6,159,040.20
Less: future finance charge		2,579,197.00	2,450,237.20	—	128,959.80	2,321,277.40
Less: amount due for settlement within one year		—	213,209.00	342,168.90	213,209.00	342,168.90
Sub-total		4,264,181.00	3,837,761.90	(342,168.90)	(0.90)	3,495,593.90
Add: infrastructure construction appropriation from the Office of Finance of Shanxi Province		—	200,000.00	—	—	200,000.00
Appropriation for intelligent electronic machine industrialization exemplary projects technology and equipment technology		—	7,000,000.00	—	—	7,000,000.00
Total		4,264,181.00	11,037,761.90	(342,168.90)	(0.90)	10,695,593.90

Note:

- (1) The difference between the present value of minimum lease payment amounting to RMB4,264,181 and the net book value of assets held under finance leases amounting to RMB4,264,181 is made as future finance charge and is amortized over 20 years using the straight-line method.
- (2) Appropriation for intelligent electronic machine technology and equipment technology industrialization exemplary projects represents appropriation for the projects based on Approval of Feasibility of Intelligent Electronic Machine Technology and Equipment Technology Industrialization Exemplary Projects signed by the State Development Plan Committee (Kuai Qi Gao Ji (2000) No. 1883.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (REPORTING CURRENCY: RMB) (Continued)

### 24. Specific Project Payable

Items	At 31st December, 2003	At 1st January, 2003
Specific project appropriation from the Science and Technology Committee of Yunnan province	2,971,423.01	2,490,406.41

### 25. Deferred Gain

Items	Original amount	Amount at 1st January, 2003	Addition this year	Provided for the year	Accumulated amortization	Amount at 31st December, 2003	Amortization period left
Buildings	4,023,642.00	3,572,492.65	—	451,150.24	902,299.00	3,121,342.41	18
Including:							
Operating lease	1,758,331.00	1,670,415.34	—	87,916.60	175,831.00	1,582,498.74	18
Finance lease	2,265,311.00	1,902,077.31	—	363,233.64	726,468.00	1,538,843.67	4-18
Land use right	8,287,344.00	7,872,932.58	—	414,364.92	828,776.34	7,458,567.66	18
Including:							
Operating lease	8,287,344.00	7,872,932.58	—	414,364.92	828,776.34	7,458,567.66	18
Finance lease	—	—	—	—	—	—	—
Total	12,310,986.00	11,445,425.23	—	865,515.16	1,731,075.34	10,579,910.07	

Note:

The Company leased back a portion of land use right and premise use right which had been disposed to Yunnan Government in December 2001 when the Company implemented the assets restructuring. The lease term is 20 years. The selling price of these assets is RMB28,438,361 and the book value of these assets is RMB16,127,375. The gain due from the transaction is to be deferred. For operating lease, deferred gain is to be allocated through the lease period according to rental expense; For finance lease, deferred gain is to be allocated to adjust depreciation expense according to depreciation rate.

### 26. Share Capital

Items	Amount at 1st January, 2003	Increase this year	Decrease this year	Amount at 31st December, 2003
1. Non-trading shares	120,007,400.00	—	—	120,007,400.00
Promoters shares Including:				
State- Owned shares	31,345,554.00	—	—	31,345,554.00
Legal person shares	88,661,846.00	—	—	88,661,846.00
2. Trading shares Including:	125,000,000.00	—	—	125,000,000.00
A shares	60,000,000.00	—	—	60,000,000.00
H shares	65,000,000.00	—	—	65,000,000.00
Total shares	245,007,400.00	—	—	245,007,400.00

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (REPORTING CURRENCY: RMB) (Continued)

### 27. Capital Reserves

Items	Amount at 31st December, 2003	Amount at 1st January, 2003
Share premium	293,744,338.00	293,744,338.00
Revaluation surplus	11,536,142.12	11,536,142.12
Total reserves	<u>305,280,480.12</u>	<u>305,280,480.12</u>

### 28. Surplus Reserves

Items	Amount at 1st January, 2003	Increase this year	Decrease this year	Amount at 31st December, 2003
Statutory surplus reserve	8,406,328.92	—	—	8,406,328.92
Statutory public reserve	8,406,328.92	—	—	8,406,328.92
Total	<u>16,812,657.84</u>	<u>—</u>	<u>—</u>	<u>16,812,657.84</u>

### 29. Unappropriated Profit

Items	2003
Retained profit at the beginning of the period	(60,322,492.17)
Add: net profit this year	15,063,017.93
Less: statutory surplus reserve	—
Statutory public reserve	—
Retained profit at the period end	<u>(45,259,474.24)</u>

### 30. Principal Operation Income and Cost

	2003		2002	
	Accumulated amount Revenue	Accumulated amount Cost	Accumulated amount Revenue	Accumulated amount Cost
Machine tool	183,276,013.60	128,419,795.34	116,321,366.43	80,922,122.21
Hige-effective Energy-saving Compressors	85,627,155.51	63,926,812.16	28,725,305.10	22,298,539.80
Embroidery Machine	13,799,621.50	10,229,433.02	3,762,186.33	3,263,268.25
Intelligent Electric Appliance	11,226,040.97	5,873,098.54	7,989,350.44	3,476,584.81
Machine Processing Service	13,925,761.86	9,050,992.19	11,266,852.64	5,288,715.53
Laser Prototyping System	9,850,378.27	5,021,424.35	4,650,492.92	2,886,352.41
Precision Measuring Equipment	7,473,193.66	3,411,355.77	—	—
Others	<u>5,435,187.95</u>	<u>2,630,972.58</u>	<u>6,912,931.14</u>	<u>1,912,115.19</u>
Total	<u>330,613,353.32</u>	<u>228,563,883.95</u>	<u>179,628,485.00</u>	<u>120,047,698.20</u>

Note: Total sales of the 5 largest customers total up to RMB42,898,702 which constitutes 12.97% of total sales of the Company.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (REPORTING CURRENCY: RMB) (Continued)

### 31. Principal Operation Tax and Addition

Items	Accumulated amount this year	Accumulated amount last year
Business tax	282,080.66	14,551.42
City construction tax	451,811.25	154,924.11
Education fee addition	196,468.97	66,478.05
Total	930,360.88	235,953.58

Note:

City construction tax and education fee addition are calculated and paid at 7% of value added tax and 3% of business tax.

### 32. Profit from Other Operations

Items	Income	Cost	Profit
Materials sold	2,368,221.62	584,526.64	1,783,694.98
Rental income	99,826.68	213,843.81	(114,017.13)
Others	73,904.42	871.20	73,033.22
Total	2,541,952.72	799,241.65	1,742,711.07

### 33. Financial Expenses

Items	Accumulated amount this year	Accumulated amount last year
Interest expenses	7,849,134.45	8,517,228.35
Less: interest income	2,337,929.72	892,884.32
Exchange (loss) gain	(164,852.40)	(21,779.17)
Bank's processing fee	101,835.04	70,747.00
Others	128,959.80	132,381.49
Total	5,577,147.17	7,805,693.35

### 34. Investment Income

Items	Accumulated amount this year	Accumulated amount last year
Amortization of Equity investment difference	(1,452,634.34)	(1,507,086.18)
Reversal provision for diminution in value of short-term investment	—	5,726,799.00
Income from short-term investment	26,875.97	(3,205,723.97)
Total	(1,425,758.37)	1,013,988.85

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (REPORTING CURRENCY: RMB) (Continued)

### 35. Subsidies

Items	Accumulated amount this year	Accumulated amount last year
Income tax refunded	1,642,310.61	1,322,691.43

### 36. Non-operating Income

Items	Accumulated amount this year	Accumulated amount last year
Gain on disposal of fixed assets	1,411,407.77	247,136.79
Income from provision of training	—	46,910.00
Others	64,970.00	5,787.00
Total	1,476,377.77	299,833.79

### 37. Non-operating Expenses

Items	Accumulated amount this year	Accumulated amount last year
Loss on disposal of fixed assets	31,320.99	397,074.19
Contribution expenses	—	23,000.00
Provision on impairment loss on fixed assets	—	(130,937.82)
Provision on impairment loss on construction in progress	—	(20,000.00)
Others	58,676.90	110,206.82
Total	89,997.89	379,343.19

### 38. Income Taxes

Income taxes of RMB2,297,840.74 represent income taxes paid by subsidiaries included in the consolidation.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (REPORTING CURRENCY: RMB) (Continued)

### 39. Cash and cash equivalent

Items	At 31st December, 2003		At 1st January, 2003	
	Consolidated amount	Amount for the Company	Consolidated amount	Amount for the Company
Cash	194,990,479.05	139,866,908.23	202,607,335.06	161,859,778.00
Less: time deposit	30,005,500.00	26,642,500.00	40,505,500.00	37,142,500.00
Cash and cash equivalents	<u>164,984,979.05</u>	<u>113,224,408.23</u>	<u>162,101,835.06</u>	<u>124,717,278.00</u>

### 40. Other Cash paid relating to Operating Activities

Payment of other cash paid relating to operating activities amounting to RMB36,308,639.73 is as follows.

Items	Amount
Traveling expense	5,011,394.25
Office expense	6,507,108.27
Business entertainment expense	3,262,374.77
Administrative expense for stock exchange	1,499,990.50
Warrant expense	3,605,011.64
Property management fee	1,594,309.15
Audit fee	1,511,000.00
Taxes including building tax	950,971.48
Research & development expense	2,022,520.42
Gardening expense	1,036,694.17
Transportation fee	1,597,641.15
Consulting fee	2,953,459.88
Advertising fee	2,434,542.83
Total	<u>33,987,018.51</u>

### 41. Non-recurring items

Items	Amount
Gain on disposal of fixed assets	1,411,407.77
Written back on various provision for diminution in previous years	4,414,994.47
Government grant	1,642,310.61
Non operating loss	(25,027.89)
Total	<u>7,443,684.96</u>



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 6. NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

### 1. Accounts Receivable

Age	At 31st December, 2003			At 1st January, 2003		
	Amount	Proportion (%)	Provision on bad debt	Amount	Proportion (%)	Provision on bad debt
Within 1 Year	21,385,372.62	52.27	923,666.14	28,754,409.80	60.19	925,806.81
1-2 years	5,385,289.21	13.16	2,068,201.99	9,127,036.76	19.10	3,547,044.63
2-3 years	4,463,315.44	10.91	4,463,315.44	3,602,141.00	7.54	3,602,141.00
Over 3 years	9,682,028.43	23.66	9,118,523.49	6,293,100.39	13.17	3,473,636.55
<b>Total</b>	<b>40,916,005.70</b>	<b>100.00</b>	<b>16,573,707.06</b>	<b>47,776,687.95</b>	<b>100.00</b>	<b>11,548,628.99</b>

Notes:

(1) No balance due from shareholders whose shares exceed 5% (including 5%) of the total shares of the Company.

(2) Total amount of the 5 largest debtors is RMB11,580,885, constituting 23.96% of total amount of accounts receivable.

### 2. Other Receivables

Age	At 31st December, 2003			At 1st January, 2003		
	Amount	Proportion (%)	Provision on bad debt	Amount	Proportion (%)	Provision on bad debt
Within 1 Year	17,828,501.09	54.40	349,594.72	26,506,186.36	82.76	141,421.61
1-2 years	14,288,873.95	43.60	4,516.25	4,832,552.00	15.09	574,276.00
2-3 years	7,000.00	0.02	7,000.00	589,751.40	1.84	13,800.00
Over 3 years	647,733.70	1.98	647,733.70	97,702.30	0.31	97,702.30
<b>Total</b>	<b>32,772,108.74</b>	<b>100.00</b>	<b>1,008,844.67</b>	<b>32,026,192.06</b>	<b>100.00</b>	<b>827,199.91</b>

Note:

(1) The balances due from shareholders whose shares exceed 5% (including 5%) of the total shares of the Company are disclosed in Note 7 "Relevant Party Relationship and Transaction".

(2) Total amount of the 5 largest debtors is RMB29,105,681.61, which constitutes 88.81% of the total amount of other receivables.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 6. NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY (Continued)

### 3. Long-term Equity Investment

(1) General of Investee enterprises

Name of investee	Original cost	Investment proportion	Investment period	Accounting
Xian Ser Turbo Machinery Company Limited	16,734,463	80.00%	N/A	Equity method
Shanxi Hengtong Intelligent Machine Company Limited	6,108,606	90.00%	N/A	Equity method
Xian Jiaotong University Siyuan Intelligent Electric Apparatus Company Limited	27,310,000	78.03%	N/A	Equity method
Winko Machines Company Limited	18,390,000	90.91%	N/A	Equity method
Yunnan Cheng Jiang Copper Products Plant	2,000,000	40.00%		Cost method

(2) Changes in Long-term Equity Investment

Name of investee	Amount at 1st January, 2003	Increase (decrease) in equity this year				Amount at 31st December, 2003
		Investment cost	Adjusted equity	Dividend paid	Disposal	
Xian Ser Turbo Machinery Company Limited	12,921,528.84	—	5,413,668.83	794,000.00	—	17,541,197.67
Shanxi Hengtong Intelligent Machine Company Limited	(1,678,160.34)	18,654,871.45	(106,362.00)	—	—	16,870,349.11
Xian Jiaotong University Siyuan Intelligent Electric Apparatus Company Limited	27,310,000.00	—	1,312,839.38	—	—	28,622,839.38
Winko Machines Company Limited	19,032,333.11	—	934,008.93	—	—	19,966,342.04
Yunnan Cheng Jiang Copper Products	2,000,000.00	—	—	—	—	2,000,000.00
Less: Provision on impairment loss on long-term investment	2,000,000.00	—	—	—	—	2,000,000.00
Total	57,585,701.61	18,654,871.45	7,554,155.14	794,000.00	—	83,000,728.20

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 6. NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY (Continued)

### 3. Long-term Equity Investment (Continued)

#### (3) Equity Investment Difference

Items	Original cost	Amount at 1st January, 2003	Addition this year	Amortization this year	Amount at 31st December, 2003	Amortization period left
Xian Ser Turbo Machinery Company Limited	7,296,277.00	6,566,649.28	—	729,627.72	5,837,021.56	108 months
Shanxi Hengtong Intelligent Machine Company Limited	6,849,713.19	6,997,126.18	(924,871.45)	723,006.62	5,349,248.11	108 months
<b>Total</b>	<b>14,145,990.19</b>	<b>13,563,775.46</b>	<b>(924,871.45)</b>	<b>1,452,634.34</b>	<b>11,186,269.67</b>	

Notes:

- (1) Provision on impairment loss on long-term investment amounting to RMB2,000,000 is stated as a result of the carrying amount of the long-term investment lower than its recoverable amount.
- (2) In 2003, the Company increased its investment in Shanxi Hengtong in amount of RMB17,730,000 by way of intangible asset injection and cash injection. In comparison with the net asset value of Shanxi Hengtong after the capital injection with the proportionate share of interest after the increase in share capital, the decrease in interest in share capital amount to RMB924,871.45 during the reporting period.
- (3) There is no significant difference between the accounting policies used by the investee enterprises and that used by the Company. There is no significant restrictions to investment realization and investment gain outflow in foreign currency.

#### (4) Principal Operation Revenue/Cost

Items	Accumulated amount this year		Accumulated amount Last year	
	Revenue	Cost	Revenue	Cost
Machine tool	183,396,407.17	128,963,795.34	116,321,366.43	80,922,122.31
Embroidery Machine	—	—	3,757,622.22	4,261,848.03
Intelligent Electric Appliance	—	—	8,249,732.30	3,476,584.81
Machine Processing Service	15,041,792.48	9,050,992.19	11,266,852.64	5,288,715.53
Precision Measuring Equipment	—	—	—	—
Others	1,589,131.76	518,446.73	6,652,549.28	912,115.19
<b>Total</b>	<b>200,027,331.41</b>	<b>138,533,234.26</b>	<b>146,248,122.87</b>	<b>94,861,385.87</b>

#### (5) Investment Income

Items	Accumulated amount this year	Accumulated amount last year
Income from investment in equity	7,554,155.14	4,113,494.25
Amortization of equity investment difference	(1,452,634.34)	(1,507,086.18)
Written back for provision for diminution in value of short-term investment	—	5,726,799.00
Income from short-term investment	26,875.97	(3,205,723.97)
<b>Total</b>	<b>6,128,396.77</b>	<b>5,127,483.10</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 7. RELATED PARTY RELATIONSHIP AND TRANSACTIONS

### 1. Details of Related Parties with Control Relationship

#### (1) Related Parties with Control Relationship

Name	Relationship with the company	Economic Nature	Place of registration	Scope of Business	Legal Representative
Jiaotong Group	substantial shareholders	state-owned	Xian city	Develop, manufacture, sales of electronic products, chemical products, equipment, building materials, telecommunication products, environmental protection products and biological products; assume domestic commerce and material trade; Import technology, raw materials, machinery, equipment, instrument and accessories necessary to research and production; Process with materials provided; And export technological products and technology produced by enterprises owned by the university.	Yue Huafeng
Xian Ser Turbo Machinery Company Limited (Xian Ser)	subsidiary	Limited reliability	Xian city	Design, develop and sales of turbo-machinery	Wang Shangjin
Shanxi Hengtong Intelligent Machine Company Limited (Shanxi Hengtong)	subsidiary	Limited reliability	Xian city	Develop and sale of manufacturing moulds, machinery, equipment, electronic products, software and hardware	Lu Bingheng
Xian Jiaotong University Siyuan Intelligent Electric Apparatus Company Limited	subsidiary	Limited reliability	Xian city	Develop, manufacture and Sales of electronic products, electronic machinery and products of electronic power; Provide technology services	Zhang Hanrong
Winko Machines Company Limited	subsidiary	Limited reliability	Kunming city	Develop, apply and integrate hardware and software; Retail, wholesale, purchase on behalf of others and consign electronic products, machinery and electronic machinery.	Zhang Hanrong

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 7. RELATED PARTY RELATIONSHIP AND TRANSACTIONS (Continued)

### 1. Details of Related Parties with Control Relationship (Continued)

#### (2) Registered Capital of Related Parties with Controlling Relationship

Name	Amount at 1st January, 2003	Increase this year	Decrease this year	Amount at 31st December, 2003
Jiaotong Group	30,000,000.00	—	—	30,000,000.00
Xian Ser Turbo Machinery Company Limited (Xian Ser)	2,000,000.00	—	—	2,000,000.00
Shanxi Hengtong Intelligent Machine Company Limited (Shanxi Hengtong)	600,000.00	27,360,000.00	—	27,960,000.00
Xian Jiaotong University Siyuan Intelligent Electric Apparatus Company Limited	35,000,000.00	—	—	35,000,000.00
Winko Machines Company Limited	20,230,000.00	—	—	20,230,000.00

#### (3) Shares and equity held by related parties with controlling relationship

Name	Amount at 1st January, 2003		Increase this year	Decrease this year	Amount at 31st December, 2003	
	Amount	Proportion (%)			Amount	Proportion (%)
Jiaotong Group	71,052,146.00	29%	—	—	71,052,146.00	29.00%
Xian Ser Turbo Machinery Company Limited	1,600,000.00	80%	—	—	1,600,000.00	80.00%
Shanxi Hengtong Intelligent Machine Company Limited	540,000.00	90%	17,730,000.00	—	18,270,000.00	65.34%
Xian Jiaotong University Siyuan Intelligent Electric Apparatus Company Limited	27,310,000.00	78.03%	—	—	27,310,000.00	78.03%
Winko Machines Company Limited	18,390,000.00	90.91%	—	—	18,390,000.00	90.91%

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 7. RELATED PARTY RELATIONSHIP AND TRANSACTIONS *(Continued)*

### 2. Related Parties with non-controlling Relationship

Name	Relationship with the Company
Kunji Group Company	Second-largest shareholders designated to manage equity
Yunnan Government	Promoter's shareholders
Jiaoda Resources	Subsidiary of substantial shareholder of the Company
Jiaoda HongFan High-Tech	Subsidiary of substantial shareholder of the Company

### 3. Related Party Transactions

#### (1) Sales of goods

The Company sold goods amounting to RMB890,182.00 to related parties in 2003. The Company sold goods amounting to RMB573,504.00 to related parties in 2002.

#### (2) Provision and Receipts of Service

On 15th November, 1993, the Company entered into an agreement with Kunji Group Company relating to the provision of certain services to each other after the reorganization. Pursuant to this agreement, the Company agreed to provide certain public utility services available to the Company such as water and electricity to Kunji Group Company, while Kunji Group Company agreed to provide certain services to the Company including property management, employees' medical services, education and administrative fee for retired staffs. Service fee is reviewed by both parties on an annual basis and is determined by reference first to the standards set by the relevant government department for that particular service. If there are no applicable State standards, the Company and Kunji Group Company will determine the service fees based on market prices or transacted price at arm's length negotiations.

The connected transactions between the Company and the Kunji Group Company are as follows:

Transaction events	Amount incurred this year	Amount incurred last year
Utility service fees received from Kun Ji Group Company	—	611,417.00
Property management fees paid to Kun Ji Group Company	1,912,922.00	
The provision of medical service from Kun Ji Group Company to the Company's employees	150,000.00	1,343,125.00
The provision of social and education services from Kun Ji Group Company to the Company's employees	1,200,000.00	570,000.00
Gardening expense paid to Kun Ji Group Company	—	1,044,434.00
Administrative fee for retired staffs	88,232.00	—
Total	3,351,154.00	3,568,976.00

#### (3) Purchase of goods

Shanxi Hengtong, the subsidiary of the Company, purchased goods amounting to RMB1,064,835.66 from the related parties Jiaoda HongFan High-Tech Company Limited.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 7. RELATED PARTY RELATIONSHIP AND TRANSACTIONS (Continued)

### 3. Related Party Transactions (Continued)

#### (4) Leases

In December 2001, the Company leased back portion of premise and land use right at annual rent of RMB607,760 and RMB407,520 respectively after reorganization. The lease term is 20 years.

#### (5) Other Transactions

The Company had the following transactions with Kunji Group Company or companies under its control:

Transaction events	Amount incurred this year	Amount incurred last year
Construction costs paid	—	857,191.00
Total	—	857,191.00

The Company and its subsidiaries had the following transactions with Jiaoda Industrial Group Company or companies under its control:

Transaction events	Amount incurred this year	Amount incurred last year
Water and electricity service		
Fees paid to Jiaoda Industrial Group	—	557,790.00
Interest expense paid to Jiaoda Resources	—	408,000.00
Rental expense paid to Jiaoda Industrial Group	350,394.00	—
Total	350,394.00	965,790.00

Transactions between the Company and Xian Jiaotong University, investor of Jiaoda Industrial Group are as follows:

Transaction events	Amount incurred this year	Amount incurred last year
Sales of goods to Xian Jiaotong University	—	177,300.00
Research expense paid to Xian Jiaotong University	1,060,000.00	550,000.00
Total	1,060,000.00	727,300.00

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 7. RELATED PARTY RELATIONSHIP AND TRANSACTIONS (Continued)

### 4. Balances of Connected Transactions

Related Parties name	Item	Amount at the year end	Amount at the beginning	Nature
Jiaotong Group	Other receivables	1,517,987.02	488,338.00	Current account
	Accounts payable	125,500.00	125,000.00	Purchase of goods
	Other payables	1,440,000.00	3,340,000.00	Current account
	Accrued expenses	366,000.00	–	Accrued charge of electricity
Kunji Group Company	Other receivables	–	593,332.00	
	Prepayments	–	500,000.00	Prepayment of management fee of 2003
	Other payables	1,551,210.00	1,065,808.00	Accrued management fee
Jiaoda Resources	Other receivables	–	109,803.00	Current account
Kunming Kunji Group Sales Company Limited	Advances from customers	80,000.00	–	Sale of goods
Yunan Government	Long-term payables due within one year	342,168.90	342,168.90	Payable rent of fixed assets
	Long-term payables	6,159,040.20	6,501,209.10	Payable rent of fixed assets
Jiaoda HongFan High-Tech Company Limited	Prepayments	417,144.21	–	

## 8. CONTINGENT EVENTS

The Company has no contingent events.

## 9. COMMITMENTS

Lease commitments

The Company was obliged to pay the minimum rental payables as follows:

Accounting fiscal year	Amount
2004	342,168.90
2005	342,168.90
2006	342,168.90
After 3 years	5,132,533.50
Total	6,159,040.20



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 10. POST BALANCE SHEET EVENT

The Company has no significant post balance sheet events.

## 11. DEBT RESTRUCTURING EVENTS

The Company has no debt restructuring events.

## 12. OTHER SIGNIFICANT EVENTS

Difference between PRC GAAP and Hong Kong GAAP:

These financial statements are prepared according to PRC GAAP, which are different from those prepared according to HK GAAP.

At balance sheet day, The amount of net profit and net assets are RMB15,063,017.93 and RMB521,841,063.72 respectively according to PRC GAAP. These figures can be reconciled to that under HK GAAP as follows:

Items	Net profit	Net assets
In accordance to the PRC GAAP	15,063,017.93	521,841,063.72
Add: Interest subsidy from the PRC government	—	—
Less: Amortisation on deferred gain on sale and lease back transaction	664,333.00	664,333.00
Add: Gain on sale and lease back transaction deferred and amortised	—	7,622,920.00
Add: Gain on injection of capital in subsidiaries	924,871.45	924,871.45
In accordance to the HK GAAP	<u>15,323,556.38</u>	<u>529,724,522.17</u>

**德勤·關黃陳方會計師行**

Certified Public Accountants  
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香港中環干諾道中111號  
永安中心26樓

**Deloitte  
Touche  
Tohmatsu**

TO THE SHAREHOLDERS OF JIAODA KUNJI HIGH-TECH COMPANY LIMITED

交大昆機科技股份有限公司

(a sino-foreign joint stock limited company established in the People's Republic of China with limited liability)

We have audited the financial statements on pages 70 to 105 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Company's Directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**BASIS OF OPINION**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

**OPINION**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December, 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

DELOITTE TOUCHE TOHMATSU

*Certified Public Accountants*

Hong Kong

18th April, 2004

# CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER, 2003

	NOTES	2003 RMB'000	2002 RMB'000
Turnover	5	330,613	179,628
Cost of sales		(229,494)	(120,283)
Gross profit		101,119	59,345
Other operating income	6	7,369	10,196
Administrative expenses		(59,339)	(40,865)
Distribution costs		(22,228)	(11,519)
Unrealised holding losses on other investments		—	(94)
Profit from operations	7	26,921	17,063
Finance costs	8	(7,979)	(8,592)
Non-operating expenses		—	(89)
Gain on deemed partial disposal of a subsidiary	9	925	—
Profit before taxation		19,867	8,382
Income tax expense	10	(2,297)	(723)
Profit after taxation		17,570	7,659
Minority interest		(2,246)	(933)
Net profit for the year	11	15,324	6,726
Earnings per share	13	6.3 cents	2.7 cents

# CONSOLIDATED BALANCE SHEET

AT 31ST DECEMBER, 2003

	NOTES	2003 RMB'000	2002 RMB'000
Non-current assets			
Property, plant and equipment	14	301,812	294,453
Goodwill	16	19,544	21,987
Intangible assets	17	31,554	35,499
Investment in an associate		—	250
Deferred costs	18	3,738	3,832
		<b>356,648</b>	<b>356,021</b>
Current assets			
Inventories	19	246,791	195,479
Trade receivables	20	58,338	56,122
Bills receivables		46,963	1,820
Other receivables, deposits and prepayments		62,299	22,533
Amount due from an associate	33	—	400
Amount due from a related company	33	3	28
Other investments	21	—	13
Deposits placed with securities company		10,000	82,656
Taxation recoverable		16	16
Pledged cash deposits	31	26,642	40,505
Bank balances and cash		158,348	79,446
		<b>609,400</b>	<b>479,018</b>
Current liabilities			
Trade payables	22	48,121	19,026
Advances from customers		193,024	55,070
Other payables		32,329	22,454
Amounts due to related companies	33	1,631	197
Taxation payable		2,667	1,379
Obligations under finance leases – due within one year	23	213	213
Bank borrowings – due within one year	24	119,000	188,800
		<b>396,985</b>	<b>287,139</b>
Net current assets		<b>212,415</b>	<b>191,879</b>
		<b>569,063</b>	<b>547,900</b>

# CONSOLIDATED BALANCE SHEET

AT 31ST DECEMBER, 2003

	NOTES	2003 RMB'000	2002 RMB'000
Capital and reserves			
Share capital	26	245,007	245,007
Reserves	27	284,719	269,395
		<b>529,726</b>	514,402
Minority interests		<b>23,391</b>	12,638
Non-current liabilities			
Obligations under finance leases – due after one year	23	3,625	3,838
Bank borrowings – due after one year	24	–	3,000
Deferred gain	25	3,621	3,822
Other long-term loans	28	8,700	10,200
		<b>15,946</b>	20,860
		<b>569,063</b>	547,900

The financial statements on pages 70 to 105 were approved and authorised for issue by the Board of Directors on 18th April, 2004 and are signed on its behalf by:

Mr. Yue Huafeng  
DIRECTOR

Mr. Zhang Hanrong  
DIRECTOR

# BALANCE SHEET

AT 31ST DECEMBER, 2003

	NOTES	2003 RMB'000	2002 RMB'000
Non-current assets			
Property, plant and equipment	14	256,687	263,929
Investments in subsidiaries	15	86,273	68,543
Amounts due from subsidiaries	15	23,655	25,654
Intangible assets	17	9,304	23,724
Deferred costs	18	3,738	3,832
		379,657	385,682
Current assets			
Inventories	19	191,885	169,384
Trade receivables		24,342	34,249
Bills receivables		16,343	–
Other receivables, deposits and prepayments		12,014	4,754
Trade receivables from subsidiaries		–	5,411
Amount due from a related company	33	–	28
Other investments	21	–	13
Deposits placed with securities company		10,000	82,656
Taxation recoverable		16	16
Pledged time deposits	31	26,642	37,142
Bank balances and cash		103,225	42,062
		384,467	375,715
Current liabilities			
Trade payables		13,856	6,406
Advances from customers		77,275	28,309
Other payables		22,517	15,214
Amounts due to related companies	33	1,631	–
Obligations under finance leases – due within one year	23	213	213
Bank borrowings – due within one year	24	119,000	188,800
		234,492	238,942
Net current assets		149,975	136,773
		529,632	522,455

# BALANCE SHEET

AT 31ST DECEMBER, 2003

	NOTES	2003 RMB'000	2002 RMB'000
Capital and reserves			
Share capital	26	245,007	245,007
Reserves	27	275,879	266,788
		<u>520,886</u>	<u>511,795</u>
Non-current liabilities			
Obligations under finance leases – due after one year	23	3,625	3,838
Deferred gain	25	3,621	3,822
Other long-term loans	28	1,500	3,000
		<u>8,746</u>	<u>10,660</u>
		<u>529,632</u>	<u>522,455</u>

Mr. Yue Huafeng  
DIRECTOR

Mr. Zhang Hanrong  
DIRECTOR

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31ST DECEMBER, 2003

	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Capital reserve <i>RMB'000</i> <i>(Note 27)</i>	Statutory surplus reserve <i>RMB'000</i> <i>(Note 27)</i>	Statutory public welfare fund <i>RMB'000</i> <i>(Note 27)</i>	Accumulated losses <i>RMB'000</i> <i>(Note 27)</i>	Total <i>RMB'000</i>
THE GROUP							
At 1st January, 2002	245,007	293,745	10,225	8,406	8,406	(58,113)	507,676
Net profit for the year	—	—	—	—	—	6,726	6,726
At 31st December, 2002	245,007	293,745	10,225	8,406	8,406	(51,387)	514,402
Net profit for the year	—	—	—	—	—	15,324	15,324
Transfer	—	—	—	311	155	(466)	—
At 31st December, 2003	<b>245,007</b>	<b>293,745</b>	<b>10,225</b>	<b>8,717</b>	<b>8,561</b>	<b>(36,529)</b>	<b>529,726</b>



# CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER, 2003

	2003 RMB'000	2002 RMB'000
<b>OPERATING ACTIVITIES</b>		
Profit from operations	26,921	17,063
Adjustments for:		
Interest income	(751)	(893)
Investment income on other investments	(1,600)	(5,240)
Non-operating expenses	—	(89)
Amortisation of deferred income	(201)	(201)
Depreciation and amortisation of property, plant and equipment	20,645	21,263
Amortisation of intangible assets	3,945	3,945
Amortisation of goodwill	2,443	2,443
Amortisation of prepaid rental	94	94
Net (profit) loss on disposal of property, plant and equipment	(1,379)	145
Profit on disposal of other investments	(14)	—
Allowance for bad and doubtful debts (written back)	10,701	(3,239)
Allowance for inventories written back	(5,280)	(2,474)
Interest subsidy from finance bureau	—	(1,312)
Unrealised holding losses on other investments	—	94
Operating cash flows before movements in working capital	55,524	31,599
Increase in inventories	(46,032)	(30,744)
Increase in trade receivables	(12,917)	(11,630)
Increase in bills receivables	(46,963)	(1,820)
Increase in other receivables, deposits and prepayments	(37,946)	(1,177)
Decrease (increase) in amount due from a related company	25	(28)
Increase in trade payables	29,095	8,861
Increase in advances from customers	137,954	26,550
Increase (decrease) in other payables	9,875	(10,189)
Cash generated from operations	88,615	11,422
Income taxes paid	(1,009)	(187)
Interest subsidy from finance bureau	—	1,312
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>87,606</b>	<b>12,547</b>

# CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER, 2003

	2003 RMB'000	2002 RMB'000
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(34,571)	(33,102)
Purchase of other investments	(30,998)	—
Refund of deposits placed with securities company	72,656	46,510
Proceeds from disposal of other investments	31,025	—
Decrease (increase) in pledged time deposits	13,863	(8,687)
Proceeds from disposal of property, plant and equipment	8,060	1,719
Investment income on other investments	1,600	5,240
Interest received	751	893
Repayment from (advance to) an associate	400	(400)
Proceeds from disposal of interest in an associate	250	—
Withdrawal of time deposits	—	7,424
Investment in an associate	—	(250)
Deposits placed with securities company	—	(80,000)
<b>NET CASH FROM (USED IN) INVESTING ACTIVITIES</b>	<b>63,036</b>	<b>(60,653)</b>
<b>FINANCING ACTIVITIES</b>		
New bank loans raised	149,000	156,000
Capital contribution by a minority shareholder	9,630	9,530
Advance from (repayments to) related companies	1,434	(7,841)
Repayment of bank loans	(221,800)	(124,200)
Interest paid	(8,093)	(10,078)
Repayment of other long-term loans	(1,500)	(1,000)
Repayments of obligations under finance leases	(213)	(856)
Dividend paid to minority shareholder	(198)	—
Other borrowings raised	—	7,200
<b>NET CASH (USED IN) FROM FINANCING ACTIVITIES</b>	<b>(71,740)</b>	<b>28,755</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>78,902</b>	<b>(19,351)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<b>79,446</b>	<b>98,781</b>
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	<b>—</b>	<b>16</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR REPRESENTING</b>		
Bank balances and cash	<b>158,348</b>	<b>79,446</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 1. GENERAL

The Company is a sino-foreign joint stock limited company established in the People's Republic of China (the "PRC"). The Company acts as an investment holding company and it is also engaged in the design, development, manufacture and sale of machine tools, precision measuring equipment and precision transducers. The principal activities of its subsidiaries are set out in note 15.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the following revised Hong Kong Financial Reporting Standards ("HKFRS(s)") issued by the Hong Kong Society of Accountants ("HKSA"). The term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAP(s)") and Interpretations approved by the HKSA.

### Income Taxes

In the current year, the Group has adopted SSAP 12 (Revised) "*Income Taxes*" ("SSAP 12 (Revised)"). The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of this SSAP has had no material effect on the results of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

### Accounting for government grants and disclosure of government assistance

In the current year, the Group has adopted SSAP 35 "*Accounting for government grants and disclosure of government assistance*" ("SSAP 35"). In accordance with SSAP 35, government grants are now recognised as income over the periods necessary to match them with the related costs. The adoption of this SSAP has had no material effect on the results of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

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

### Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Service income is recognised when services are provided.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation, amortisation and accumulated impairment losses.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

The cost of land use rights is amortised over the terms of the contract after obtaining the certificate of land occupancy rights.

Depreciation and amortisation are provided to write off the cost of property, plant and equipment, other than construction-in-progress, over their estimated useful lives, after taking into account their estimated residual value, using the straight line method at the following rates per annum:

Buildings	2.5%
Plant and machinery	2% – 8%
Furniture, fixtures and equipment	6% – 10%
Motor vehicles	6% – 10%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

### Construction-in-progress

Construction-in-progress is stated at cost which includes all development expenditure and other direct costs, including borrowing costs, attributable to such projects. The cost of completed construction work is transferred to the appropriate asset category.

### Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill is capitalised as a separate asset and amortised on a straight-line basis over its useful economic life.

### Intangible assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses.

The cost of technical knowhow is amortised on a straight-line basis over its expected useful life of ten years.

### Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Investments in subsidiaries**

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

### **Interests in associates**

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates, less any identified impairment loss.

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method.

### **Investments in securities**

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

### **Government grants**

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as deferred income and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the income statement and are reported separately as other income.

### **Leased assets**

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the outstanding principal amount at the inception of the finance lease, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the relevant lease term.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Leased assets** *(Continued)*

Where assets are sold to a lessor and leased back by the Group, and the transaction results in a finance lease, any excess of sales proceeds over the carrying amount of the assets is deferred and amortised over the appropriate lease term.

### **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items is charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### **Research and development expenditure**

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its estimated useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

### **Retirement scheme cost**

The Group participates in state-managed retirement plans pursuant to which the Group pays a fixed percentage of its qualifying staff's wages as contribution to the plan. The contribution payable to the retirement plan in respect of the year is charged to the income statement.

### **Foreign currencies**

The Group maintains its books and records in Renminbi.

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions quoted by the People's Bank of China. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date quoted by the People's Bank of China. Profits and losses arising on exchange are dealt with in the income statement.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 4. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, the Group has determined that business segment by products is its primary reporting segment.

### Business segments

The Group reports its primary segment information by products, which are boring machines, computerised embroidery machines, intelligence electrical appliances, turbo machines and laser phototyping machines. Segment information about these products is presented below:

2003

	Boring machines RMB'000	Computerised embroidery machines RMB'000	Intelligence electrical appliances RMB'000	Turbo machines RMB'000	Laser phototyping machines RMB'000	Consolidated RMB'000
TURNOVER	198,791	21,273	15,072	85,627	9,850	330,613
SEGMENT RESULT	12,344	1,893	1,895	8,753	436	25,321
Investment income on other investments						1,600
Profit from operations						26,921
Finance costs						(7,979)
Gain on deemed partial disposal of a subsidiary						925
Profit before taxation						19,867
Income tax expense						(2,297)
Profit after taxation						17,570
Minority interest						(2,246)
Net profit for the year						15,324

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 4. SEGMENT INFORMATION *(Continued)*

### Business segments *(Continued)*

The following is an analysis of the carrying amount of segment assets and segment liabilities, analysed by products:

2003

	Boring machines RMB'000	Computerised embroidery machines RMB'000	Intelligence electrical appliances RMB'000	Turbo machines RMB'000	Laser phototyping machines RMB'000	Eliminations RMB'000	Consolidated RMB'000
ASSETS							
Segment assets	550,079	34,204	47,695	136,902	25,817	(23,655)	771,042
Unallocated corporate assets							195,006
Consolidated total assets							966,048
LIABILITIES							
Segment liabilities	(108,079)	(16,810)	(12,855)	(155,553)	(5,463)	23,655	(275,105)
Unallocated corporate liabilities							(137,826)
Consolidated total liabilities							(412,931)
OTHER INFORMATION							
Capital additions	16,141	1,239	14,860	995	1,450	–	34,685
Depreciation and amortisation							
of property, plant and equipment	17,623	571	250	1,748	453	–	20,645
Amortisation of goodwill	1,507	372	564	–	–	–	2,443
Amortisation of intangible assets	1,991	405	813	–	736	–	3,945
Amortisation of prepaid rental	94	–	–	–	–	–	94
Allowance for bad and doubtful debts	5,887	691	688	2,884	551	–	10,701



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 4. SEGMENT INFORMATION (Continued)

### Business segments (Continued)

2002

	Boring machines RMB'000	Computerised embroidery machines RMB'000	Intelligence electrical appliances RMB'000	Turbo machines RMB'000	Laser phototyping machines RMB'000	Consolidated RMB'000
TURNOVER	134,931	3,071	8,250	28,726	4,650	179,628
SEGMENT RESULT	5,419	709	711	5,409	(425)	11,823
Investment income on other investments						5,240
Profit from operations						17,063
Finance costs						(8,592)
Unallocated corporate expenses						(89)
Profit before taxation						8,382
Income tax expense						(723)
Profit after taxation						7,659
Minority interest						(933)
Net profit for the year						6,726

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 4. SEGMENT INFORMATION *(Continued)*

### Business segments *(Continued)*

The following is an analysis of the carrying amount of segment assets and segment liabilities, analysed by products:

2002

	Boring machines <i>RMB'000</i>	Computerised embroidery machines <i>RMB'000</i>	Intelligence electrical appliances <i>RMB'000</i>	Turbo machines <i>RMB'000</i>	Laser phototyping machines <i>RMB'000</i>	Eliminations <i>RMB'000</i>	Consolidated <i>RMB'000</i>
ASSETS							
Segment assets	544,477	21,851	31,994	56,424	5,313	(27,906)	632,153
Investment in an associate							250
Unallocated corporate assets							202,636
Consolidated total assets							835,039
LIABILITIES							
Segment liabilities	(51,258)	(5,492)	(3,673)	(53,884)	(10,346)	27,906	(96,747)
Unallocated corporate liabilities							(211,252)
Consolidated total liabilities							(307,999)
OTHER INFORMATION							
Capital additions	30,883	9	275	3,235	170	—	34,572
Depreciation and amortisation							
of property, plant and equipment	19,167	10	161	1,346	579	—	21,263
Amortisation of goodwill	2,443	—	—	—	—	—	2,443
Amortisation of intangible assets	3,945	—	—	—	—	—	3,945
Amortisation of prepaid rental	94	—	—	—	—	—	94
Unrealised holding losses on other investments	94	—	—	—	—	—	94

More than 90% of the Group's turnover and operating results are derived from the PRC market. All assets and liabilities of the Group are located in the PRC as all operations are carried in the PRC and therefore no geographical analysis has been presented.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 5. TURNOVER

Turnover represents the amounts received and receivable, which is net of value-added tax ("VAT"), business tax and returns, for goods sold and services rendered by the Group to outside customers during the year.

An analysis of the Group's turnover is as follows:

	2003 RMB'000	2002 RMB'000
Sales of goods	307,656	166,374
Services rendered	22,957	13,254
	<u>330,613</u>	<u>179,628</u>

## 6. OTHER OPERATING INCOME

	2003 RMB'000	2002 RMB'000
Other operating income comprises:		
Interest income on deposits with banks	751	893
Net profit on disposal of property, plant and equipment	1,379	—
Profit on disposal of other investments	14	—
Investment income on other investments, unlisted	1,600	5,240
VAT for new products refunded	1,642	1,323
Interest subsidy from finance bureau	—	1,312
Others	1,983	1,428
	<u>7,369</u>	<u>10,196</u>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 7. PROFIT FROM OPERATIONS

	2003 RMB'000	2002 RMB'000
Profit from operations has been arrived at after charging:		
Staff costs including:		
Directors' and Supervisors' remuneration		
– Fees		
Executive Directors and Supervisors	210	92
Non-Executive Directors	96	72
Independent Non-Executive Directors	108	108
– Other emoluments		
Executive Directors and Supervisors	397	427
Non-Executive Directors	83	42
– Retirement schemes contributions	41	37
	935	778
Other retirement schemes contributions	4,252	4,504
Other staff costs	53,083	42,052
	58,270	47,334
Auditors' remuneration		
– current year	1,500	2,046
– underprovision in prior years	–	83
	1,500	2,129
Depreciation and amortisation		
– Amortisation of prepaid rental	94	94
– Amortisation of goodwill included in administrative expenses	2,443	2,443
– Amortisation of intangible assets included in administrative expenses	3,945	3,945
– Depreciation and amortisation of property, plant and equipment		
– owned by the Group	19,333	21,224
– held under finance lease	1,312	39
	27,127	27,745
Loss on disposal of property, plant and equipment	–	145
Research and development costs	1,825	3,819
Allowance for bad and doubtful debts	10,701	–
and after crediting:		
Amortisation of deferred income included in administrative expenses	201	201
Allowance for inventories written back	5,280	2,474
Allowance for bad and doubtful debts written back	–	3,239

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 7. PROFIT FROM OPERATIONS (Continued)

Emoluments of Directors are within the following bands:

	No. of Directors	
	2003	2002
Nil to RMB1,000,000	11	15

The emoluments of the five highest paid employees are analysed as follows:

The five highest paid employees of the Group in the year included five (2002: five) Executive Directors of the Company.

During the year, no emoluments were paid by the Group to the respective five highest paid individuals, including Directors, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, during the year, no Director waived any emoluments.

## 8. FINANCE COSTS

	2003 RMB'000	2002 RMB'000
Interest on:		
– bank borrowings wholly repayable within five years	7,964	9,949
– obligations under finance leases	129	129
Total borrowing costs	8,093	10,078
Less: amount capitalised in construction-in-progress	(114)	(1,470)
	7,979	8,608
Exchange gain	–	(16)
	7,979	8,592

Borrowing costs capitalised during the year are calculated by applying a capitalisation rate of 5.94% (2002: 5.94%) to expenditure on qualifying assets.

## 9. GAIN ON DEEMED PARTIAL DISPOSAL OF A SUBSIDIARY

	2003 RMB'000	2002 RMB'000
Gain on deemed partial disposal of Shanxi Hengtong Intelligence Machine Company Limited ("Hengtong")	925	–

During the year, a non-wholly owned subsidiary, Hengtong, increased its registered capital to approximately RMB27,360,000 which caused the Group's interest in Hengtong to dilute from 90% to 65.34% and resulted in a gain on deemed partial disposal of the subsidiary amounted to approximately RMB925,000.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 10. INCOME TAX EXPENSE

	2003 HK\$	2002 HK\$
The charge comprises:		
PRC income tax	2,297	723

- (a) Pursuant to a document issued by the PRC State Tax Bureau on 21st October, 1993 and confirmed by a notice issued by the Ministry of Finance and the State Tax Bureau on 18th April, 1994, the Company's profit is subject to income tax at a rate of 15% as from 1st January, 1993.

Pursuant to the relevant laws and regulations in the PRC, certain of the Group's PRC subsidiaries are entitled to an exemption from PRC income tax for the two years starting from the first production year. The taxation charge for the year represents provision for PRC income tax for certain subsidiaries taking into account of these tax incentives.

No provision for PRC income tax of the Company has been made in the financial statements as the Company's assessable profit for the year was wholly absorbed by tax losses brought forward.

- (b) The tax charge for the year can be reconciled to the profit per the consolidated income statement as follows:

	2003		2002	
	RMB\$'000	%	RMB\$'000	%
Profit before taxation	19,867		8,382	
Tax at the standard income tax rate of 15% (2002: 15%)	2,980	15.0	1,257	15.0
Tax effect of different tax rates in other jurisdictions	294	1.5	128	1.5
Tax effect of income not taxable for tax purpose	(1,083)	(5.5)	(1,372)	(16.4)
Tax effect of expenses not deductible for tax purpose	1,401	7.1	548	6.6
Tax effect of utilisation of previously unrecognised tax losses	(1,295)	(6.5)	—	—
Tax effect of tax losses not recognised	—	—	162	1.9
Tax effect and effective tax rate for the year	2,297	11.6	723	8.6

At 31st December, 2003, the Group had unutilised tax losses amounting to approximately RMB460,000 (2002: RMB9,095,000) available to set off against future profits. The deferred tax asset has not been recognised in the financial statements as it is not certain that the benefit will crystallise in the foreseeable future.

There was no other significant unprovided deferred taxation during the year or at the balance sheet date.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 11. NET PROFIT FOR THE YEAR

In accordance with Article 177 of the PRC Company Law, net profit for the year is applied as follows:

- (1) making up prior year losses;
- (2) allocation to statutory surplus reserve;
- (3) allocation to statutory public welfare fund;
- (4) allocation to discretionary surplus reserve; and
- (5) payment of dividends in respect of ordinary shares.

The Board of Directors proposed that no appropriation be made for the year.

## 12. TRANSFER TO STATUTORY SURPLUS RESERVE AND STATUTORY PUBLIC WELFARE FUND

No transfer is proposed to be made to the statutory surplus reserve or the statutory public welfare fund as the Company has accumulated losses.

## 13. EARNINGS PER SHARE

The calculation of earnings per share is based on the net profit for the year of RMB15,324,000 (2002: RMB6,726,000) and the 245,007,400 (2002: 245,007,400) shares in issue throughout the year.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 14. PROPERTY, PLANT AND EQUIPMENT

	Land use rights in the PRC <i>RMB'000</i>	Buildings under medium term lease in the PRC <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Furniture, fixtures and equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Construction- in-progress <i>RMB'000</i>	Total <i>RMB'000</i>
<b>THE GROUP</b>							
<b>COST</b>							
At 1st January, 2003	17,568	120,610	207,447	29,665	9,847	44,197	429,334
Additions	–	411	2,688	6,081	3,965	21,540	34,685
Transfers	–	13,792	3,986	2,264	–	(20,042)	–
Disposals	–	(83)	(9,551)	(217)	(213)	–	(10,064)
<b>At 31st December, 2003</b>	<b>17,568</b>	<b>134,730</b>	<b>204,570</b>	<b>37,793</b>	<b>13,599</b>	<b>45,695</b>	<b>453,955</b>
<b>DEPRECIATION AND AMORTISATION</b>							
At 1st January, 2003	4,514	19,953	90,557	15,794	3,411	652	134,881
Provided for the year	320	3,732	12,904	3,089	600	–	20,645
Eliminated on disposals	–	(33)	(3,072)	(138)	(140)	–	(3,383)
<b>At 31st December, 2003</b>	<b>4,834</b>	<b>23,652</b>	<b>100,389</b>	<b>18,745</b>	<b>3,871</b>	<b>652</b>	<b>152,143</b>
<b>NET BOOK VALUES</b>							
<b>At 31st December, 2003</b>	<b>12,734</b>	<b>111,078</b>	<b>104,181</b>	<b>19,048</b>	<b>9,728</b>	<b>45,043</b>	<b>301,812</b>
At 31st December, 2002	13,054	100,657	116,890	13,871	6,436	43,545	294,453
<b>THE COMPANY</b>							
<b>COST</b>							
At 1st January, 2003	17,568	119,365	179,756	26,134	5,980	39,791	388,594
Additions	–	411	1,969	3,994	2,964	7,559	16,897
Transfers	–	13,792	3,986	2,264	–	(20,042)	–
Disposals	–	(83)	(9,326)	(197)	(174)	–	(9,780)
<b>At 31st December, 2003</b>	<b>17,568</b>	<b>133,485</b>	<b>176,385</b>	<b>32,195</b>	<b>8,770</b>	<b>27,308</b>	<b>395,711</b>
<b>DEPRECIATION AND AMORTISATION</b>							
At 1st January, 2003	4,514	19,846	82,115	14,769	2,769	652	124,665
Provided for the year	320	3,649	11,031	2,504	119	–	17,623
Eliminated on disposals	–	(33)	(2,976)	(119)	(136)	–	(3,264)
<b>At 31st December, 2003</b>	<b>4,834</b>	<b>23,462</b>	<b>90,170</b>	<b>17,154</b>	<b>2,752</b>	<b>652</b>	<b>139,024</b>
<b>NET BOOK VALUES</b>							
<b>At 31st December, 2003</b>	<b>12,734</b>	<b>110,023</b>	<b>86,215</b>	<b>15,041</b>	<b>6,018</b>	<b>26,656</b>	<b>256,687</b>
At 31st December, 2002	13,054	99,519	97,641	11,365	3,211	39,139	263,929



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Group has been granted the rights to use the land, on which its buildings are situated, by the relevant PRC authorities for a period of 50 years from October 1993 onwards.

At 31st December, 2003, the cumulative amount of interest capitalised in construction-in-progress amounted to approximately RMB1,233,000 (2002: RMB3,552,000).

The net book value of the buildings of the Group at 31st December, 2003 includes an amount of approximately RMB2,951,000 (2002: RMB3,609,000) in respect of assets held under finance leases.

## 15. INVESTMENTS IN SUBSIDIARIES/AMOUNTS DUE FROM SUBSIDIARIES

	2003 RMB'000	2002 RMB'000
Unlisted shares, at cost	86,273	68,543
Amounts due from subsidiaries	23,655	25,654

Approximately RMB10,000,000 of the amount advanced to the non-wholly owned subsidiaries was for the purpose of additional capital contribution to a non-wholly owned subsidiary as approved by the Board of Directors on 8th August, 2002 (note 30). The other advances of approximately RMB13,655,000 were for the purpose of financing the operations of the non-wholly owned subsidiaries. These advances are unsecured and have no fixed repayment terms. In the opinion of the Directors, repayment of the amounts will not be demanded in the coming financial year, and therefore, the advances are classified as non-current. Other than an amount of approximately RMB7,000,000 (2002: RMB6,000,000) which carries interest at prevailing interest rates, the remaining balance is interest-free.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 15. INVESTMENTS IN SUBSIDIARIES/AMOUNTS DUE FROM SUBSIDIARIES (Continued)

Details of the Company's subsidiaries at 31st December, 2003 are as follows:

Name of subsidiary	Form of business structure	Place of incorporation and operations	Registered capital	Proportion of registered capital held directly by the Company	Principal activities
Xian Ser Turbo Machinery Equipment Company Limited 西安賽爾機泵成套設備有限公司	Limited liability	PRC	RMB2,000,000	80%	Design, develop and sales of turbo-machinery
Shanxi Hengtong Intelligent Machines Company Limited 陝西恒通智能機器有限公司	Limited liability	PRC	RMB27,960,000	65.34%	Develop and sale of manufacturing moulds, machinery, equipment, electronic products, software and hardware
Xian Jiaotong University Siyuan Intelligent Electric Apparatus Company Limited 西安交大思源智能電器有限公司	Limited liability	PRC	RMB35,000,000	78.03%	Research, develop manufacturing and sale of automatic machines for industries such as water utilities, civil engineering and construction
Winko Machines Company Limited 昆明交大昆機自動機器有限公司	Limited liability	PRC	RMB20,230,000	90.91%	Research, develop, manufacturing and sale of intelligent computerised coloured embroidery machines

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

## 16. GOODWILL

	THE GROUP RMB'000
<b>GROSS AMOUNT</b>	
At 1st January, 2003 and at 31st December, 2003	24,430
<b>AMORTISATION</b>	
At 1st January, 2003	2,443
Provided for the year	2,443
<b>At 31st December, 2003</b>	<b>4,886</b>
<b>CARRYING AMOUNT</b>	
<b>At 31st December, 2003</b>	<b>19,544</b>
At 31st December, 2002	21,987

The amortisation period adopted for goodwill is 10 years.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 17. INTANGIBLE ASSETS

	THE GROUP RMB'000 (Note)	THE COMPANY RMB'000 (Note)
<b>COST</b>		
At 1st January, 2003	39,444	26,360
Transferred to a subsidiary during the year	—	(14,730)
<b>At 31st December, 2003</b>	<b>39,444</b>	<b>11,630</b>
<b>AMORTISATION</b>		
At 1st January, 2003	3,945	2,636
Provided for the year	3,945	1,900
Transferred to a subsidiary during the year	—	(2,210)
<b>At 31st December, 2003</b>	<b>7,890</b>	<b>2,326</b>
<b>NET BOOK VALUE</b>		
<b>At 31st December, 2003</b>	<b>31,554</b>	<b>9,304</b>
At 31st December, 2002	35,499	23,724

Note:

The intangible assets of the Group and the Company are technical knowhow.

The cost of technical knowhow of RMB26,360,000 of the Group and the Company represents the laser prototyping and manufacturing technology and the controllable centrifugal energy conservation compressor technology.

The remaining balance of RMB13,084,000 of the Group represents the technical knowhow of developing intelligent computerised coloured embroidery machines and intelligent electrical appliances.

The technical knowhow is amortised over 10 years.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 18. DEFERRED COSTS

THE GROUP AND THE COMPANY

	Prepaid rental RMB'000
<b>COST</b>	
At 1st January, 2003 and 31st December, 2003	4,486
<b>AMORTISATION</b>	
At 1st January, 2003	654
Provided for the year	94
<b>At 31st December, 2003</b>	<b>748</b>
<b>NET BOOK VALUE</b>	
<b>At 31st December, 2003</b>	<b>3,738</b>
At 31st December, 2002	3,832

Pursuant to an agreement entered into between the Company and Kun Ji Group Company ("Kun Ji") on 10th December, 1993, the Company and Kun Ji paid RMB2,000,000 and RMB3,000,000 respectively for the purpose of joint construction of staff quarters. In 1995, a further sum of RMB297,000 was paid by the Company. The staff quarters were completed in October 1995. Subsequently, the Company and Kun Ji are entitled to the ownership of the staff quarters and the Company is entitled to lease five floors as staff quarters for 48 years commencing January 1996. The lease rental is calculated with reference to the floor area occupied and the actual construction cost of the building. On this basis a further sum of RMB2,189,000 was paid by the Company in 1996, bring the aggregate sum paid for the lease to RMB4,486,000 which is accounted for as prepaid rental and is amortised over the lease period of 48 years.

## 19. INVENTORIES

	THE GROUP		THE COMPANY	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Raw materials	40,236	31,283	23,580	23,725
Work-in-progress	123,913	105,437	87,941	93,442
Finished goods	82,642	58,759	80,364	52,217
	<b>246,791</b>	<b>195,479</b>	<b>191,885</b>	<b>169,384</b>

Included above are inventories carried at net realisable value set out as below:

	THE GROUP		THE COMPANY	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Raw materials	14,999	31,283	2,531	23,725
Work-in-progress	82,976	105,437	47,863	93,442
Finished goods	14,052	58,759	7,691	52,217
	<b>112,027</b>	<b>195,479</b>	<b>58,085</b>	<b>169,384</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 20. TRADE RECEIVABLES

The Group agrees credit terms with its trade customers on an individual basis. An aged analysis of the Group's trade receivables is as follows:

	THE GROUP	
	2003 RMB'000	2002 RMB'000
Within one year	51,949	47,372
Between one to two years	5,020	5,932
Between two to three years	806	—
Over three years	563	2,818
	<u>58,338</u>	<u>56,122</u>

## 21. OTHER INVESTMENTS

	THE GROUP AND THE COMPANY	
	2003 RMB'000	2002 RMB'000
Equity securities:		
Listed in the PRC, at market value	<u>—</u>	<u>13</u>

## 22. TRADE PAYABLES

Details of the aged analysis of trade payables are as follows:

	THE GROUP	
	2003 RMB'000	2002 RMB'000
Within one year	46,042	11,538
Between one to two years	353	5,581
Between two to three years	287	1,098
Over three years	1,439	809
	<u>48,121</u>	<u>19,026</u>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 23. OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP AND THE COMPANY			
	Minimum lease payments		Present value of minimum lease payments	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
The maturity of obligations under finance leases is as follows:				
Within one year	342	342	213	213
In the second to fifth year inclusive	5,817	6,159	3,625	3,838
	6,159	6,501	3,838	4,051
Less: Future finance charge	(2,321)	(2,450)	—	—
Present value of obligations under finance leases	3,838	4,051	3,838	4,051
Less: Amount due for settlement within one year (shown under current liabilities)			(213)	(213)
Amount due after one year			3,625	3,838

All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. The average term of the finance leases entered into is 20 years (2002: 20 years).

## 24. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
The maturity of the bank borrowings is as follows:				
Within one year	119,000	188,800	119,000	188,800
More than one year but not exceeding two years	—	3,000	—	—
	119,000	191,800	119,000	188,800
Less: Amount due within one year shown under current liabilities	(119,000)	(188,800)	(119,000)	(188,800)
Amount due after one year	—	3,000	—	—
Analysed as:				
— secured	69,000	118,800	69,000	118,800
— unsecured	50,000	73,000	50,000	70,000
	119,000	191,800	119,000	188,800

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 25. DEFERRED GAIN

	THE GROUP AND THE COMPANY RMB'000
<b>GROSS AMOUNT</b>	
At 1st January, 2003 and 31st December, 2003	4,023
<b>AMORTISED TO INCOME</b>	
At 1st January, 2003	201
Amortised during the year	201
<b>At 31st December, 2003</b>	<b>402</b>
<b>CARRYING AMOUNT</b>	
<b>At 31st December, 2003</b>	<b>3,621</b>
At 31st December, 2002	3,822

The gain on disposal of certain buildings is deferred as the buildings are subsequently leased back by the Group. Such leases qualify as finance leases and the gain is deferred and amortised to income over the lease term of 20 years.

## 26. SHARE CAPITAL

	Registered, issued and fully paid 2003 & 2002 RMB'000
Ordinary shares of RMB1 each	
– A shares	180,007
– H shares	65,000
	<b>245,007</b>

Except for the currency in which dividends are paid and the restrictions as to whether the shareholders can be PRC investors or foreign investors, A shares and H shares rank pari passu in all material respects with each other.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 27. RESERVES

	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Accumulated losses RMB'000	Total RMB'000
<b>THE GROUP</b>						
At 1st January, 2002	293,745	10,225	8,406	8,406	(58,113)	262,669
Net profit for the year	—	—	—	—	6,726	6,726
<b>At 31st December, 2002</b>	<b>293,745</b>	<b>10,225</b>	<b>8,406</b>	<b>8,406</b>	<b>(51,387)</b>	<b>269,395</b>
Net profit for the year	—	—	—	—	15,324	15,324
Transfer	—	—	311	155	(466)	—
<b>At 31st December, 2003</b>	<b>293,745</b>	<b>10,225</b>	<b>8,717</b>	<b>8,561</b>	<b>(36,529)</b>	<b>284,719</b>
<b>THE COMPANY</b>						
At 1st January, 2002	293,745	10,225	8,406	8,406	(58,113)	262,669
Net profit for the year	—	—	—	—	4,119	4,119
<b>At 31st December, 2002</b>	<b>293,745</b>	<b>10,225</b>	<b>8,406</b>	<b>8,406</b>	<b>(53,994)</b>	<b>266,788</b>
Net profit for the year	—	—	—	—	9,091	9,091
<b>At 31st December, 2003</b>	<b>293,745</b>	<b>10,225</b>	<b>8,406</b>	<b>8,406</b>	<b>(44,903)</b>	<b>275,879</b>

The balance of capital reserve represents the profit of Kunming Machine Tool Plant (a state-owned enterprise before the reorganisation in 1993) for the period from 1st July, 1993 to 18th October, 1993 less an amount of RMB7,000,000 which the Company paid in cash to Yunnan Provincial People's Government ("Yunnan Government") pursuant to a demerger agreement dated 20th November, 1993 between Kun Ji and the Company.

The balance of statutory surplus reserve represents appropriations from profit after taxation in accordance with the PRC Company Law. Statutory surplus reserve is part of the shareholders' equity and when its balance reaches an amount equal to 50% of the Company's registered capital, further appropriation need not be made. According to PRC Company Law, the statutory surplus reserve may be used to make up past losses, to increase production and business operations or to increase capital by means of conversion. However, when funds from the statutory surplus reserve are converted to capital, the funds remaining in such reserve shall amount to not less than 25% of the registered capital.

According to Article 66 of Accounting Standards for Industrial Enterprises issued by the Finance Department of the PRC, the statutory public welfare fund is principally used for expenditure on staff welfare facilities. The statutory public welfare fund cannot be used for the payment of staff welfare expenses.

No profit is available for distribution as the Company had accumulated losses of RMB45,259,000 in accordance with the PRC accounting standards as at 31st December, 2003 (2002: RMB60,322,000).

## 28. OTHER LONG-TERM LOANS

The amounts are unsecured and non-interest bearing. These amounts will not be demanded within the next twelve months from the balance sheet date and the amounts are therefore shown in the balance sheet as non-current.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 29. OPERATING LEASE COMMITMENTS

### THE GROUP AS LESSEE

Minimum lease payments of the Group paid under operating lease during the year:

	2003 RMB'000	2002 RMB'000
Land and buildings	1,641	673

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP		THE COMPANY	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Within one year	1,198	1,060	673	673
In second to fifth year inclusive	4,632	3,175	2,692	2,692
Over five years	8,957	9,424	8,751	9,424
	14,787	13,659	12,116	12,789

Operating lease payment represents rental payable by the Group for certain of its office properties, factories and staff quarters. Significant leases are negotiated for an average term of 20 years.

## 30. CAPITAL COMMITMENTS

At the balance sheet date, the Group and the Company had the following capital commitments:

	THE GROUP		THE COMPANY	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Capital expenditure contracted for but not provided in the financial statements				
– Acquisition of property, plant and equipment	2,342	10,419	2,342	9,977
– Construction in progress	18,623	–	–	–
	20,965	10,419	2,342	9,977

In addition, the Company has authorised to make a further capital contribution of approximately RMB2,163,000 to increase the registered capital of a non-wholly owned subsidiary as approved by the Board of Directors in August 2002. In the opinion of the Directors, an amount of RMB10,000,000 which was previously advanced to this subsidiary will be capitalised as the Company's additional capital contribution to this non-wholly owned subsidiary (note 15).

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 31. PLEDGE OF ASSETS

At the balance sheet date, the Group had pledged land and buildings having a net book value of approximately RMB52,977,000 (2002: RMB79,855,000) and pledged time deposits of RMB26,642,000 (2002: RMB40,505,000) to secure bank loans granted to the Group.

At the balance sheet date, the Company had pledged land and buildings having a net book value of approximately RMB52,977,000 (2002: RMB79,855,000) and pledged time deposits of RMB26,642,000 (2002: RMB37,142,000) to secure bank loans granted to the Company.

## 32. RETIREMENT BENEFIT SCHEME

The Group is a participant in a state-managed retirement benefits plan pursuant to which the Company pays a fixed percentage of its qualifying staff's wages as contribution to the plan. The Company's financial obligation under this plan is limited to the payment of the employer's contribution.

During the year, the contributions made by the Group relating to the arrangement were approximately RMB4,293,000 (2002: RMB4,541,000). There was no forfeited contribution for reduction in the Company's future contribution during the year.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 33. CONNECTED PARTIES AND RELATED PARTY TRANSACTIONS AND BALANCES

During the year, the Group had significant transactions with connected parties as defined in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"). The transactions with these connected parties during the year and balances with them at the balance sheet date are as follows:

### (I) CONNECTED PARTIES

#### (A) TRANSACTIONS

Name of company	Nature of transactions	THE GROUP	
		2003 RMB'000	2002 RMB'000
Substantial shareholders of the Company:			
Jiaotong Group (including its associates as defined by the Listing Rules, other than members of the Group)	Purchases of materials from Jiaotong Group (note a)	1,065	—
	Research and development expenditure paid to Jiaotong Group (note b)	1,060	550
	Utility service fee paid to Jiaotong Group (note c)	350	557
	Interest expense paid to Jiaotong Group (note d)	—	408
	Sales of raw materials to Jiaotong Group (note a)	—	177
	Guarantees given by Jiaotong Group (note e)	—	10,000
Yunnan Government	Rental for buildings to Yunnan Government (note f)	608	608
	Rental for land to Yunnan Government (note f)	408	408
	Interest expenses on obligations under finance lease paid to Yunnan Government (note g)	129	129
Company controlled by the substantial shareholders			
Kun Ji (including its associates as defined by the Listing Rules, other than members of the Group)	Payment to Kun Ji for building management fees, and provision of social, education and medical services to the Company's employees (note h)	3,351	1,913
	Sales of finished goods to Kun Ji (note a)	890	671
	Environmental charges paid to Kun Ji (note a)	—	1,044
	Construction costs paid to Kun Ji (note a)	—	857
	Utility services income received from Kun Ji (note h)	—	611
	Guarantees given by Kun Ji (note i)	—	40,000

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 33. CONNECTED PARTIES AND RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

### (I) CONNECTED PARTIES *(Continued)*

#### (B) BALANCES

Name of company	Nature of balances	THE GROUP		THE COMPANY	
		2003	2002	2003	2002
		RMB'000	RMB'000	RMB'000	RMB'000
<i>Substantial shareholder of the Company</i>					
Jiaotong Group	Balance due from (to)				
	Jiaotong Group				
	– prepayments (note j)	417	–	–	–
	– non-trade payable (note j)	(414)	(197)	–	–
		<u>3</u>	<u>(197)</u>	<u>–</u>	<u>–</u>
Yunnan Government	Balance of obligations under				
	finance leases due to Yunnan				
	Government				
	– non-trade payable (note j)	(3,838)	(4,051)	(3,838)	(4,051)
<i>Company controlled by the substantial shareholders</i>					
Kun Ji	Balance due (to) from Kun Ji				
	– trade (payable) receivable				
	(note j)	(80)	28	–	28
	– non-trade payable (note j)	(1,551)	–	–	–
		<u>(1,631)</u>	<u>28</u>	<u>–</u>	<u>28</u>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

## 33. CONNECTED PARTIES AND RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

### (II) RELATED PARTIES, OTHER THAN CONNECTED PARTIES

*Associate:*

Name of company	Nature of balances	THE GROUP		THE COMPANY	
		2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Xian Jiaotong University Siyuan Intelligent Electric Apparatus Company Limited ( Xian Jiaotong)	Balance due from Xian Jiaotong – non-trade receivable (note j)	–	400	–	–

*Notes:*

- (a) In the opinion of the Directors, these transactions were carried out at market price or, where no market price was available, at cost plus a percentage profit mark up, or determined and agreed by both parties.
- (b) Research and development expenditure was determined by terms agreed by both parties.
- (c) The Company entered into an agreement with Jiaotong Group whereby Jiaotong Group provides certain housing facilities and utilities services to the subsidiaries at prices to be determined by reference to the State stipulated price for utility services. The agreement has a term of three years commencing 31st December, 2001. The aggregate consideration for the payment under this agreement is below HK\$1,000,000 each year.
- (d) Interest expense was determined with reference to the prevailing market interest rates.
- (e) At 31st December, 2003, Jiaotong Group had given corporate guarantee of RMB10,000,000 to a bank to secure bank loan granted to a subsidiary of the Group. The guarantee was released in 2003.
- (f) Upon disposal of its land and buildings to Yunnan Government during the year ended 31st December, 2002, the Group entered into separate agreements to lease back certain land and buildings for its use for a term of 20 years. The annual rental for the first three years is approximately RMB408,000 per annum for the lease back of land and approximately RMB608,000 per annum for the lease back of buildings which were determined by reference to the prevailing market rates as certified by a professional valuer. The rental will be revised every three years based on market rates as certified by professional valuers. Details of these lease arrangement are set out in a circular to shareholders dated 5th December, 2002, as revised by a supplementary press announcement made by the Company on 25th February, 2003.
- (g) Upon disposal of its land and buildings to Yunnan Government during the year ended 31st December, 2001, the Group entered into separate agreements with Yunnan Government to lease back certain land and buildings for a term of 20 years. The balance with Yunnan Government as the lessor of these arrangement are set out in note 23, obligations under finance leases. The relevant interest expenses on obligations under finance leases were determined with reference to the prevailing market rates.
- (h) The receipt and payment of these service income and expenses were priced with reference to a composite services agreement entered into between Kun Ji and the Company in 1993 and renewed in 2003.
- (i) At 31st December, 2002, Kunji had given corporate guarantee of RMB40,000,000 to a bank to secure bank loan granted to the Company. The guarantee was released in 2003.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2003

- (j) The balances are unsecured, interest-free and repayable on demand.

## 34. POST BALANCE SHEET EVENT

On 30th December, 2003, the Board of Directors, by way of written resolution, considered and approved the Company's utilisation of capital not exceeding RMB100,000,000.

On 23rd February, 2004, the Company entered into an Agreement for the Trusteeship of the Management of Investment in State Bonds with an independent third party, China Fortune Securities ("China Fortune Securities"), pursuant to which the Company entrusted China Fortune Securities, a company having the qualification certificate issued by China Securities Regulatory Commission to offer asset management services to customers, to conduct investment on state bonds with RMB50,000,000, funded by internal resources. The term of the entrustment lasts for twelve months, with effect from the capital deposited to the Company's capital account in China Fortune Securities. The said capital has been deposited to the relevant account on 23rd February, 2004.

The Company also plans to entrust a qualified company to manage the remaining RMB50,000,000.

## 35. DIFFERENCES BETWEEN PRC ACCOUNTING STANDARDS ("PRC GAAP") AND HONG KONG ACCOUNTING STANDARDS ("HK GAAP") AS APPLICABLE TO THE GROUP

The major differences between the financial statements prepared under the PRC GAAP and HK GAAP are as follows:

Impact on the consolidated results

	2003 RMB'000	2002 RMB'000
Profit for the year as per financial statements prepared under the PRC GAAP	15,063	6,078
Interest subsidy from the PRC government recognised as income		
under HK GAAP only when the related interest expenses were incurred	—	1,312
Amortisation on deferred gain on sale and lease back		
transaction under PRC GAAP but recognised as		
income under HKGAAP in 2002	(664)	(664)
Gain on deemed partial disposal of a subsidiary		
recognised as an income under HK GAAP	925	—
Profit for the year as per financial statements prepared under the HK GAAP	15,324	6,726

Impact on the consolidated net assets as at 31st December

	2003 RMB'000	2002 RMB'000
Net assets as per financial statements prepared under the PRC GAAP	521,841	506,778
Gain on sale and lease back transaction deferred and amortised		
under PRC GAAP but wholly recognised as income		
under HK GAAP when the transaction was entered into	6,960	7,624
Gain on deemed partial disposal of a subsidiary credited		
directly against investments under PRC GAAP but		
recognised as an income under HK GAAP	925	—
Net assets as per financial statements prepared under the HK GAAP	529,726	514,402

Note: There are also other differences in balance sheet items due to differences in classification between the PRC GAAP and the HK GAAP.