

## Chapter VII Directors' Report

The Board submit its report together with the audited accounts for the year ended 31st December 2004.

### Section 1 Operations of the Company

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

The Company is one of the largest textile machinery manufacturers in the PRC. It is principally engaged in the development, manufacture and sales of textile machinery and associated components and parts thereof. The activities of the subsidiaries are set out in Note 13 to the accounts prepared in accordance with accounting principles generally accepted in Hong Kong.

In 2004, the Company's business strategy targeted at enhancing the pace of technology innovation, consolidating the results of intensive operations, promoting the brand of Jingwei and strengthening its competitive advantages. In face of market downturn and fierce competition, the Company focused on promoting new products, expanding domestic and overseas markets, actively integrating resources, strengthening intensive operations and enhancing the corporate management. The Company gained good results in all these aspects and remained its leading position in the textile machinery industry of China. At the same time, the Company was awarded "Central Enterprise Advanced Group" by the State-owned Assets Supervision and Administration Commission of the State Council, "Outstanding Enterprise in Beijing Economic-Technological Development Area" by Work and Management Committee of Beijing Economic-Technological Development Area, "Top 500 Informatized Companies in the PRC" by CECA National Informatization Evaluation Center. The Company was also selected as one of the "Top Ten Electrical and Mechanical Corporations in the PRC in 2004" in the Second "Top Ten News, People and Brands among Electrical and Mechanical Corporations in the PRC in 2004" organized by a hundred of media organizations like China Electrical and Mechanical Corporation, Sina, Sohu, Google News, Baidu News, China Industry News, China Machinery and Electronics Industry and The World Trade Information of Mechatronics. The principal operating activities of the Company in 2004 were as follows:

- (1) Technological developments have achieved new results, which further enhanced the equipment and technology level for the whole set of natural fibre textile machinery. In 2004, technological development was market-oriented and the development pace for building technology innovative system accelerated. Firstly we have improved the development of the two-tier research system for the technology centre at the Company's headquarter and the development of corporate products, boosted the transformation of the system for scientific research and development, enhanced domestic and international technological cooperation, strengthened the sharing of technological resources and speeded up the introduction of intelligent and patent technology. Secondly, the Company emphasized on building a team for scientific research, introduced and trained a core technological team which possessed an innovative mind and was hard-working. The Company also gave greater reward to technological personnel with outstanding performance, so as to attract and retain talented personnel and stimulate the initiatives and creativity of the technological personnel. Thirdly, the Company committed more investment for scientific research and development and actively supported the Company in speeding up the pace of technological innovation.
- (2) The results for intensive operations were consolidated and deepened, so as to further enhance the management of intensive operation. The decision-making, management, technology, marketing, financial section and information section of the headquarter were enhanced in accordance with the strategic positioning of the Company in its development. The Company implemented intensive operations and intensive management, in which fruitful outcomes were recorded. Firstly, the integration of carding machinery was enhanced, intensive operations were facilitated and a series of effective measures were adopted for the development of new carding products, the advancement of old products and the technologies and services for production sites. These all helped the development of carding products. Secondly, bulk purchases of supplies was implemented alongside with supply chain management, which effectively reduced the procurement cost for the Company. Thirdly, the Company strengthened financial management and increased the capital flow efficiency. Also, positive results were seen in implementing flexible budget, improving capital management, controlling trade receivables, reducing operating costs and strengthening financial analysis. Fourthly, the Company enhanced its auditing and supervisory function, so as to avoid corporate operational risks.
- (3) The Company actively promoted the integration of marketing sections and explored the domestic and overseas textile machinery markets. In 2004, the Company established a sales and technical services center in Wuxi and set up a "hotel-style" intensive marketing management mode to serve customers. The testing base of Wuxi Jingwei was fully utilized as a showroom for the Company, in order to establish a marketing platform which aimed at consistency in branding, sharing of resources and information and providing training and equipment for marketing and technological training. These initiatives cultivated the mindset for further integration of the marketing section. The investments in China Textile Machinery and Technology Import and Export Company Limited could create opportunities for the Company to further explore the international market. The Company participated in domestic and overseas expos like the 9th Beijing International Textile Machinery Expo, and expos held in Turkey, Egypt, Indonesia and Russia. Such participation further expanded the influence of the Company and demonstrated that it had the ability to enter the high-end product market in certain textile machinery areas.
- (4) The Company further developed informatization and modernized its management. The development of the Company's informatization was based on the Company's development strategy, in order to establish an informational environment and application system supported by information which was focused on "intensive operation and intensive management". The informatization of the headquarter and different subsidiaries was actively and systematically promoted, therefore effectively supported the production and operation as well the management of the Company.



## Section 1 Operations of the Company (continued)

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

As stated in the financial report prepared in accordance with the HK GAAP for the year ended 31st December 2004, turnover and profit attributable to shareholders of the Group amounted to RMB3,611,043,000 and RMB151,321,000 respectively, representing a decrease of 16.13% and 14.11% from last year respectively. As at 31st December 2004, bank balances and cash, short-term bank loans and long-term bank loans (including long-term loans due within one year) of the Group amounted to RMB995,649,000, RMB568,752,000 and RMB52,800,000 respectively. As at 31st December 2004, the bank loans were borrowed and repaid on the basis of non-floating interest rates, and the interest rates of the loans were fixed interest rate. The gearing ratio (total long-term loans/net assets) of the Group was 2.05%.

As at 31st December 2004, RMB1,814,000 of the bank and cash balances (2003: Nil) was pledged as collateral for the Group's short-term bank loan.

As at 31st December 2004, none of the fixed assets of the Group (2003: Nil) was pledged as security for the Group's bank loans.

As at 31st December 2004, none of the short-term investments of the Group (2003: RMB100,000) have been pledged as security for the Group's bank loans.

As stated in the financial report prepared in accordance with the PRC GAAP for the year ended 31st December 2004, revenue from principal activities of the Group amounted to RMB3,611,043,000, representing a decrease of 16.13% from last year. Profit from the principal activities was RMB597,113,000, representing a decrease of 20.93% from last year.

Among which:

Revenue from principal activities of the Company was RMB2,266,438,000, representing an increase of 35.70% over the previous year while its profit from principal activities was RMB226,559,000, representing an increase of 7.07% over the previous year.

Subsidiaries: Revenue from principal activities of Zhengzhou Hongda New Textile Machinery Company Limited was RMB210,263,000 while profit from its principal activities was RMB6,544,000.

Revenue from principal activities of Qingdao Hongda Textile Machinery Company Limited was RMB751,431,000 while profit from its principal activities was RMB75,754,000.

Revenue from principal activities of Shenyang Hongda Textile Machinery Company Limited was RMB168,577,000 while profit from its principal activities was RMB37,813,000.

Revenue from principal activities of Tianjin Hongda Textile Machinery Company Limited was RMB360,995,000 while profit from its principal activities was RMB73,502,000.

Revenue from principal activities of Changde Textile Machinery Company Limited was RMB266,967,000 while profit from its principal activities was RMB85,345,000.

Revenue from principal activities of Beijing Jingwei Textile New Technology Company Limited was RMB60,995,000 while profit from its principal activities was RMB9,302,000.

Revenue from principal activities of Shanghai Jingwei Dongxing Blowing Carding Machinery Company Limited was RMB80,216,000 while profit from its principal activities was RMB12,680,000.

Revenue from principal activities of Shanxi Jingwei Heli Machinery Manufacture Company was RMB360,362,000 while profit from its principal activities was RMB55,800,000.

**Section 1 Operations of the Company (continued)****1. Scope of Principal Activities and Operation of the Company (continued)****Analysis of principal activities by products or industries**

(Unit: RMB'000)

Item	Revenue from main operations	Cost of main operations	Gross profit margin (%)	Increase / (decrease) in revenue from main operations compared with last year (%)	Increase / (decrease) in cost of main operations compared with last year (%)	Increase / (decrease) in gross profit margin compared with last year (%)
Natural fibre textile machinery	2,870,389	2,440,823	14.97	(19.86)	(18.77)	(7.10)
Of which being connected transactions	10,671	9,158	14.18	(16.31)	(14.29)	(12.47)
Chemical fibre textile machinery	72,404	54,207	25.13	8.55	(4.20)	65.68
Weaving machinery	230,905	194,055	15.96	3.36	0.20	19.88
Accessories and special parts for weaving machinery	267,067	180,060	32.58	(11.86)	1.58	(21.50)
Others	170,278	131,427	22.82	30.20	29.66	1.43
Total	3,611,043	3,000,572	16.91	(16.13)	(15.09)	(5.69)

**Pricing basis for connected transactions:**

Transactions between the Group and related parties for the year were conducted in accordance with the composite services agreement entered into by the Group and related parties on 5th February 2002.

Ongoing connected transactions will be conducted on normal commercial terms and conditions as agreed through fair negotiations. Pursuant to the composite services agreement, prices payable or receivable by the Group will be based on the following:

- (i) if the price of the relevant service provided is subject to the State price control, based on the price stipulated by the State;
- (ii) if no applicable price stipulated by the State, based on the market price or approximately 105% to 110% of the actual costs (the increasing rate of which should not exceed the rate of increase in the relevant municipal households consumer price index in the latest year), whichever is lower.

The independent non-executive directors of the Company have reviewed all the continuing connected transactions entered into by the Group for the year, and have confirmed that such transactions have been entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to Group than terms available to or from (as appropriate) independent third parties;
- (iii) in accordance with the relevant agreement governing them or terms that are fair and reasonable in the interests of the shareholders of the Company as a whole; and
- (iv) the transaction amount did not exceed the cap prescribed in the waiver granted by The Stock Exchange of Hong Kong Limited.

**Explanations on the necessity and on-going nature of connected transactions:**

Such transactions are conducted in the ordinary course of the Group's operations, which ensures the orderly and smooth operations of the Company. Such transactions have warranted their necessity and continuity in the Company's operations.

During the period, the connected transactions of the Company in the sales of products and provision of services to its controlling shareholder and its subsidiaries amounted to RMB504,423,000.

**Principal activities of the Group by regions:**

(Unit: RMB'000)

Region	2004 Revenue from principal activities	2003 Revenue from principal activities	Change %
PRC	3,234,668	3,891,118	(16.87)
Asia	331,992	383,400	(13.41)
Africa	34,073	2,316	1,471.2
Others	10,310	28,909	(64.34)
Total	3,611,043	4,305,743	(16.13)

An analysis of the Group's performance by business and geographical segment is set out in Note 2 to the accounts prepared in accordance with HK GAAP.

**Section 1 Operation of the Company (continued)****2. The operations of major subsidiaries of the Group**

As at 31st December 2004, the Group's major subsidiaries were as follows:

(Unit: RMB'000)

Name of enterprise	Principal activities	Registered capital	Equity interest held by the Group (%)	Net assets	Net profit
Zhengzhou Hongda New Textile Machinery Company Limited	Development and manufacture of textile machinery and related components	74,500	98	99,212	(4,827)
Qingdao Hongda Textile Machinery Company Limited	Manufacture, sales, installation, repairing and leasing of special equipment for textile industry, textile machinery and related components	114,000	98	213,788	17,925
Shenyang Hongda Textile Machinery Company Limited	Technological development and manufacture of textile machinery and related components; electronic and electric machinery and equipment, providing technical consultation	71,000	98	114,454	13,174
Tianjin Hongda Textile Machinery Company Limited	Technical development consultation, sales of photocopiers, agriculture processing machinery and related components	78,500	98	138,773	21,995
Changde Textile Machinery Company Limited	Manufacture and trading of textile machinery and other machinery and parts and components, powder metallurgy	42,350	95	101,723	35,418
Beijing Jingwei Textile New Technology Company Limited	Technical development and sale of textile machinery and computer hardware and software, sale of special textile equipment, agricultural machinery, instruments and meters as well as automobile components	100,000	98.40	116,322	6,558
Shanghai Jingwei Dongxing Blowing-Carding Machinery Company Limited	Manufacture and sales of blowing-carding machinery and related components	50,000	83.87	66,616	8,108
Shanxi Jingwei Heli Machinery Manufacture Company Limited	Manufacture and sales of textile machinery	100,000	30	126,619	6,422

**3. Major customers and suppliers**

The amount of the Group's purchases for the year ended 31st December 2004 from the top five suppliers of the Group was RMB556,159,000, representing 18.52% of the total amount of purchases for the year.

The amount of the top five customers' turnover for the year ended 31st December 2004 was RMB847,601,000, representing 23.47% of the total turnover for the year.

## Section 1 Operation of the Company (continued)

### 4. Problems and difficulties encountered in operations and solutions

In accordance with WTO Agreement on Textiles and Clothing, global trading of textile products in the world will achieve unification commencing from 1st January 2005. All quotas on textile products would be cancelled and thus providing good opportunity to develop the textile industry in the PRC. Accordingly, demand and growth of textile machinery would be initiated. But the cancellation of quotas also involves adjustment on the part of the original interested parties globally. At the same time, export tariff on textile products has been imposed on the PRC starting from 1st January 2005. Tariff imposition would involve a total of six types of textile (involving 148 products). Expansion in the total size of the market in the future will be limited, advantage in competitive pricing will be weakened and competitive power may in turn be reduced. Also, the textile machinery industry encounters much difficulty. Especially the effect of tight supply of coal, power, oil and transport in the PRC, and increase of price of raw materials led to an increase in its cost and further weakened the competitive power of the business; macro-economic measures reduced the number of projects under constructions, and to a certain extent affected the economic growth of enterprises. Following the structural adjustment of the pattern of the world's industry, famous overseas textile machinery enterprises were optimistic about the Chinese market, forming a more complicated market environment for enterprises in the PRC.

Though there is an increasing number of factors affecting the market, the textile machinery market will gradually stabilize and move along a more sensible track mingled with all these factors. To benefit from quota cancellation effectively, textile enterprises, have realized the importance of placing emphasis on quality instead of quantity so that the demand of textile facilities with high technology and high added-value is increased, which further provides new opportunities for the development of textile machinery enterprises. In a market environment full of changes and aggressive competitions, the Company shall accelerate product innovation, research and technology innovation by making good use of advantages in areas such as technology, resources and talents; advanced technology development of textile machinery in the world shall be kept up, research and development shall be enhanced, the road to unification of technology innovation shall be explored, the technology level of products shall be raised continuously, and reliability, stability and consistency of products shall be increased, the strategy of low cost and differentiation shall be implemented and the comparative advantages of the enterprises shall be maintained. At the same time, sales service system with rapid response shall be established, satisfaction of customers shall be raised, pricing strategy of products shall be researched and the profit level of products shall be raised; the international market shall be further developed and market share shall be expanded through strengthening network construction, training of staff, establishing overseas service centers and making good use of the advantages of its investment in China Textile Machinery and Technology Import and Export Company Limited, and to maintain its pioneering position of the Company in the textile industry within the PRC through enhancing financial budget management and capital management, raising the level of financial management, lowering cost, promoting intensive operation and centralized management.

### 5. Share capital

Details of share capital is set out in Note 22 to the accounts prepared in accordance with HK GAAP.

### 6. Five years financial summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set in Chapter II section 4 to this report.



## Section 2 Investments of the Company

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

No proceeds from the issue of shares were utilised during the reporting period. As at the end of the reporting period, the unutilised proceeds from the issue of shares amounted to RMB752,000 which was deposited with the bank. The utilisation of accumulated proceeds from the issue of shares is set out in 2003 Annual Report. The Company has appointed an auditor to audit the recent use of proceeds from the issue of shares and to issue a specific report which will be announced on a timely basis.

### 2. Other investments

There were no other investments during the period.

### 3. Financial Position of the Company:

Under the PRC GAAP:

Item	2004 (in RMB '000)	2003 (in RMB '000)	Increase or decrease (%)	Fluctuation Reasons
Cash at bank and in hand	1,005,463	858,328	17.14	Rise in the collection rate of operating capital and increase of current loans
Short-term investment	8,526	113,021	(92.46)	Recovery of national bonds and stock investment of last year
Notes receivable	400,434	334,784	19.61	Increased settlement of bank drafts by the time when customers make payments compared with 2003
Accounts receivable	445,202	547,376	(18.67)	Due to decrease of credit sale and increase of settlement of previous years' balance by means of notes
Other receivable	129,551	177,132	(26.86)	Collection of balances due from related companies and decrease of non-operating capital occupation of third parties
Advance to suppliers	260,821	294,030	(11.29)	Decrease of balance for purchase from related parties
Inventories	1,299,968	1,597,255	(18.61)	Mainly due to lower level of storage of raw material and finished goods because of decrease of sales
Prepaid expenses	1,696	3,414	(50.32)	Decrease of amortization of fees of research and development compared with the year in 2003
Long-term equity investment	379,982	456,305	(16.73)	Transfer of 50 % equity interest of an investee under the item of "other equity investment"
Construction in progress	56,494	67,460	(16.26)	Mainly due to transfer to fixed assets following the completion of the science and technology centre
Construction materials	11,500	28,339	(59.42)	Use and transfer to the construction in progress
Short-term loans	580,502	325,550	78.31	Using loans as a supplement to satisfy the needs of production operations
Notes payable	252,277	350,301	(27.98)	The acceptance amount is larger than opening amount upon maturity of bank acceptance during the year
Accounts payable	539,330	746,278	(27.73)	Timely payment of amount
Advances from customers	632,150	1,005,909	(37.16)	Being mainly the reduction in margin received from customers
Accrued payroll	6,019	2,596	131.86	Partial wage payment of the administrative and sales staff in the current year will be made in the following year
Welfare benefits payable	44,080	61,834	(28.71)	Decrease of total salary
Taxes payable	33,661	13,855	142.95	Value-Added Tax payable increase greatly
Other levies payable	748	1,483	(49.56)	Mainly due to decrease of local charges collected by local bureau of finance
Other payables	279,440	321,290	(13.03)	Mainly due to decrease of non-operating balance due to related parties
Current portion of long-term liabilities	12,800	33,000	(61.21)	Current portion of long-term liabilities is less than last year

**Section 2 Investments of the Company (continued)****3. Financial Position of the Company: (continued)**

Under the PRC GAAP: (continued)

Item	2004 (in RMB'000)	2003 (in RMB'000)	Increase or decrease (%)	Fluctuation Reasons
Long-term loans	40,000	52,800	(24.24)	Transferred to current portion and repayment
Total assets	5,133,568	5,511,657	(6.86)	Mainly due as the great decrease of both current assets and current liabilities
Surplus reserve	303,440	251,951	20.44	Mainly due to transfer to Statutory Surplus Fund and Statutory Public Welfare Fund
Profit from main operations	597,113	755,137	(20.93)	Reduction in major operating income
General and administrative expenses	391,826	495,432	(20.91)	Reduction in bad debt provision, inventory provision expenses, repair expenses and research and development expenses are the main reasons
Finance expenses	20,172	16,877	19.52	Increase in loans led to increase in interest expenses
Investment income	32,105	4,449	621.62	Being mainly the income of a company under the item of "other investments"
Subsidy income	5,338	2,320	130.09	Being mainly refund of tax amount of a subsidiary as Hi-tech enterprises
Non-operating income	3,525	1,059	232.86	Being mainly the increase in net income arising from disposal of fixed assets
Non-operating expenses	5,782	11,232	(48.52)	Being mainly the decrease in net losses arising from disposal of fixed assets
Income taxes	13,462	36,406	(63.02)	Being mainly the reduction in the total amount of taxable profit in the current period
Minority interest	9,023	3,561	153.38	The Company shares 30% of the equity interest of a subsidiary consolidated for whole year. In the previous year, only half-year data was consolidated

**4. Fixed assets**

Details of the movements in fixed assets during the year are set out in note 12 to the accounts prepared in accordance with the HK GAAP.

**5. Retirement benefit scheme**

Details of the retirement benefit scheme of the Group are set out in note 1 (k) and note 4 to the accounts prepared in accordance with the HK GAAP.

**6. Donations**

Donations made by the Group during the year amounted to RMB390,000 (2003: RMB380,000).

**Section 3 Report on the work of the Directors****1. Board meetings held during the reporting period and contents of resolutions passed**

- (1) The seventeenth meeting of the third Board of Directors was held on 30th March 2004 and the following resolutions were considered and passed:
  - 1) The 2003 Annual Report of the Company and its Summary were considered and approved;
  - 2) The 2003 Profit Distribution Proposal for the Company was considered and approved. According to the PRC GAAP, the Company realized net profit of RMB161,534,000 in 2003, 10% of which amounting to RMB16,153,000 and RMB16,153,000 will be appropriated to each of the statutory surplus reserve and statutory public welfare fund respectively in accordance with the Articles of Association of the Company. The current year's balance of profit of RMB129,228,000 available for distribution, when aggregated with the undistributed profit of RMB304,182,000 at the beginning of the year and less payment of last year's dividend of RMB36,228,000 in this year, amounted to a total profit of RMB397,182,000 available for distribution to the shareholders. A final dividend of RMB0.072 per share (taxes inclusive) of 2003 is proposed, making an aggregate of RMB43,473,600. The balance of the undistributed profit of RMB353,708,000 will be carried forward to the following year;
  - 3) Mr. Yu Shiquan to be the candidate for Independent Non-Executive Director of the Company was confirmed and the same be submitted to the 2003 Annual General Meeting for approval;





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

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

- (1) The seventeenth meeting of the third Board of Directors (“Board”) was held on 30th March 2004 and the following resolutions were considered and passed: (continued)
  - 4) The proposal for amendments to provisions on Articles 57, 97, 99, 100, 137 of the Articles of Association was considered and approved and the same be submitted to the 2003 Annual General Meeting for approval;
  - 5) The proposal for the grant of authority to the Board to repurchase on The Stock Exchange of Hong Kong Limited, with the consent of the relevant PRC authorities, its H Shares not exceeding 10% of the aggregate H Shares in issue as at the date of passing of such resolution at the general meeting of the Company, and to make corresponding amendments to its Articles of Association was considered and approved; and
  - 6) The proposal for the reappointment of PricewaterhouseCoopers (Hong Kong Certified Public Accountants) and PricewaterhouseCoopers Zhong Tian CPAs Limited Company (PRC Certified Public Accountants) as the Company’s international auditors and PRC auditors respectively for the year ending 31 December 2004 was considered and approved;

The announcement regarding relevant resolutions of the Board was published in “Securities Times” and in “Wen Wei Po” and “The Standard” in Hong Kong on 31st March 2004.

- (2) On 21st April 2004, the eighteenth meeting of the third Board was convened at which the Implementing Rules and Regulations of the Personnel Nomination and Remuneration Committee and the Implementing Measures of Equity Interest Incentive for the Company’s Senior Management Staff were considered and approved and the same be submitted to the 2003 Annual General Meeting of shareholders for approval; and the 2004 First Quarterly Report of the Company was considered and approved.

The relevant announcement was published in “Securities Times” and in “Wen Wei Po” and “The Standard” in Hong Kong on 22nd April 2004.

- (3) On 16th June 2004, the nineteenth meeting of the third Board was convened to elect Messrs Wang Zengjing, Zhang Jie, Fan Xinmin, Kon Hiu King Kenneth and Yu Shiquan as members of the Personnel Nomination and Remuneration Committee of the Board, and to approve the appointment of Wang Zengjing as Chairman of the Personnel Nomination and Remuneration Committee of the Board of Directors.

The relevant announcement was published in “Securities Times” and in “Wen Wei Po” and “The Standard” in Hong Kong on 17th June 2004.

- (4) On 23rd June 2004, the extraordinary meeting of the third Board was convened to determine to convene the extraordinary general meeting on 15th August 2004 for the election of next term of the members of the Board of Directors and the Supervisory Committee; to authorize the Company Secretary to dispatch the notice of the extraordinary general meeting on behalf of the Board to the all holders of A Shares and H Shares and to handle the relevant matters on information disclosure.

The relevant announcement was published in “Securities Times” and in “Wen Wei Po” and “The Standard” in Hong Kong on 24th June 2004.

- (5) The first meeting of the fourth Board was held on 15th August 2004 and the following resolutions were considered and passed:
  - 1) Mr. Zhang Jie was elected the Chairman of the fourth Board and Mr. Fan Xianmin was elected the Vice-chairman of the fourth Board;
  - 2) Mr. Wang Zengjing, Mr. Kon Hiu King Kenneth and Mr. Yu Shiquan were elected the members of the Auditing Committee of the Board and Mr. Wang Zengjing was approved to be the Chairman of the Auditing Committee;
  - 3) Mr. Wang Zengjing, Mr. Zhang Jie, Mr. Fan Xianmin, Mr. Kon Hiu King Kenneth and Mr. Yu Shiquan were elected the members of the Personnel Nomination and of Remuneration Committee of the Board of Directors and Mr. Wang Zengjing was approved to be the Chairman of the Personnel Nomination and Remuneration Committee of the Board of Directors;
  - 4) Considered and approved the resolution in respect of the amendment to article 100 of the Articles of Association, which is effective upon the approval by the Extraordinary General Meeting;



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

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

- (5) The first meeting of the fourth Board was held on 15th August 2004 and the following resolutions were considered and passed: (continued)
- 5) Considered and approved the following connected transactions and submitted the same to the Extraordinary General Meeting for approval:
- Approved the form and content of the Increase in Capital Agreement and authorised any of the directors of the Company to sign the agreement on behalf of the Company. Pursuant to the agreement, the Company will contribute RMB 30 million in order to increase the registered capital of China Textile Machinery and Technology Import and Export Company Limited ("IE Company"). The contribution of the Company will represent 25% of the total registered capital of the enlarged IE Company. China Hengtian Group Company will contribute RMB 90 million, in terms of the revaluated net assets of the existing IE Company, which will represent 75% of the total registered capital of the enlarged IE Company.
  - Approved the form and content of the Equity Transfer Agreement and authorised any of the directors of the Company to sign the agreement on behalf of the Company. Pursuant to the agreement, the Company will transfer 20% equity interest of Hongda International Trading Company Limited at a consideration of RMB 6 million (equivalent to the existing investment amount contributed by the Company) to China Textile Machinery (Group) Company Limited ("China Textile Machinery").
  - Approved the form and content of the composite service contract entered into between the Company and its subsidiaries and China Textile Machinery and its subsidiaries and authorised any of the directors of the Company to sign the contract on behalf of the Company.
- (6) Resolved to convene the second Extraordinary General Meeting of shareholders 2004 in October 2004 and authorised the secretary of the Board to publish the notice of the extraordinary general meeting in due course.

The relevant announcement was published in "Securities Times" and in "Wen Wei Po" and "The Standard" in Hong Kong on 19th August 2004.

- (6) On 19th August 2004, the second meeting of the fourth Board was convened at which the "2004 Interim Report" and "Summary of 2004 Interim Report" of the Company were considered and approved, and no distribution of interim profits and no increase of the capital out of the capital surplus would be made for 2004.

The relevant announcement was published in "Securities Times" and in "Wen Wei Po" and "The Standard" in Hong Kong on 20th August 2004.

- (7) On 28th October 2004, the third meeting of the fourth Board was convened at which the "Third Quarterly Report" of 2004 was considered and approved.

The relevant announcement was published in "Securities Times" and in "Wen Wei Po" and "The Standard" in Hong Kong on 29th October 2004.

- (8) On 22nd December 2004, the fourth meeting of the fourth Board was convened at which the Company and Anhui Huamao Textile Co., Ltd. agreed to jointly establish Huamao Jinwei Weaving New Technology Co., Ltd.. The Board authorized the general manager to sign the documents relating to the set up of the company in due course.

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

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

### Section 4 Profit distribution proposal for the year

In 2004, the Group realized a net profit of RMB152,379,000 under PRC GAAP, 10% of which amounting to RMB25,745,000 and RMB25,745,000 respectively will be appropriated to each of the statutory surplus reserve and statutory public welfare fund in accordance with the Articles of Association of the Company and its subsidiaries. The balance of the current year's profit of RMB100,889,000 available for distribution, when combined with the undistributed profit of RMB325,113,000 at beginning of the year and less the payment of last year's dividend of RMB43,474,000 in this year, amounted to RMB382,528,000 was available for distribution to the shareholders. The discretionary surplus for RMB100,000,000 and the proposed payment of 2004 final dividend of RMB0.05 per share (inclusive of tax), totalling and proposed to be RMB30,190,000. The balance of the undistributed profit of RMB252,338,000 will be carried forward to the following year.



## Section 5 Report on other items

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

During the reporting period, there were 7 accumulated guarantees totalling RMB342,800,000 of which 1 totalling RMB20,000,000 had been completed. As at the end of the reporting period, the balance of guarantees amounted to RMB322,800,000, of which the balance of guarantees made to its controlling subsidiaries (branches) amounted to RMB82,800,000 and the balance of guarantees made to other companies amounted to RMB240,000,000. Until the end of the reporting period, no guarantee was made by the Company to related parties, there were no overdue guarantees. The Company believes that: the Company currently performs satisfactorily in respect of guarantees. It is able to perform all such guarantees in compliance with the Notice.

2. A special audit opinion from PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd on the utilization of funds by the controlling shareholder of the Company and the other related parties is as follows:

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

We have accepted the appointment to audit the balance sheet of Jingwei Textile Machinery Company Limited (the “Company”) and the consolidated balance sheet of the Company and its subsidiaries (the “Group”) as at 31st December 2004, the related Company’s income statement and the consolidated income statement, the Company’s profit appropriation statement and the consolidated profit appropriation statement and the Company’s cash flow statements and the consolidated cash flow statements for the year then ended. Our audit was conducted in accordance with China Certified Public Accountants Independent Auditing Standards. We have issued an unqualified opinion in our report PwC ZT Shen Zi (2005) No. 1326 on 29th March 2005.

Pursuant to the Circular Zheng Jian Fa (2003) No.56 on “Notice to Regularize the Funds Transfer Between Listed Companies and its Controlling Shareholder and Other Related Parties and Issues on Guarantees Provided by Listed Companies” jointly issued by the China Securities Regulatory Commission and the State-Owned Assets Supervision and Administration Commission, the Company prepared the accompanying statement on the utilization of funds by its controlling shareholder and the other related parties (“the statement”) for the year ended 31st December 2004.

The Company’s management is responsible for the preparation of the statement and ensuring the authenticity, legitimacy and completeness of the statement and its disclosure. Our responsibility is to examine the information contained in the statement with the accounting information obtained during our audit of the financial statements for the year ended 31st December 2004. In all material respects, we have not discovered any significant discrepancies. Other than the audit procedures on the related party transactions for the year ended 31st December 2004, we have not carried out any audit procedures on the other information contained in the statement. To enhance the understanding of the statement, the statement should be read in conjunction with the audited consolidated financial statements.

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

Attachment:

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

**PricewaterhouseCoopers**  
**Zhong Tian Certified Public Accounts Ltd. Co.**  
Shanghai, the People’s Republic of China  
29th March 2005

**Zhang Guojun**  
Certified Public Accountant  
**Lan Shihong**  
Certified Public Accountant



## Section 5 Report on other items (continued)

in RMB '0000

Utilization of funds	Name of related party	Relationship	Amount of the year		Item	Year-end balance	Remark (reasons of utilization of fund)
			Debit	Credit			
Operating capital flow	China Textile Machinery (Group) Company Limited	Holding	351	(955)	Accounts receivable	890	Sales generated
	China Textile Machinery and Technology Import and Export Company Limited	Fellow subsidiary	25,074	(22,358)	Accounts receivable	2,716	Sales generated
	Huangshi Textile Machinery Plant	Fellow subsidiary	530	(161)	Accounts receivable	369	Sales generated
	Qingdao Textile Machinery Plant	Fellow subsidiary	5	(3)	Accounts receivable	2	Sales generated
	Zhengzhou Textile Machinery Co., Ltd.	Fellow subsidiary	29,532	(34,966)	Accounts receivable	4,031	Generated by processing and sales
	Jingwei Textile Machinery (Group) Company Limited	Fellow subsidiary	359	(398)	Accounts receivable	7	Generated by processing and sales
	Shenyang Jingxing Textile Machinery Manufacture Company Limited	Associated company	66	(28)	Accounts receivable	38	Sales generated
	Shenyang Parts Sales Co.	Fellow subsidiary	301	–	Accounts receivable	301	Sales generated
	Yuci Jingwei Chemical Fiber Machinery Company Limited	Fellow subsidiary	243	(60)	Accounts receivable	183	Sales generated
	Hongda Research Institute Co., Ltd.	Associated company	–	(18)	Accounts receivable	48	Sales generated
	Hongda Investment Co., Ltd.	Fellow subsidiary	20	–	Accounts receivable	37	Sales generated
	Hongda International Trading Co., Ltd.	Associated company	2,915	(3,368)	Accounts receivable	831	Sales generated
	Taicang Textile Equipment Plant	Fellow subsidiary	1	–	Accounts receivable	1	Sales generated
	Tianjin Textile Machinery Plant	Fellow subsidiary	–	–	Accounts receivable	22	Generated by processing and sales
	Urumqi Jingwei Xijin Company	Fellow subsidiary	720	–	Accounts receivable	720	Sales generated
	Zhongji Trade Society	Fellow subsidiary	–	–	Accounts receivable	1	Sales generated
	CTM Group Sales Co.	Fellow subsidiary	1	(1)	Accounts receivable	30	Sales generated
	Hengyang Textile Machinery Plant	Fellow subsidiary	236	(238)	Accounts receivable	18	Sales generated
	Shaoyang Textile Machinery Co., Ltd.	Fellow subsidiary	3	(3)	Accounts receivable	26	Sales generated
	CTM Group Guangzhou Branch	Fellow subsidiary	–	(18)	Accounts receivable	–	Sales generated
	Beijing Hongda Industrial Co., Ltd.	Fellow subsidiary	–	(26)	Accounts receivable	3	Sales generated



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

*in RMB'0000*

Utilization of funds	Name of related party	Relationship	Amount of the year		Item	Year-end balance	Remark (reasons of utilization of fund)
			Debit	Credit			
Operating capital flow	Qingdao Textile Machinery Company Limited	Fellow subsidiary	53	–	Accounts receivable	53	Sales generated
	Jingjin Associated Packing Plant	Associated company	459	(389)	Accounts receivable	70	Sales generated
	Yichang CTM Textile Parts Co., Ltd.	Fellow subsidiary	–	(85)	Accounts receivable	–	Sales generated
	Yuci Jingwei Chemical Fiber Machinery Company Limited	Fellow subsidiary	16,809	(20,072)	Notes receivable	1,155	Sales generated
	China Textile Machinery (Group) Co., Ltd.	Holding	–	(614)	Advance to suppliers	–	Purchase of materials
	Huangshi Textile Machinery Plant	Fellow subsidiary	221	–	Advance to suppliers	221	Generated by purchase of materials and acceptance of processing services
	Zhengzhou Textile Machinery Co., Ltd.	Fellow subsidiary	24,577	(24,471)	Advance to suppliers	3,747	Generated by purchase of materials and acceptance of processing services
	Jingwei Textile Machinery (Group) Company Limited	Fellow subsidiary	10,091	(15,425)	Advance to suppliers	–	Generated by purchase of materials and acceptance of processing services
	Weinan Textile Machinery	Fellow subsidiary	5	(5)	Advance to suppliers	–	Generated by purchase of materials and acceptance of processing services
	Shenyang Textile Machinery Plant	Fellow subsidiary	2,781	(2,710)	Advance to suppliers	71	Generated by purchase of materials and acceptance of processing services
	Shenyang Jingxing Textile Machinery Company Limited	Associated company	56	(36)	Advance to suppliers	20	Generated by purchase of materials and acceptance of processing services
	Taichang Textile Equipment Plant	Fellow subsidiary	–	–	Advance to suppliers	1	Generated by purchase of materials and acceptance of processing services



## Section 5 Report on other items (continued)

in RMB'0000

Utilization of funds	Name of related party	Relationship	Amount of the year		Item	Year-end balance	Remark (reasons of utilization of fund)
			Debit	Credit			
Operating capital flow	Tianjin Textile Machinery Plant	Fellow subsidiary	7,031	(6,878)	Advance to suppliers	2,191	Generated by purchase of materials and acceptance of processing services
	Shenyang Hongcheng Textile Machinery Co., Ltd.	Fellow subsidiary	–	(1)	Advance to suppliers	–	Generated by purchase of materials and acceptance of processing services
	Shenyang Jingxing Textile Machinery Company Limited	Associated company	–	(140)	Other receivables	–	Generated by advanced payment and provision of supporting services
Borrowed capital	China Textile Machinery (Group) Co., Ltd.	Holding	83	(506)	Other receivables	488	Gratuitous
	Shenzhen Bolue Technology Investment Co., Ltd.	Associated company	5	(5)	Other receivables	500	With consideration
	Zhengzhou Textile Machinery Co., Ltd.	Fellow subsidiary	–	(1,000)	Other receivables	–	Gratuitous
Loans repaid on behalf of related parties	Shenyang Textile Machinery Plant	Fellow subsidiary	2	(310)	Other receivables	2	Loans repaid on behalf of related parties
	Tianjin Textile Machinery Plant	Fellow subsidiary	–	–	Other receivables	975	Loans repaid on behalf of related on parties
Others	Zhengzhou Textile Machinery Co., Ltd.	Fellow subsidiary	1,044	(1,318)	Other receivables	–	Reimbursed expenses
	Qingdao Textile Machinery Plant	Fellow subsidiary	317	(881)	Other receivables	202	Reimbursed expenses
	Huangshi Textile Machinery Plant	Fellow subsidiary	–	–	Other receivables	1	Generated by advanced payment and provision of supporting services
	Jingwei Textile Machinery (Group) Company Limited	Fellow subsidiary	226	(237)	Other receivables	120	Generated by advanced payment and provision of supporting services
	Shenyang Textile Machinery Plant	Fellow subsidiary	1,259	(1,035)	Other receivables	1,901	Generated by advanced payment and provision of supporting services
	Shenyang Parts Sales Co.	Fellow subsidiary	–	–	Other receivables	45	Generated by advanced payment and provision of supporting services
	Hongda Research Institute Co., Ltd.	Associated company	–	(20)	Other receivables	–	Generated by advanced payment and provision of supporting services

**Section 5 Report on other items (continued)***in RMB'0000*

Utilization of funds	Name of related party	Relationship	Amount of the year		Item	Year-end balance	Remark (reasons of utilization of fund)
			Debit	Credit			
Others	Hengyang Textile Machinery Plant	Fellow subsidiary	1,017	(1,000)	Other receivables	17	Generated by advanced payment and provision of supporting services

Approved by the board of directors on 29th March 2005.

Legal representative:  
Ye Maoxin

Person in charge of accounting function:  
Yao Yuming

Person in charge of accounting department:  
Mao Faqing

**3. Directors' and Supervisors' interest in contracts**

No contracts of significance (except service contracts) in relation to the Group's business to which the Company, its subsidiaries or its jointly controlled entities was a party and in which a Director or Supervisor of the Company had a material interest or is substantially interested, whether directly or indirectly, subsisted at the end of the reporting period or at any time during the reporting period.

**4. Model Code for Securities Transactions by Directors**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. The Company confirmed, following enquiries of all Directors and Supervisors, that they have complied with all the provisions of the Model Code in respect of standard governing securities transactions of Directors during the reporting period.

**5. Tax Relief and Exemption**

The Company is not aware of any tax relief and exemption available to shareholders by reason of their holding of the Company's securities.

**6. Purchase, Sale and Redemption of Shares**

For the year ended 31st December 2004, there were no purchase, sale or redemption of shares or other securities of the Company or any of its subsidiaries by the Company or any of its subsidiaries.

**7. Compliance with Code of Best Practice**

For the year ended 31st December 2004, the Group was in compliance with the Code of Best Practices as set out in Appendix 14 to the Listing Rules.

Appendix 14 to the Listing Rules was substantially revised during 2004, the new provisions of Appendix 14 will apply for subsequent reporting periods.

**8. Pre-emptive Rights**

According to the Articles of Association of the Company and the PRC Laws, there was no provision requiring to grant any pre-emptive rights for new shares to its existing shareholders according to their respective shareholding proportions.

**9. Management Contract**

There were no contracts concerning the management or administration of the whole or substantial part of the business of the Company were entered into or existed during the year.

**10. Currency and Interest Rate Risk**

Since the Group's income and expenses are mainly denominated in RMB, the Group does not anticipate any significant currency risk derived from the Group's operating activities.

As for financing activities, all borrowings for the financial year ended 31st December 2004 were denominated in RMB and on fixed interest rate. This practice effectively eliminated the currency risk and the management is of the view that the Group is not subject to any significant interest rate risk.

**Section 5 Report on other items (continued)****11. Connected party transactions**

Details of connected party transactions are set out in Chapter IX Significant Events of this report.

**12. Subsequent events**

Details of subsequent events are set out in Note 29 to the accounts prepared in accordance with HKGAAP.

**13. Reserves**

During the reporting period, significant changes in the amount of reserves of the Company and the details are set out in Note 23 to the account prepared in accordance with HK GAAP.

**14. During the reporting period, the name of members of the Board of Directors and the dates of appointment/resignation are shown below:**

<b>Name of Directors</b>	<b>Date of Appointment</b>	<b>Date of Resignation</b>
Zhang Jie	2002/5/23	—
Fan Xinmin	1998/8/15	—
Liu Hong	1998/8/15	—
Gong Enqing	1999/11/15	—
Ye Maoxin	1998/8/15	—
Yao Yuming	1995/8/15	—
Liu Haitao	2001/6/9	—
Zhang Jianguo	1999/11/15	—
Wang Zengjing	1999/6/16	—
Kon Hiu King, Kenneth	1999/6/16	—
Gao Yong	2004/8/15	—
Chen Zhong	2004/8/15	—
Yu Shiquan	2004/6/16	—
Pan Shunqun	2002/5/23	2004/8/15
Wang Weizhi	1999/11/15	2004/8/15