



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

Balance Sheet

As at 31st December 2004

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

ASSETS	NOTE	GROUP 31ST DECEMBER 2004	GROUP 31ST DECEMBER 2003	COMPANY 31ST DECEMBER 2004	COMPANY 31ST DECEMBER 2003
Current assets					
Cash at bank and in hand	V 1	1,005,463,163	858,328,025	764,488,556	667,035,578
Short-term investment	V 2	8,526,445	113,020,744	—	609,053
Notes receivable	V 3	400,434,231	334,783,952	132,517,889	142,742,787
Dividends receivable		—	—	20,689,449	43,396,849
Interest receivable		—	—	—	—
Accounts receivable	V 4, VII	445,202,457	547,375,535	245,684,993	319,385,339
Other receivables	V 4, VII	129,551,062	177,132,219	176,847,404	210,506,432
Advances to suppliers	V 5	260,820,854	294,029,269	125,851,511	143,269,725
Subsidies receivable		—	—	—	—
Inventories	V 6	1,299,968,019	1,597,254,971	679,877,009	859,226,897
Prepaid expenses	V 7	1,696,105	3,413,606	905,902	1,212,755
Long-term debt investments		—	—	—	—
maturing within one year		—	—	—	—
Other current assets		—	—	—	—
Total current assets		3,551,662,336	3,925,338,321	2,146,862,713	2,387,385,415
Long-term investments					
Long-term equity investments	V 8, VI 2	379,982,233	456,305,271	1,290,724,428	1,273,269,158
Long-term debt investments		—	—	—	—
Total long-term investments		379,982,233	456,305,271	1,290,724,428	1,273,269,158
Including: Consolidation difference		316,259	(202,845)	—	—
Fixed assets					
Fixed assets – cost		1,985,392,879	1,814,699,748	943,713,258	867,155,364
Less: Accumulated depreciation		(962,645,854)	(882,008,666)	(466,113,906)	(433,055,512)
Fixed assets – net	V 9	1,022,747,025	932,691,082	477,599,352	434,099,852
Less: Provision for impairment of fixed assets	V 9	(44,174,402)	(44,365,785)	(31,992,401)	(32,080,139)
Fixed assets – net book value		978,572,623	888,325,297	445,606,951	402,019,713
Leasehold improvements		—	—	—	—
Construction materials	V 10	11,499,880	28,339,091	5,440,224	8,951,786
Construction in progress	V 11	56,494,212	67,459,577	18,908,615	34,227,163
Fixed assets pending disposal		—	—	—	—
Total fixed assets		1,046,566,715	984,123,965	469,955,790	445,198,662
Intangible assets and other assets					
Intangible assets	V 12	155,356,667	145,889,259	81,663,574	83,338,267
Long-term prepaid expenses		—	—	—	—
Other long-term assets		—	—	55,160,058	13,620,293
Total intangible assets and other assets		155,356,667	145,889,259	136,823,632	96,958,560
Deferred taxes					
Deferred tax debits		—	—	—	—
TOTAL ASSETS		5,133,567,951	5,511,656,816	4,044,366,563	4,202,811,795

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

Legal representative: Ye Maoxin

Person in charge of accounting function: Yao Yuming

Person in charge of accounting department: Mao Fajing

Balance Sheet (continued)

As at 31st December 2004

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

LIABILITIES AND SHAREHOLDERS' EQUITY	NOTE	GROUP 31ST DECEMBER 2004	GROUP 31ST DECEMBER 2003	COMPANY 31ST DECEMBER 2004	COMPANY 31ST DECEMBER 2003
Current liabilities					
Short-term loans	V 13	580,502,100	325,550,000	500,912,500	247,000,000
Notes payable	V 14	252,276,754	350,301,094	102,681,267	203,676,396
Accounts payable	V 15	539,330,389	746,278,352	319,374,241	498,123,848
Advances from customers	V 16	632,149,669	1,005,909,270	475,528,072	644,934,261
Accrued payroll		6,019,304	2,596,327	3,300,000	—
Welfare benefits payable		44,079,767	61,834,283	4,230,099	17,065,410
Interest payable		—	—	—	—
Dividends payable		—	—	—	—
Taxes payable	V 17	33,661,209	13,854,697	21,561,054	538,385
Other levies payable	V 18	748,417	1,482,820	519,911	504,997
Other payables	V 19	279,439,652	321,289,648	37,531,277	102,157,366
Accrued expenses	V 20	14,116,660	11,651,202	7,242,339	3,231,247
Provisions		—	—	—	—
Current portion of long-term liabilities	V 21	12,800,000	33,000,000	—	23,000,000
Deferred revenue		—	—	—	—
Other current liabilities		—	—	—	—
Total current liabilities		<u>2,395,123,921</u>	<u>2,873,747,693</u>	<u>1,472,880,760</u>	<u>1,740,231,910</u>
Long-term liabilities					
Long-term loans	V 21	40,000,000	52,800,000	20,000,000	20,000,000
Debentures payable		—	—	—	—
Long-term payables		—	—	—	—
Grants payable		—	—	—	—
Other long-term payables		—	—	—	—
Total long-term liabilities		<u>40,000,000</u>	<u>52,800,000</u>	<u>20,000,000</u>	<u>20,000,000</u>
Deferred taxes					
Deferred tax credits		—	—	—	—
Total liabilities		<u>2,435,123,921</u>	<u>2,926,547,693</u>	<u>1,492,880,760</u>	<u>1,760,231,910</u>
Minority interest		<u>146,917,043</u>	<u>142,485,476</u>	<u>—</u>	<u>—</u>
Shareholders' equity					
Share capital	V 22	603,800,000	603,800,000	603,800,000	603,800,000
Capital surplus	V 23	1,261,716,557	1,261,716,557	1,261,716,557	1,261,716,557
Surplus reserve	V 24	303,440,433	251,950,791	210,357,477	179,881,595
Including: Statutory public welfare fund		137,838,693	112,093,872	91,297,215	76,059,274
Undistributed profits	V 25	382,528,813	325,112,537	475,611,769	397,181,733
Including: Proposed final dividend		30,190,000	43,473,600	30,190,000	43,473,600
Foreign currency translation differences		41,184	43,762	—	—
Total Shareholders' equity		<u>2,551,526,987</u>	<u>2,442,623,647</u>	<u>2,551,485,803</u>	<u>2,442,579,885</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u><u>5,133,567,951</u></u>	<u><u>5,511,656,816</u></u>	<u><u>4,044,366,563</u></u>	<u><u>4,202,811,795</u></u>

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

Legal representative: Ye Maoxin

Person in charge of accounting function: Yao Yuming

Person in charge of accounting department: Mao Faqing



Income Statement

For the year ended 31st December 2004

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

	NOTE	GROUP Year ended 31st December 2004	GROUP Year ended 31st December 2003	COMPANY Year ended 31st December 2004	COMPANY Year ended 31st December 2003
Revenues from main operations	V 26, VI 3	3,611,042,901	4,305,742,834	2,266,437,929	1,670,196,883
Less: Cost of main operations	V 26, VI 4	(3,000,572,325)	(3,533,729,023)	(2,037,923,376)	(1,455,638,640)
Tax and levies on main operations	V 27	(13,357,951)	(16,876,380)	(1,955,141)	(2,962,969)
Profit from main operations		597,112,625	755,137,431	226,559,412	211,595,274
Add: Profit from other operations	V 28	60,584,942	56,221,058	15,045,020	35,398,674
Less: Selling and distribution expenses		(106,021,303)	(94,142,432)	(58,972,657)	(28,309,894)
General and administrative expenses		(391,826,302)	(495,432,222)	(147,994,625)	(157,238,417)
Finance expenses – net	V 29	(20,172,230)	(16,877,370)	(5,009,834)	(2,367,919)
Operating profit		139,677,732	204,906,465	29,627,316	59,077,718
Add: Investment income	V 30, VI 5	32,105,355	4,448,793	126,985,206	115,267,711
Subsidy income		5,337,593	2,319,827	–	–
Non-operating income		3,525,167	1,059,437	1,520,917	283,235
Less: Non-operating expenses		(5,782,010)	(11,232,150)	(2,783,656)	(2,893,629)
Total profit		174,863,837	201,502,372	155,349,783	171,735,035
Less: Income taxes		(13,461,814)	(36,406,404)	(2,970,370)	(10,200,554)
Gain of minority shareholders		(9,022,610)	(3,561,487)	–	–
Net profit		<u>152,379,413</u>	<u>161,534,481</u>	<u>152,379,413</u>	<u>161,534,481</u>

Supplementary information:

ITEMS	GROUP Year ended 31st December 2004	GROUP Year ended 31st December 2003	COMPANY Year ended 31st December 2004	COMPANY Year ended 31st December 2003
1. Gain/(Loss) on disposal of business units or investments	–	–	–	–
2. Loss arising from natural disasters	–	–	–	–
3. Increase/(decrease) in total profit as a result of changes in accounting policies	–	–	–	–
4. Increase/(decrease) in total profit as a result of changes in accounting estimates	–	–	–	–
5. Losses from debt restructuring	–	–	–	–
6. Other	–	–	–	–

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

Legal representative: Ye Maoxin

Person in charge of accounting function: Yao Yuming

Person in charge of accounting department: Mao Faqing



Profit Appropriation Statement For the year ended 31st December 2004

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

	Note	GROUP 2004	GROUP 2003	COMPANY 2004	COMPANY 2003
Net profit		152,379,413	161,534,481	152,379,413	161,534,481
Add: Undistributed profit at beginning of year	V 25	325,112,537	257,973,127	397,181,733	304,182,148
Other transfers		—	—	—	—
Distributable profit		477,491,950	419,507,608	549,561,146	465,716,629
Less: Transfer to statutory surplus reserve		(25,744,821)	(29,083,535)	(15,237,941)	(16,153,448)
Transfer to statutory public welfare fund		(25,744,821)	(29,083,536)	(15,237,941)	(16,153,448)
Transfer to employee bonus and welfare fund		—	—	—	—
Profit available for distribution to shareholders		426,002,308	361,340,537	519,085,264	433,409,733
Less: Dividend for preferred stock		—	—	—	—
Transfer to discretionary surplus reserve		—	—	—	—
Dividend payable for common stock		(43,473,495)	(36,228,000)	(43,473,495)	(36,228,000)
Dividend for common stock transferred to shares		—	—	—	—
Undistributed profit at end of year	V 25	<u>382,528,813</u>	<u>325,112,537</u>	<u>475,611,769</u>	<u>397,181,733</u>

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

Legal representative: Ye Maoxin

Person in charge of accounting function: Yao Yuming

Person in charge of accounting department: Mao Faqing



Cash Flow Statement

For the year ended 31st December 2004

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

	GROUP	COMPANY
1. Cash flows from operating activities		
Cash received from sale of goods or rendering of services	5,959,763,615	3,199,131,084
Refund of taxes and levies	—	—
Cash received relating to other operating activities	119,872,378	33,630,128
Sub-total of cash inflows	6,079,635,993	3,232,761,212
Cash paid for goods and services	(5,114,660,935)	(2,916,544,464)
Cash paid to and on behalf of employees	(423,788,856)	(182,301,158)
Payments of taxes and levies	(240,267,956)	(79,819,553)
Cash paid relating to other operating activities	(282,191,221)	(52,946,559)
Sub-total of cash outflows	(6,060,908,968)	(3,231,611,734)
Net cash flows from operating activities	18,727,025	1,149,478
2. Cash flows from investing activities		
Cash received from disposal of investments, other than subsidiaries	180,686,730	106,609,053
Cash received from disposal of subsidiaries	—	—
Cash received from returns on investments	22,954,762	54,720,260
Net cash received from disposal of fixed assets	5,746,666	1,777,759
Cash received relating to other investing activities	—	—
Sub-total of cash inflows	209,388,158	163,107,072
Cash paid to acquire fixed assets, intangible assets and other long-term assets	(180,475,596)	(71,727,689)
Cash paid to acquire investments, other than subsidiaries	(48,661,000)	(47,720,150)
Cash paid to acquire subsidiaries	1,277,605	(3,190,974)
Cash decrease from subsidiaries ready for sales	—	—
Cash paid relating to other investing activities	—	(41,539,765)
Sub-total of cash outflows	(227,858,991)	(164,178,578)
Net cash flows from investing activities	(18,470,833)	(1,071,506)
3. Cash flows from financing activities		
Cash received from capital contributions	—	—
Including: Cash received from issuing shares to minority shareholders by subsidiaries	—	—
Cash received from borrowings	761,464,600	628,945,000
Cash received relating to other financing activities	—	—
Sub-total of cash inflows	761,464,600	628,945,000
Cash repayments of amounts borrowed	(539,512,500)	(467,912,500)
Cash payments for interest expenses and distribution of dividends or profits	(74,073,603)	(63,957,494)
Including: Cash payments to minority shareholders for distribution of dividends or profits	(1,780,070)	—
Cash payments relating to other financing activities	(2,810,973)	—
Including: Cash payments to minority shareholders for distribution of capital	—	—
Sub-total of cash outflows	(616,397,076)	(531,869,994)
Net cash flows from financing activities	145,067,524	97,075,006
4. Effect of foreign exchange rate changes on cash and cash equivalents	(2,578)	—
5. Net increase in cash and cash equivalents	145,321,138	97,152,978

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

Legal representative: Ye Maoxin

Person in charge of accounting function: Yao Yuming

Person in charge of accounting department: Mao Faqing

Cash Flow Statement (continued) For the year ended 31st December 2004

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

Supplementary information	GROUP	COMPANY
1. Reconciliation of Net Profit to Cash Flows from Operating Activities Net Profit	152,379,413	152,379,413
Adjust for: Share of profit by minority shareholders	9,022,610	—
Provision for asset impairment	16,217,317	2,263,782
Depreciation of fixed assets	94,338,255	41,862,598
Amortisation of intangible assets	4,749,336	2,243,393
Amortisation of long-term prepaid expenses	—	—
Decrease (Increase) in prepaid expenses	1,754,349	306,853
Increase (Decrease) in accrued expenses	(832,695)	4,011,092
Losses (Gains) on disposal of fixed assets	(122,878)	(690,061)
Losses (Gains) on scrapping of fixed assets	—	—
Financial expenses (income)	31,908,481	20,483,999
Investment losses (income)	(32,105,355)	(126,985,206)
Deferred tax credit (debit)	—	—
Decrease (Increase) in inventories	300,496,281	176,758,416
Decrease (Increase) in operating receivables	163,259,182	181,825,865
Increase (Decrease) in operating payables	(722,337,271)	(453,310,666)
Others	—	—
Net cash flows from operating activities	<u>18,727,025</u>	<u>1,149,478</u>
2. Investing and financing activities that do not involve cash receipts and payments		
Conversion of debt into capital	—	—
Reclassification of current portion of convertible bonds to current liabilities	—	—
Fixed assets capitalized under finance leases	—	—
3. Net increase/(decrease) in cash and cash equivalents		
Cash at end of year	1,003,649,163	764,188,556
Less: Cash at beginning of year	858,328,025	667,035,578
Add: Cash equivalents at end of year	—	—
Less: Cash equivalents at beginning of year	—	—
Net increase in cash and cash equivalents (note VI)	<u>145,321,138</u>	<u>97,152,978</u>

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

Legal representative: Ye Maoxin

Person in charge of accounting function: Yao Yuming

Person in charge of accounting department: Mao Faqing



Notes to the Accounts

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

I COMPANY BACKGROUND

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

The share amounted to 220,000,000 shares owned by domestic legal persons when the Company was set up. The Company was listed on The Stock Exchange of Hong Kong Limited with the issuance of 180,800,000 H shares during February 1996. In November 1996, the Company issued 23,000,000 A share, which included 13,000,000 listed shares on Shenzhen Stock Exchange in December 1996 and 10,000,000 employee shares listed and traded on Shenzhen Stock Exchange in June 1997. In May 2000, the Company issued an additional 180,000,000 A shares. Subsequent to this issuance, the total issued share of the Company amounted to 603,800,000 shares.

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

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

(a) Basis of preparation

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

(b) Accounting period

The accounting period starts on 1st January and ends on 31st December.

(c) Recording currency

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

(d) Basis of accounting and measurement bases

The Group follows the accrual basis of accounting. Except for assets invested by the promoter during the reorganization that were accounted for based on the revalued amount approved by the State Assets Management Bureau during the reorganisation, all other assets were recorded at their actual costs when acquired. Subsequently, if they are impaired, impairment provisions will be made accordingly.

(e) Foreign currency translation

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

(f) Translation of financial statements denominated in foreign currency

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

(g) Cash and cash equivalents

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

For the purpose of the cash flow statement, deposit which could not be withdrawn whenever needed in bank balance and other cash balance are not included as cash and cash equivalents.

Notes to the Accounts

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

II. ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(h) Short-term investments

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

(i) Receivables and provision for bad debts

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

(1) Accounts receivable

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

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

Ageing	Ratio
Within 1 year	0%
Between 1 – 2 years	20%
Between 2 – 3 years	50%
Above 3 years	100%

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

(2) Other receivable

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

(j) Inventories

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

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

Provision for inventories is calculated based on the lower of cost and net realisable value on an individual basis.

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

The Group adopts a perpetual inventory system.



Notes to the Accounts

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

II. ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(k) Long-term equity investments

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

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

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

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

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

(l) Fixed assets and depreciation

Fixed assets include buildings, machinery and equipment used in production, held for rental to others, or held for management purposes, which have useful lives of more than one year. Effective 1st January 2002, when construction takes place upon the Company's land and the construction is for the Company's own use, the carrying value of the land use rights is capitalized as part of the building costs within fixed assets.

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

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

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

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

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

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

Notes to the Accounts

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

II. ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(m) Construction in progress

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

(n) Intangible assets and amortisation

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

Land use rights purchased or obtained through payment of land transfers fees are initially recorded at cost and classified as intangible assets before being developed for construction. Land use rights are amortised on a straight-line basis over 50 years. Effective 1st January 2002, if construction takes place on the Company's land held for own use, the carrying value of the related land use rights is transferred to the construction in progress account.

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

Software is initially stated at cost and are amortized on the straight-line basis over 5 years.

(o) Impairment of assets

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

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

When there is an indication that the need for an impairment provision recorded in a prior period no longer exists or has decreased, the provision for impairment loss is reversed to the extent of the impairment loss previously recognized. The increased carrying amount of the assets should not exceed the carrying amount that would have been determined had no impairment loss been recognized for the assets in prior years.

(p) Borrowing costs

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

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

All other borrowing costs are expensed in the period when incurred.



Notes to the Accounts

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

II. ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(q) Employee social security benefits

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

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

(r) Profit distribution

Distribution of cash dividends is recognized as a liability in the period when the profit appropriation plan is approved by the General Meeting of Shareholders.

(s) Revenue recognition

(i) Sales of goods

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

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

(ii) Other revenues are recognised on the following bases

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

Subsidy income is recognized when received.

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

(t) Operating Lease

Lease of assets where all the risk and rewards incident to ownership of the assets are in substance transferred to the lessees are classified as finance leases. All other leases are operating leases.

Payments made under operating leases are expensed on a straight-line basis over the period of the leases.

(u) Income tax

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

(v) Basis of preparation of consolidated financial statement

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

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

Accounting policies adopted by the subsidiaries and the Company are consistent.

Notes to the Accounts

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

III. TAXATION

The major taxes of the Group are listed as follows:

Category	Rate	Basis of tax computation
Income tax	15-33%	Taxable income
Value Added Tax	17%	17% of sales of textile machinery and spare parts less deductible input VAT
Business tax	5%	Rental income
City construction tax	7%	Turnover tax payable
Education fee levy	3%	Turnover tax payable

Pursuant to the approval document [2004] No.21 issued by Beijing Municipal Administration of State Taxation, the Company enjoys the preferential income tax rate of 15%, whilst the branches are applicable to 33% income tax rate.

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

Pursuant to the approval document [2003] No. 51 issued by Liaoning Science and Technology Administration on 22nd December 2003, Shenyang Hongda Textile Machinery Company Limited enjoys the preferential income tax rate of 15% for new technology enterprises in 2003 and 2004.

Pursuant to the approval document issued by Tianjin New Technology Industry Zone on 19th March 2001, Tianjin Hongda Textile Machinery Company Limited enjoys the preferential income tax rate of 15% for new technology enterprises in 2003 and 2004.

Pursuant to the approval document [2001] No. 62 issued by Henan Municipal Administration of State Taxation, Zhengzhou Hongda Textile Machinery Company Limited enjoys the preferential income tax rate of 15% for new technology enterprises in 2003 and 2004.

Pursuant to the approval document issued by Qingdao Science and Technology Committee on 20th December 2000, Qingdao Hongda Textile Machinery Company Limited enjoys the preferential income tax rate of 15% for new technology enterprises in 2003 and 2004.

Pursuant to the approval document [2003] No. 184 issued by Taiyuan Municipal Administration of State Taxation in Shanxi Province on 18th July 2003, Taiyuan Jingwei Textile Electrical Company Limited enjoys the preferential tax rate of 15% for new technology enterprises in 2003 and 2004.

Pursuant to the approval document 09 Mian (03) Gao No.14 issued by Jiading Branch of Shanghai Municipal Administration of State Taxation and Shanghai Local Taxation Bureau on 11th April 2003, Shanghai Jingwei Dongxing Blomming-Carding Machinery Company Limited enjoys the preferential income tax rate of 15% for high technology enterprises in 2003 and 2004.

Changde Textile Machinery Company Limited, a subsidiary of the Company, qualifies as a foreign invested production enterprise and enjoys the tax preferential treatment of “2-year exemption and 3-year 50% deduction of income tax” since 2004.

Hong Kong Huaming Company Limited, a subsidiary of the Company, was registered in Hong Kong which is applicable to 17.5% income tax rate.

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



Notes to the Accounts

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

IV. SUBSIDIARIES

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

Acquisition of a subsidiary

The new subsidiary under consolidation in 2004 is Kunshan Jingwei Textile Machinery Company Limited ("Kunshan"). On 28th September 2003, the Company and the Kunshan Branch of Jingwei Textile Machinery Plant ("Jingwei Kunshan Branch") entered into an agreement, pursuant to which the Company acquired 75% equity interest of the Kunshan at a consideration of 3,190,474; Hong Kong Huaming Company Limited, a subsidiary of the Company, entered into an agreement with Hong Kong Jingwei Machinery Plant ("Hong Kong Jingwei"), pursuant to which the company acquired 25% equity interest of Kunshan at a consideration of 1,063,658. The consideration for such acquisition was based on the net assets of Kunshan amounting RMB4,254,632 as at 31st December 2003 as stated in the report issued by the PRC Certified Public Accountant multiplied by the percentage of shares being acquired. The acquisition has been accomplished in January 2004. Therefore Kunshan has been under consolidation since 2004.

The acquisition contribution to the financial position of the Company as of the end of reporting period and result of its operation from the completion of the transaction to the end of the reporting period is disclosed in note V(31).

V. NOTES TO THE FINANCIAL STATEMENTS

1. CASH AT BANK AND IN HAND

	31st December 2004	31st December 2003
Cash in hand	624,877	1,093,416
Cash at bank	991,599,915	836,455,788
Include: Deposits in CTMC Finance Company	7,540,000	15,405,102
Other cash balances:		
– Other deposits	313,776	–
– Credit card deposits	294,595	274,119
– Time deposits over three months	10,816,000	–
– Deposit of bank draft	1,814,000	–
– Deposit placed in security account	–	20,504,702
	<u>1,005,463,163</u>	<u>858,328,025</u>

Deposits in China National Textile Machinery Group ("CTMC") Finance Company carry an interest rate of 1.98% per annum (2003: 1.98%).

Cash and bank balances at 31st December 2004 include foreign currencies as follows:

Type of foreign currencies	Foreign Currencies	Exchange rate	Rmb equivalent
USD	592,093	8.2765	4,900,458
HKD	31,004,617	1.0637	32,979,611
EUR	167,905	11.2627	1,891,064
			<u>39,771,133</u>

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

	31st December 2004
Cash at bank and in hand as at 31st December 2004	1,005,463,163
Less: Cash in bank cannot be withdrawn as needed	(1,814,000)
Cash and cash equivalents as at 31st December 2004	1,003,649,163
Less: Cash and cash equivalents as at 31st December 2003	(858,328,025)
Net increase of cash and cash equivalents	<u>145,321,138</u>

Notes to the Accounts

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

V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**2. SHORT TERM INVESTMENTS**

	31st December 2004	31st December 2003
Trading securities	—	1,789,365
Government bonds	—	100,261,379
Funds	8,526,445	10,970,000
Less: Provision for short term investments	—	—
Total	<u>8,526,445</u>	<u>113,020,744</u>

According to the market value of the funds at the net value promulgated by fund manager as at 31st December 2004, no provision need to be provided.

There is no significant restriction on the ability of the Company to realise its short-term investment as at 31st December 2004.

3. NOTES RECEIVABLE

The Group's notes receivable as at 31st December 2004 are bank drafts and these amount to RMB 400,434,231 (2003: RMB 334,783,952).

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

	31st December 2004	31st December 2003
– Due from fellow subsidiaries	<u>11,549,000</u>	<u>44,176,074</u>

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

	31st December 2004	31st December 2003
Accounts receivable	599,294,646	696,592,888
Less: General provision	<u>(154,092,189)</u>	<u>(149,217,353)</u>
	<u>445,202,457</u>	<u>547,375,535</u>

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

	31st December 2004			31st December 2003		
	Amount	%	Bad debt provision	Amount	%	Bad debt provision
Aging:						
Within 1 year	343,490,108	57	—	462,072,298	66	—
Within 1 to 2 years	95,862,154	16	(14,794,438)	68,843,475	10	(13,651,739)
Within 2 to 3 years	40,041,416	7	(19,573,331)	44,698,206	7	(14,935,626)
Over 3 years	119,900,968	20	(119,724,420)	120,978,909	17	(120,629,988)
	<u>599,294,646</u>	<u>100</u>	<u>(154,092,189)</u>	<u>696,592,888</u>	<u>100</u>	<u>(149,217,353)</u>

**Notes to the Accounts**

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

V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**(1) Accounts receivable (continued)**

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

	31st December 2004	31st December 2003
– Due from the holding company	9,023,464	14,939,632
– Due from fellow subsidiaries	94,464,653	110,636,125
– Due from Jingwei Group Company and its subsidiaries and associated companies	779,043	453,507
	<u>104,267,160</u>	<u>126,029,264</u>

The five largest individual balance of accounts receivable at the year end amount to RMB103,978,543 and this accounts for 17% of the total accounts receivable (2003: 221,839,725, 32 %).

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

Due to bankruptcy of some customers, the Group wrote off accounts receivable balances amounting to 3,697,876 in 2004, which has been fully provided provision in 2003.

(2) Other receivables

	31st December 2004	31st December 2003
Other receivables	153,408,988	193,245,074
Less: Specific provisions	(23,857,926)	(16,112,855)
	<u>129,551,062</u>	<u>177,132,219</u>

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

	31st December 2004			31st December 2003		
	Amount	%	Bad debt provision	Amount	%	Bad debt provision
Aging:						
Within 1 year	34,809,102	23	–	87,412,415	45	–
Within 1 to 2 years	70,184,317	46	–	53,328,486	28	–
Within 2 to 3 years	5,321,686	3	–	5,319,525	3	(582,522)
Over 3 years	43,093,883	28	(23,857,926)	47,184,648	24	(15,530,333)
	<u>153,408,988</u>	<u>100</u>	<u>(23,857,926)</u>	<u>193,245,074</u>	<u>100</u>	<u>(16,112,855)</u>

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

	31st December 2004	31st December 2003
– Due from the holding company	4,879,622	9,106,000
– Due from fellow subsidiaries	36,634,306	57,076,954
– Due from Jingwei Group Company and its subsidiaries and associated companies	1,203,978	1,309,373
	<u>42,517,906</u>	<u>67,492,327</u>

The five largest individual balances of other receivables at the year end amount to RMB83,128,717, which accounts for 54% of the total other receivables (2003: RMB129,811,508, 67%).

Notes to the Accounts

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

V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**5. ADVANCES TO SUPPLIERS**

	31st December 2004		31st December 2003	
	Amount	%	Amount	%
Aging:				
Within 1 year	241,526,975	93	283,683,957	96
Within 1 to 2 years	15,736,745	6	4,552,494	2
Within 2 to 3 years	940,895	—	2,962,403	1
Over 3 years	2,616,239	1	2,830,415	1
	<u>260,820,854</u>	<u>100</u>	<u>294,029,269</u>	<u>100</u>

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

	31st December 2004	31st December 2003
– Due from Holding company	—	6,144,587
– Due from Fellow subsidiaries	62,512,831	56,808,262
– Due from Jingwei Group Company and its subsidiaries and associated companies	—	53,335,202
	<u>62,512,831</u>	<u>116,228,051</u>

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

6. INVENTORIES

	31st December 2003		31st December 2004
Goods in transit	12,720,534		676,634
Raw materials	345,982,103		266,630,905
Work in progress	350,247,463		356,203,040
Finished goods	919,130,269		707,223,231
	<u>1,628,080,369</u>		<u>1,330,733,810</u>
Provision—			
		Addition	Reversal
Raw materials	(6,599,885)	—	2,058,159
Work in progress	(5,161,985)	—	—
Finished goods	(19,063,528)	(2,012,524)	13,972
	<u>(30,825,398)</u>	<u>(2,012,524)</u>	<u>2,072,131</u>
	<u>1,597,254,971</u>		<u>1,299,968,019</u>

In 2004, the inventory recognized as cost and expense by the group is RMB3,034,713,352 (2003: RMB3,570,248,975).

**Notes to the Accounts**

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

V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**7. PREPAID EXPENSES**

	31st December 2003	Addition	Amortisation	31st December 2004
VAT input pending deduction	622,573	11,981,304	(11,921,974)	681,903
Heating fee	729,705	966,606	(1,238,829)	457,482
Others	2,061,328	4,621,845	(6,126,453)	556,720
	<u>3,413,606</u>	<u>17,569,755</u>	<u>(19,287,256)</u>	<u>1,696,105</u>

8. LONG TERM EQUITY INVESTMENT

		31st December 2003	Addition	Disposal	31st December 2004
Investment in associated companies	(1)	83,317,394	30,697,000	(6,841,119)	107,173,275
Other equity investment	(2)	375,013,977	24,866,602	(125,564,625)	274,315,954
Consolidation difference	(3)	(202,845)	289,550	229,554	316,259
Long-term equity investment		458,128,526	55,853,152	(132,176,190)	381,805,488
Provision for long term equity investment		(1,823,255)	—	—	(1,823,255)
		<u>456,305,271</u>	<u>55,853,152</u>	<u>(132,176,190)</u>	<u>379,982,233</u>

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



Notes to the Accounts

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

V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. LONG TERM EQUITY INVESTMENT (CONTINUED)

(1) Associated companies

Name of investee	Investment period	Equity Interest Held(%)		Investment Cost		Accumulated Equity Movement			Balance	
		31st	31st	31st	31st	31st	Movement	31st	31st	31st
		December	December	December	December	December	in equity	December	December	December
		2003	2004	2003	2004	2003		2004	2003	2004
Hongda Research Company Limited	2001 to 2101	40.00	40.00	20,000,000	20,000,000	1,536,992	1,466,620	3,003,612	21,536,992	23,003,612
Shenzhen Bolue Technology Investment Company Limited	2001 to 2031	40.94	40.94	35,000,000	35,000,000	980,113	318,617	1,298,730	35,980,113	36,298,730
Zhengzhou Hongda Non-woven Fabric Textile Machinery Company Limited	2003 to 2007	42.50	42.50	17,000,000	17,000,000	(1,205,439)	(2,572,239)	(3,777,678)	15,794,561	13,222,322
Beijing Hongda International Trading Company Limited	2000 to 2004	20.00	-	6,000,000	-	35,650	(35,650)	-	6,035,650	-
Qingdao Jinyi Pressing and Casting Company Limited	2000 to 2010	24.39	27.00	300,000	997,000	60,000	-	60,000	360,000	1,057,000
Qingdao Jinshan City Company Limited	2002 to permanent	20.00	20.00	200,000	200,000	-	-	-	200,000	200,000
Qingdao Lanlifeng Laser Technology Company Limited	2002 to 2012	31.25	31.25	1,000,000	1,000,000	-	-	-	1,000,000	1,000,000
Qingdao Qingfeng Technology Company Limited	2002 to 2005	35.80	35.80	1,400,000	1,400,000	-	-	-	1,400,000	1,400,000
Shenyang Jingxing Textile Machinery Manufactory Company Limited	2002 to 2022	31.25	31.25	1,000,000	1,000,000	10,078	(18,467)	(8,389)	1,010,078	991,611
China Textile Machinery and Technology Import and Export Company Limited	2004 to permanent	-	25.00	-	30,000,000	-	-	-	-	30,000,000
				<u>81,900,000</u>	<u>106,597,000</u>	<u>1,417,394</u>	<u>(841,119)</u>	<u>576,275</u>	<u>83,317,394</u>	<u>107,173,275</u>

(2) Other equity investment

Name of investee	Investment period	Investment Cost	Equity Interest Held (%)
Shanghai Jingwei Zhonglian Commercial Development Company Limited (i)	2003 to 2005	237,933,063	47.92%
Hongda Investment Company Limited (ii)	2004 to 2029	24,866,602	16.40%
Beijing Garden Automobile Lease Company Limited	2001 to 2005	1,365,397	80%
Others		10,150,892	
Total		<u>274,315,954</u>	

**Notes to the Accounts**

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

V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**(2) Other Equity Investment (continued)**

- (i) According to the share transfer agreement (the “Agreement”) entered into between the board of Directors of the Company and Beijing Hualian Group Investment Holdings Company Limited (“Beijing Hualian”) in December 2003, the Company disposed its 47.92% equity interest (“Relevant Equity”) in Shanghai Jingwei Zhonglian Commercial Development Company Limited (“Shanghai Zhonglian”) to Beijing Hualian in two phases, each with 50% of share transfer, each on or before 31st December 2004 and 2005 respectively. The consideration of transfer is 335,420,000. Upon signing of the Agreement, Beijing Hualian is appointed by the Company to manage Shanghai Zhonglian. Before the effective date of transfer, the Company will receive from Shanghai Zhonglian a fixed investment income based on the Company’s investment cost in it. The payment of investment income to the Company is guaranteed by Beijing Hualian.

Up to 31 December 2004, the Company received 100,000,000 as the consideration for share transfer and the Company’s investment cost in Shanghai Zhonglian remained to be 237,933,000. As agreed by management of the Company and Beijing Hualian, transfer consideration of 70,000,000, which should have been settled before 31st December 2004, will be settled in first half of 2005. Due to the transfer of the right will be completed upon full settlement of transfer consideration. The Company still holds 47.92% equity interest as at 31st December 2004.

- (ii) The Company signed the Equity Transfer Agreements with the holding company in December 2003, and January 2004 respectively. Pursuant to the agreements, the Company disposed 58.92% equity investment in Jintu Information Technology Company Limited to the holding company at the consideration of 24,866,602. At the same time, pursuant to the above agreements, the holding company transferred 16.40% equity interest in Hongda Investment Company Limited to the Company.

(3) Consolidation difference

	Original cost	Amortisation Period	31st December 2003	Addition	Amortisation	Accumulated Amortisation	31 st December 2004
Impartible investment difference for 4 Hongda subsidiaries (i)	(6,213,559)	10 years	(3,649,892)	–	621,356	3,185,023	(3,028,536)
Shanxi Jingwei Heli Machinery Manufacturing Company Limited (ii)	3,918,020	10 years	3,447,047	289,550	(391,802)	(573,225)	3,344,795
	<u>(2,295,539)</u>		<u>(202,845)</u>	<u>289,550</u>	<u>229,554</u>	<u>2,611,798</u>	<u>316,259</u>

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

Notes to the Accounts

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

V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**9. FIXED ASSETS AND ACCUMULATED DEPRECIATION**

	Land and buildings	Machinery and equipments	Motor vehicles	Total
Cost				
At 31st December 2003	491,603,029	1,252,142,380	70,954,339	1,814,699,748
Purchases from third parties	5,632,529	56,026,745	8,248,480	69,907,754
Acquisition of a subsidiary	1,861,398	1,066,633	1,171,840	4,099,871
Transfer from CIP	33,551,037	81,882,461	2,639,797	118,073,295
Other disposals	(203,619)	(19,529,809)	(1,654,361)	(21,387,789)
At 31st December 2004	532,444,374	1,371,588,410	81,360,095	1,985,392,879
Accumulated depreciation				
At 31st December 2003	168,178,143	689,936,392	23,894,131	882,008,666
Charge for the year	14,019,246	75,542,441	4,776,568	94,338,255
Acquisition of a subsidiary	835,365	697,614	529,955	2,062,934
Other disposals	(94,709)	(14,564,883)	(1,104,409)	(15,764,001)
At 31st December 2004	182,938,045	751,611,564	28,096,245	962,645,854
Fixed assets impairment provision				
At 31st December 2003	1,543,164	42,811,829	10,792	44,365,785
Reversal	(48,814)	(142,569)	—	(191,383)
At 31st December 2004	1,494,350	42,669,260	10,792	44,174,402
Net book value				
At 31st December 2004	348,011,979	577,307,586	53,253,058	978,572,623
At 31st December 2003	321,881,722	519,394,159	47,049,416	888,325,297

As at 31st December 2004, there was no fixed assets used for pledge (2003: Nil).

As at 31st December 2004, there was no fixed assets used for operating lease (2003: Nil).

10. CONSTRUCTION MATERIALS

	31st December 2004	31st December 2003
Special-purpose equipments	490,100	2,184,157
Prepayments for machinery	6,867,224	26,154,934
Tools and instruments for production	4,142,556	—
	<u>11,499,880</u>	<u>28,339,091</u>

**Notes to the Accounts**

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

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

	Budget	31st December 2003	Addition	Transfer to fixed assets	Other disposals	31st December 2004	Source of capital	Project amount incurred as a percentage of budget (%)
Scientific research base	32,388,573	25,363,559	3,377,848	–	–	28,741,407	Proceeds from additional share issue	89
Science and Technology center	22,000,000	21,943,006	8,006,767	(27,753,828)	–	2,195,945	Proceeds from additional share issue	136
Horizontal boring & milling machine	4,500,000	4,934,524	73,852	(5,008,376)	–	–	Self financing	111
Equipment in opening & blowing machines manufacturer	6,800,000	2,344,600	–	(2,344,600)	–	–	Self financing	34
NC Lathe	2,000,000	1,500,000	64,626	(1,564,626)	–	–	Self financing	78
Enlarge Project	20,000,000	858,563	20,493,276	(17,247,821)	(654,846)	3,449,172	Proceeds from additional share issue	107
CIMS project for Zhengzhou Hongda	10,000,000	548,920	–	–	(548,920)	–	Proceeds from additional share issue	5
Maintenance of Yuci workshop	1,500,000	–	1,404,179	–	–	1,404,179	Self financing	94
Yuci plant improvement	2,890,000	–	2,609,103	–	–	2,609,103	Self financing	90
Appropriate Equipment	5,545,602	–	5,545,602	–	–	5,545,602	Proceeds from additional share issue	100
Others		9,966,405	68,050,001	(64,154,044)	(1,313,558)	12,548,804		
Total		67,459,577	109,625,254	(118,073,295)	(2,517,324)	56,494,212		
Include: Capitalized borrowing cost		2,061,215	–	(2,061,215)	–	–		

Notes:

- Others include projects less than 1,000,000.
- Construction in progress includes no capitalised interest expense.

12. INTANGIBLE ASSETS

Item	Cost	31st December 2003	Addition	Acquisition of a subsidiary	Amortisation	Accumulated Amortisation	31st December 2004	Remaining amortisation year	Acquisition method
Land use rights	165,544,256	139,185,665	12,000,000	248,102	(3,261,936)	(17,372,425)	148,171,831	42.3 to 49.2	Purchase
Trademark and patents	3,060,853	325,000	–	–	(200,000)	(2,935,853)	125,000	0.5 to 2.5	Purchase
Software	9,484,247	6,378,594	1,968,642	–	(1,287,400)	(2,424,411)	7,059,836	2.5 to 4.5	Purchase
Total	178,089,356	145,889,259	13,968,642	248,102	(4,749,336)	(22,732,689)	155,356,667		

Notes to the Accounts

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

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

Categories	31st December 2004	31st December 2003
Guaranteed	242,000,000	302,000,000
Unsecured	338,502,100	23,450,000
Secured	—	100,000
Total	580,502,100	325,550,000

The guarantors and the guaranteed amount are as follows:

Guarantor	Loans guaranteed
Jingwei Machinery (Group) Company Limited	222,000,000
Jingwei Textile Machinery Company Limited	20,000,000
	242,000,000

As at 31st December 2004, the total amount of overdue loans was 5,000,000 (2003: 5,000,000), which is working capital loan due to China Textile Association at the interest rate of 5.31% (2003: 5.31%) per annum. The amount has not repaid as China Textile Association is still undergoing a restructuring exercise.

The range of the interest rate of short term-loans in 2004 was from 3.46% to 5.31% per annum (2003: 4.5% to 6.21%).

14. NOTES PAYABLE

	31st December 2004	31st December 2003
Trade acceptance	16,652,474	52,500,000
Bank acceptance	235,624,280	297,801,094
	252,276,754	350,301,094

The maturity date for the trader acceptance notes payable is 16th January 2005 to 29th June 2005.

Notes payable due to the related companies are as follows:

	31st December 2004	31st December 2003
Due to fellow subsidiaries	10,350,000	12,900,000
Due to Jingwei Group Company and its subsidiaries and associated companies	—	58,300,000
	10,350,000	71,200,000

15. ACCOUNTS PAYABLE

Accounts payable mainly represents the payable for purchase of materials.

Accounts payable due to the related companies are as follows:

	31st December 2004	31st December 2003
Due to the holding company	6,320,023	—
Due to fellow subsidiaries	34,393,228	37,551,050
Due to Jingwei Group Company and its subsidiaries and associated companies	10,921,182	45,621,417
	51,634,433	83,172,467

As at 31st December 2004, accounts payable with aging over three years amount to 20,123,598 (2003: 25,829,982), which mainly represent payables for raw materials. Since the suppliers have not provided the invoice, the balances remain unsettled.

**Notes to the Accounts**

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

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

Advances from customers due to related companies are as follows:

	31st December 2004	31st December 2003
Due to holding company	10,835,387	21,340,759
Due to fellow subsidiaries	1,805,728	6,229,809
Due to Jingwei Group Company and its subsidiaries and associated companies	—	1,535,167
	<u>12,644,095</u>	<u>29,105,735</u>

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

As at 31st December 2004, advance from customer with aging over one year amounted to 129,828,954 (2003: 121,516,568), which mainly represent advance of sales. Since they have long production and assembling period, the balances remain unsettled.

17. TAXES PAYABLE

	31st December 2004	31st December 2003
Value added tax payable/(recoverable)	21,698,034	(662,711)
Business tax payable	11,401	327,091
City construction tax payable	2,046,166	1,961,684
Income tax payable	5,303,924	10,716,402
Others	4,601,684	1,512,231
	<u>33,661,209</u>	<u>13,854,697</u>

18. OTHER LEVIES PAYABLE

	31st December 2004	31st December 2003
Education fee levy	738,096	996,240
Others	10,321	486,580
	<u>748,417</u>	<u>1,482,820</u>

19. OTHER PAYABLES

	31st December 2004	31st December 2003
Due to China Textile Machinery (Group) Company limited	7,000,000	—
Due to Jingwei Machinery (Group) Company limited	31,849,957	66,501,939
China Energy Investment Group (HongKong) Company Limited	54,442,851	54,442,851
Social insurance	39,274,737	31,194,667
Others	146,872,107	169,150,191
	<u>279,439,652</u>	<u>321,289,648</u>

Other payables due to the related companies are as follows:

	31st December 2004	31st December 2003
Due to the holding company	7,000,000	—
Due to fellow subsidiaries	9,204,215	25,362,646
Due to Jingwei Group and other subsidiaries and associated company	31,849,957	66,501,939
	<u>48,054,172</u>	<u>91,864,585</u>

As at 31st December 2004, other payables with aging over three years amounted to 14,981,855 (2003: 13,192,180), which are mainly due to third parties and remain unsettled.

Notes to the Accounts

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

V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**20. ACCRUED EXPENSES**

	31st December 2004	31st December 2003
Interest expense	4,253,688	955,535
Others	9,862,972	10,695,667
	<u>14,116,660</u>	<u>11,651,202</u>

21. LONG TERM LOANS

	31st December 2004	31st December 2003
Guaranteed	52,800,000	85,800,000
– Less: Current portion of guaranteed long term loans	(12,800,000)	(33,000,000)
	<u>40,000,000</u>	<u>52,800,000</u>

As at 31st December 2004, the guarantors and the guaranteed amounts are as follows:

Name of banks	Amount	Maturity date	Annual Rate	Guarantor	Terms
Bank of China	20,000,000	15th May 2007	5.58%	Jingwe Textile Machinery Company Limited	Guaranteed
Industrial and Commercial Bank of China	20,000,000	22nd January 2006	5.49%	Jingwei Textile Machinery Company Limited	Guaranteed
China Construction Bank	12,800,000	29th May 2005	5.46%	Jingwei Textile Machinery Company Limited	Guaranteed
	<u>52,800,000</u>				

The interests of the long term loan of the Group are paid quarterly.



Notes to the Accounts

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

V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. SHARE CAPITAL

	31st December 2003	Rights issue	Bonus issue	Placing	Shares transfer from reserve funds	Others	Sub-total	31st December 2004
Shares not permitted to be traded								
Shares held by promoter	220,000,000	-	-	-	-	-	-	220,000,000
Including:								
State-owned shares	-	-	-	-	-	-	-	-
Shares owned by domestic legal person	220,000,000	-	-	-	-	-	-	220,000,000
Shares owned by foreign legal persons	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
Subscriber legal person shares	-	-	-	-	-	-	-	-
Employee shares	-	-	-	-	-	-	-	-
Preferred shares and others	-	-	-	-	-	-	-	-
Including:-								
Bonus issue shares	-	-	-	-	-	-	-	-
Sub-total	220,000,000	-	-	-	-	-	-	220,000,000
Listed shares	-	-	-	-	-	-	-	-
Shares permitted to be traded								
Domestically listed domestic shares (A Shares)	203,000,000	-	-	-	-	-	-	203,000,000
Domestically listed foreign shares	-	-	-	-	-	-	-	-
Overseas listed foreign shares	180,800,000	-	-	-	-	-	-	180,800,000
Others	-	-	-	-	-	-	-	-
Sub-total	383,800,000	-	-	-	-	-	-	383,800,000
Total number of shares in issue	603,800,000	-	-	-	-	-	-	603,800,000

23. CAPITAL SURPLUS

	31st December 2003	Addition	Deduction	31st December 2004
Share premium	1,247,954,114	-	-	1,247,954,114
Equity Investment Provision	9,562,443	-	-	9,562,443
Surplus on revaluation of assets	4,200,000	-	-	4,200,000
Total	1,261,716,557	-	-	1,261,716,557

Notes to the Accounts

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

V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**24. SURPLUS RESERVE**

	Statutory surplus fund	Discretionary surplus reserve	Statutory public welfare fund	Total
Balance at 31st December 2003	112,093,872	27,763,047	112,093,872	251,950,791
Addition	25,744,821	—	25,744,821	51,489,642
Balance at 31st December 2004	<u>137,838,693</u>	<u>27,763,047</u>	<u>137,838,693</u>	<u>303,440,433</u>

- (a) According to “Company Law of the People’s Republic of China” and the Company’s and its subsidiaries’ Articles of Association, as well as the resolutions of the Board of Directors, each of the Company and its subsidiaries is required to transfer 10% of its profit after taxation to its Statutory Surplus Reserve Fund until the reserve reaches 50% of its registered capital. Upon approval from the authorities, the Statutory Surplus Reserve Fund can be used to offset accumulated losses or to increase share capital. When utilized to increase share capital, the remaining balance of the Statutory Surplus Reserve Fund cannot fall below 25% of the share capital. The Company and its subsidiaries appropriated 25,744,821 to the Statutory Surplus Reserve Fund in 2004 (2003: 29,083,535).
- (b) According to the Company’s and its subsidiaries’ Articles of Association, 10% of profit after taxation is required to be transferred to the Statutory Public Welfare Fund. The Statutory Public Welfare Fund can only be used to fund capital items for the collective welfare benefits for employees and cannot be distributed to shareholders. When utilizing the Statutory Public Welfare Fund, the amount used is transferred to the Discretionary Surplus Reserve. The related expenditure is capitalized as an asset of the Company. The Company and its subsidiaries appropriated 25,744,821 to the Statutory Public Welfare Reserve in 2004 (2003: 29,083,536).
- (c) According to the Company’s and the subsidiaries’ Articles of Association, the Board of Directors, after obtaining approval from the shareholders, has the discretion to provide for Discretionary Surplus Reserve Fund. Upon approval from the authorities, the discretionary surplus reserve can be used to make up any losses incurred or to increase share capital. The Company intended to appropriate 100,000,000 to the discretionary surplus reserve fund in 2004, which is subject to shareholders’ approval (2003: Nil)

After the transfer of the above reserves, cash dividend is distributed according to the lower of the profit after taxation prepared in accordance with the PRC Accounting Standards and System or prepared in accordance with Generally Accepted Accounting Principles of Hong Kong.

25. UNDISTRIBUTED PROFITS

	2004	2003
Undistributed profit at beginning of year	325,112,537	257,973,127
Add: Net profit for the year	152,379,413	161,534,481
Less: Transfer to statutory surplus reserve	(25,744,821)	(29,083,535)
Transfer to statutory public welfare fund	(25,744,821)	(29,083,536)
Dividend for common stock		
– Cash dividends approved by general meeting of shareholders	(43,473,495)	(36,228,000)
Undistributed profit at end of year	<u>382,528,813</u>	<u>325,112,537</u>

Pursuant to the Board of Directors’ meeting held on 29th March 2005, the Company proposed to distribute a final cash dividend of 0.5 for every ten shares held by shareholders, totalling RMB30,190,000. The proposal is subject to approval of the general meeting.

**Notes to the Accounts**

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

V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**26 REVENUES FROM MAIN OPERATIONS AND COST OF GOODS SOLD****Primary reporting format – business segment**

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

Other operations of the Group include sale of textile machinery components, special parts and other products, none of which is of a sufficient size to be reported separately.

Secondary reporting format – geographical segment

Location	2004		2003	
	Sales	Cost of goods sold	Sales	Cost of goods sold
PRC	3,234,667,506	2,654,424,128	3,891,117,989	3,144,556,843
Africa	34,072,805	28,012,325	2,315,710	2,230,006
Asia	331,991,680	309,278,079	383,400,221	360,617,480
Others	10,310,910	8,857,793	28,908,914	26,324,694
Total	<u>3,611,042,901</u>	<u>3,000,572,325</u>	<u>4,305,742,834</u>	<u>3,533,729,023</u>

Sales of top five customers are 847,601,205, as 23% of the Group's total sales (2003: 779,450,297, 18%).

27 SALES TAX

	2004	2003
Business tax	148,825	127,788
City construction tax	9,638,202	12,419,851
Education levy	3,570,924	4,328,741
Total	<u>13,357,951</u>	<u>16,876,380</u>

28 PROFITS FROM OTHER OPERATIONS

	2004	2003
Other operation income		
Operating lease income	9,672,394	24,033,659
Sales of materials and others	925,833,693	817,971,887
Others	24,134,962	21,017,895
Subtotal	<u>959,641,049</u>	<u>863,023,441</u>
Other operation expenses		
Operating lease cost	(6,897,700)	(1,221,743)
Cost of materials and others	(874,373,364)	(788,004,251)
Others	(17,785,043)	(17,576,389)
Subtotal	<u>(899,056,107)</u>	<u>(806,802,383)</u>
Total	<u>60,584,942</u>	<u>56,221,058</u>

29 FINANCE EXPENSES

	2004	2003
Interest expense	31,908,481	30,194,312
Less: Interest income	(17,383,461)	(14,640,870)
Exchange loss, net	148,967	18,927
Others	5,498,243	1,305,001
	<u>20,172,230</u>	<u>16,877,370</u>

Notes to the Accounts

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

V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**30 INVESTMENT INCOME**

	2004	2003
Share of associated companies (loss)/profit	(841,120)	141,865
Amortisation of investment difference	229,554	439,932
Income from investment in stock	4,206,221	—
Loss from investment in futures	—	(1,204,005)
Other investment income*	28,510,700	5,071,001
	<u>32,105,355</u>	<u>4,448,793</u>

* 2004 other investment income is disclosed in note V (8)(b)(i)

31 THE CASH FLOW RELATING TO THE ACQUISITION OF THE SUBSIDIARY COMPANIES

In January 2004 the Company acquired 75% equity interest of Kunshan at a consideration of 3,190,474, held by Jingwei Kunshan Branch. One subsidiary of the Company acquired 25% equity interest of Kunshan, held by Hong Kong Jingwei, at a consideration of 1,063,658 in January 2004. The consideration for such acquisition was based on the net assets of Kunshan amounting RMB4,254,632 as at 31st December 2003 as stated in the report issued by the PRC Certified Public Accountant multiplied by the percentage of shares being acquired. The acquisition has been accomplished in January 2004. By then the Group owned 100% equity interest of Kunshan.

	Kunshan As at 1st January 2004
Current assets	14,300,786
Fix assets	2,036,937
Intangible assets	248,102
Current liabilities	(12,331,193)
Net assets	4,254,632
Acquired equity interest	100%
Net assets acquired	4,254,632
Plus: Premium/discount (investment difference)	—
Total acquisition consideration	4,254,632
Less: Cash inflow from acquisition	5,532,237
Net cash inflow from acquisition of subsidiary	<u>1,277,605</u>
Condensed income statement from effective date of acquisition to 31st December 2004:	
Sales	20,654,794
Cost of Sales	(18,272,150)
Profit from main operation	2,382,644
Profit before taxation	1,025,651
Less: Income tax	189,756
Net profit	<u>835,895</u>

**Notes to the Accounts**

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

VI NOTES TO FINANCIAL STATEMENTS – COMPANY**1. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES****(1) Accounts receivable**

	31st December 2004			31st December 2003		
Accounts receivable			282,247,879			356,866,007
Less: General provision			(36,562,886)			(37,480,668)
			<u>245,684,993</u>			<u>319,385,339</u>

	31st December 2004			31st December 2003		
	Amount	%	Bad debt provision	Amount	%	Bad debt provision
Aging:						
Within 1 year	193,927,925	68	–	286,879,682	81	–
Within 1 to 2 years	50,114,276	18	(4,072,921)	15,410,013	4	(3,016,475)
Within 2 to 3 years	11,241,365	4	(5,525,651)	25,397,285	7	(5,285,166)
Over 3 years	26,964,314	10	(26,964,314)	29,179,027	8	(29,179,027)
	<u>282,247,879</u>	<u>100</u>	<u>(36,562,886)</u>	<u>356,866,007</u>	<u>100</u>	<u>(37,480,668)</u>

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

	31st December 2004	31st December 2003
– Due from the holding company	8,792,000	14,837,588
– Due from fellow subsidiaries	71,138,623	109,005,097
– Due from Jingwei Group Company and its subsidiaries and associated companies	10,634	181,136
	<u>79,941,257</u>	<u>124,023,821</u>

The total amount of five largest individual balances of accounts receivable is 89,345,163 and this accounts for 32% of the total accounts receivable balance (2003: 209,296,782, 59%).

No general provision has been made for related companies balances included in accounts receivable with aging within 1 to 2 years.

(2) Other receivables

	31st December 2004	31st December 2003
Other receivables	177,117,404	210,506,432
Less: Specific provision	(270,000)	–
Net value	<u>176,847,404</u>	<u>210,506,432</u>

Aging and specific provision for bad debts of other receivables are as follows:

	31st December 2004			31st December 2003		
	Amount	%	Bad debt provision	Amount	%	Bad debt provision
Aging:						
Within 1 year	126,995,405	71	–	168,988,176	80	–
Within 1-2 years	34,662,132	20	–	18,627,629	9	–
Within 2-3 years	49,055	–	–	11,798,770	6	–
Over 3 years	15,410,812	9	(270,000)	11,091,857	5	–
	<u>177,117,404</u>	<u>100</u>	<u>270,000</u>	<u>210,506,432</u>	<u>100</u>	<u>–</u>



Notes to the Accounts

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

VI NOTES TO FINANCIAL STATEMENTS – COMPANY (CONTINUED)

1. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES (CONTINUED)

(2) Other receivables (continued)

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

	31st December 2004	31st December 2003
– Due from the holding company	4,775,700	9,000,000
– Due from fellow subsidiaries	5,197,260	10,836,348
– Due from Jingwei Group Company and its subsidiaries and associated companies	1,160,780	1,309,373
	<u>11,133,740</u>	<u>21,145,721</u>

The total amount of five largest individual balances of other receivables 63,316,443 and this accounts for 36% of the total other receivables balance (2003: 105,680,909, 50%).

2. LONG TERM EQUITY INVESTMENT

	31st December 2003	Addition	Disposal	31st December 2004
Investment in associated companies (a)	79,347,316	30,000,000	(6,822,652)	102,524,664
Investment in subsidiaries (b)	831,325,022	103,281,497	(9,522,679)	925,083,840
Other equity investment (c)	362,799,665	–	(100,000,000)	262,799,665
Investment Difference	(202,845)	289,550	229,554	316,259
Total	<u>1,273,269,158</u>	<u>133,571,047</u>	<u>(116,115,777)</u>	<u>1,290,724,428</u>

(a) Investment in associated companies

Name of investee	Investment period	Equity Interest Held(%)		Investment Cost		Accumulated Equity Movement			Balance	
		31st December 2003	31st December 2004	31st December 2003	31st December 2004	31st December 2003	Changes in equity	31st December 2004	31st December 2003	31st December 2004
Hongda Research Company Limited	2001 to 2101	40.00	40.00	20,000,000	20,000,000	1,536,992	1,466,620	3,003,612	21,536,992	23,003,612
Shenzhen Bolue Technology Company Limited	2001 to 2031	40.94	40.94	35,000,000	35,000,000	980,113	318,617	1,298,730	35,980,113	36,298,729
Beijing Hongda International Trading Company Limited	2000 to 2004	20.00	–	6,000,000	–	35,650	(35,650)	–	6,035,650	–
Zhengzhou Hongda Non-woven Fabric Textile Company Limited	2003 to 2007	42.50	42.50	17,000,000	17,000,000	(1,205,439)	(2,572,239)	(3,777,678)	15,794,561	13,222,322
China Textile Machinery and Technology Import and Export Company Limited	2004 to permanent	–	25.00	–	30,000,000	–	–	–	–	30,000,000
				<u>78,000,000</u>	<u>102,000,000</u>	<u>1,347,316</u>	<u>(822,652)</u>	<u>524,664</u>	<u>79,347,316</u>	<u>102,524,664</u>

**Notes to the Accounts**

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

VI NOTES TO FINANCIAL STATEMENTS – COMPANY (CONTINUED)**2. LONG TERM EQUITY INVESTMENT (CONTINUED)****(b) Investment in subsidiaries**

Name of investee	Investment period	Equity Interest Held(%)		Investment Cost		Accumulated Equity Movement			Balance	
		31st December 2003	31st December 2004	31st December 2003	31st December 2004	31st December 2003	Changes in equity	31st December 2004	31st December 2003	31st December 2004
Beijing Jingpeng Investment Management Company Limited	2001 to 2051	80	80	16,000,000	16,000,000	2,555,206	1,412,494	3,967,700	18,555,206	19,967,700
Shanghai Chuangan Trade Company Limited	2001 to 2011	90	90	1,800,000	1,800,000	428,041	107,821	535,862	2,228,041	2,335,862
Hong Kong Huaming Company Limited	2000 to 2030	100	100	4,966,416	4,966,416	22,945	7,382,945	7,405,890	4,989,361	12,372,306
Beijing Jingwei Textile Machinery New Technology Company Limited	2000 to 2050	98.4	98.4	98,407,084	98,407,084	10,900,488	5,153,159	16,053,647	109,307,572	114,460,731
Tianjin Hongda Textile Machinery Company Limited	1999 to 2009	98	98	71,390,523	71,390,523	44,369,465	20,170,832	64,540,297	115,759,988	135,930,820
Shenyang Hongda Textile Machinery Company Limited	1999 to 2009	98	98	81,742,695	81,742,695	21,831,349	8,602,068	30,433,417	103,574,044	112,176,112
Zhengzhou Hongda New Textile Machinery Company Limited	1999 to 2009	98	98	81,243,200	81,243,200	20,711,265	(4,730,368)	15,980,897	101,954,465	97,224,097
Qingdao Hongda Textile Machinery Company Limited	1999 to 2009	98	98	96,863,612	96,863,612	95,079,621	17,566,452	112,646,073	191,943,233	209,509,685
Changde Textile Machinery Company Limited	2002 to 2012	70	70	35,279,928	35,279,928	10,992,130	24,957,779	35,949,909	46,272,058	71,229,837
Jinzhong Jingwei Ring Manufacturing Company Limited	1993 to permanent	98	98	500,000	500,000	590,214	71,247	661,461	1,090,214	1,161,461
Jingwei Textile Machinery Yuci Material Company Limited	1996 to 2006	99.20	99.20	5,000,000	5,000,000	102,796	16,058	118,854	5,102,796	5,118,854
Taiyuan Jingwei Electrical Company Limited	1997 to 2047	98	98	9,412,000	9,412,000	(3,504,882)	890,431	(2,614,451)	5,907,118	6,797,549
Shanghai Jingwei Dongxing Blowing-Carding Machinery Company Limited	2001 to 2011	73.95	73.874	36,974,000	36,974,000	8,252,915	3,892,932	12,145,847	45,226,915	49,119,847
Ningbo Daxie Machinery and Develop Zone Wu Fang Hongda Company Limited	1999 to 2009	98	98	2,352,000	2,352,000	1,777,420	559	1,777,968	4,129,420	4,129,979
Shanghai Weixin Electrical & Machinery Company Limited	2000 to 2050	90	90	14,400,000	14,400,000	(628,267)	(708,720)	(1,336,987)	13,771,733	13,063,013
Wuxi Jingwei Textile Technology Testing Company Limited	2003 to 2013	55	55	27,240,807	27,240,807	387,155	912,789	1,299,944	27,627,962	28,540,751
Shanxi Jingwei Heli Machinery Manufacturing Company Limited	2003 to permanent	28	30	34,306,944	36,727,094	(422,048)	2,101,838	1,679,790	33,884,896	38,406,884
Kunshan Jingwei Textile Machinery Company Limited	2004 to permanent	-	75	-	3,190,974	-	347,378	347,378	-	3,538,352
				<u>617,879,209</u>	<u>623,490,333</u>	<u>213,445,813</u>	<u>88,147,694</u>	<u>301,593,507</u>	<u>831,325,022</u>	<u>925,083,840</u>

(c) Other Equity Investment

Name of investee	Investment period	Investment cost	Equity interest held (%)
Shanghai Jingwei Zhonglian Commercial Development Company Limited	2003 to 2005	237,933,063	47.92%
Hongda Investment Company Limited	2004 to 2029	24,866,602	16.40%
		<u>262,799,665</u>	

Notes to the Accounts

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

VI NOTES TO FINANCIAL STATEMENTS – COMPANY (CONTINUED)**3. REVENUES FROM MAIN OPERATIONS**

	2004	2003
PRC	1,967,773,433	1,352,580,821
Africa	10,501,616	2,156,410
Asia	288,150,750	298,439,656
Other	12,130	17,019,996
	<u>2,266,437,929</u>	<u>1,670,196,883</u>

4. COST OF GOODS SOLD

	2004	2003
PRC	1,754,397,950	1,144,042,711
Africa	9,136,406	2,118,496
Asia	274,378,467	292,790,863
Other	10,553	16,686,570
	<u>2,037,923,376</u>	<u>1,455,638,640</u>

5. INVESTMENT INCOME

	2004	2003
Share of profits less losses of associated companies	(822,652)	26,731
Share of profits less losses of subsidiaries	99,167,006	114,865,919
Loss from investment of stock	(99,402)	—
Amortisation of investment difference	229,554	439,933
Other investment gain/(loss)*	28,510,700	(64,872)
	<u>126,985,206</u>	<u>115,267,711</u>

* 2004 other investment income is disclosed in note V(8)(b)(i).



Notes to the Accounts

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

VII RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

1 Related party with controlling relationship

Name	Registered Address	Main business	Relationship with the Company	Nature or type	Legal representative
China National Textile Machinery (Group) Company Limited ("CTMC")	PRC	Manufacturing and trading textile machinery	Holding company of the Company	Limited company	Wang Tiankai
Shanxi Jingwei Computer Technology Development Company Limited	PRC	Distribution of computers and related services	Subsidiary	Limited company	Ye Maoxin
Jinzhong Jingwei Ring Manufacturing Company Limited	PRC	Manufacture of textile machinery components	Subsidiary	Limited company	He Lizhao
Jingwei Textile Machinery Yuci Material Company Limited	PRC	Trading of furnace materials, metals textile machinery components and charcoal	Subsidiary	Limited company	Guan Xuefeng
Taiyuan Jingwei Electrical Company Limited	PRC	Manufacture and sales of transformers and electrical components	Subsidiary	Limited company	Guan Xuefeng
Ningbo Daxie Machinery and Develop Zone Wu Fang Hongda Company Limited	PRC	Sales of textile machinery and related components; providing related services	Subsidiary	Limited company	Yao Yuming
Qingdao Hongda Textile Machinery Company Limited	PRC	Manufacture, sales, repairing and leasing of textile machinery and related components	Subsidiary	Limited company	Ye Maoxin
Tianjin Hongda Textile Machinery Company Limited	PRC	Technical development consultation, sales of textile machinery, related components and other machinery	Subsidiary	Limited company	Zhang Jianguo
Zhengzhou Hongda New Textile Machinery Company Limited	PRC	Developing and manufacturing textile machinery and related components	Subsidiary	Limited company	Tang Qiwei
Shenyang Hongda Textile Machinery Company Limited	PRC	Developing and processing textile machinery and related components; providing technical consultation	Subsidiary	Limited company	Ye Maoxin
Beijing Jingwei Textile Machinery New Technology Company Limited	PRC	Technical developing, sales of textile machinery and computer hardware, agricultural machinery, equipment instrument, automobile components	Subsidiary	Limited company	Ye Maoxin
Shanghai Weixin Electrical & Machinery Company Limited	PRC	Textile machinery, automobile component and general machinery's developing and manufacturing	Subsidiary	Limited company	Ye Maoxin

Notes to the Accounts

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

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

Name	Registered Address	Main business	Relationship with the Company	Nature or type	Legal representative
Beijing Ximen Information Technology Company Limited	PRC	Manufacturing, wholesale and retail	Subsidiary	Limited company	Liu Shitong
Hong Kong Huaming Company Limited	HK	Imports and exports, general trading and consulting services	Subsidiary	Limited company	Ye Maoxin
Beijing Jingpeng Investment Management Company Limited	PRC	Investment management, sales of electronic & chemical products (other than dangerous products), machinery, construction materials, wood, automotive parts, local products, fashion and exhibitions and provision of technology information	Subsidiary	Limited company	Ye Maoxin
Shanghai Chuangan Trade Company Limited	PRC	Trading sales of textile, electronic products, chemical products (other than dangerous products), metal construction materials, wood, cement, mining-related sub-products.	Subsidiary	Limited company	Yao Yuming
Jinan Jin Hongda Textile Machinery Company Limited	PRC	Research of electronics and general machinery technology and production consultation and services, processing and sales of textile industry equipment, switch control equipment, agriculture equipment, general equipment component and parts	Subsidiary	Limited company	Li Xiangjie
Shanghai Jingwei Dongxing Blowing-Carding Machinery Company Limited	PRC	Manufacturing and sales of blowing-carding machinery and related components	Subsidiary	Limited company	Guan Xuefeng

**Notes to the Accounts**

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

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

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

2 Changes in the registered capital of related parties with controlling relationship

Name of enterprise	Beginning balance	Increase	Decrease	Year end balance
China National Textile Machinery (Group) Company Limited ("CTMC")	1,555,269,000	1,180,551,000	—	2,735,820,000
Shanxi Jingwei Computer Technology Development Company Limited	1,600,000	—	—	1,600,000
Jinzhong Jingwei Ring Manufacturing Company Limited	500,000	—	—	500,000
Jingwei Textile Machinery Yuci Material Company	5,000,000	—	—	5,000,000
Taiyuan Jingwei Electrical Company Limited	5,000,000	—	—	5,000,000
Ningbo Daxie Development Zone Wu Fang Hongda Company Limited	2,400,000	—	—	2,400,000
Qingdao Hongda Textile Machinery Company Limited	114,000,000	—	—	114,000,000
Tianjin Hongda Textile Machinery Company Limited	78,500,000	—	—	78,500,000
Zhengzhou Hongda New Textile Machinery Company Limited	74,500,000	—	—	74,500,000
Shenyang Hongda Textile Machinery Company Limited	71,000,000	—	—	71,000,000
Beijing Jingwei Textile Machinery New Technology Company Limited	100,000,000	—	—	100,000,000
Shanghai Weixin Electrical & Machinery Company Limited	16,000,000	—	—	16,000,000

Notes to the Accounts

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

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

Name of enterprise	Beginning balance	Increase	Decrease	Year end balance
Beijing Ximen Information Technology Company Limited	12,000,000	—	—	12,000,000
Hong Kong Huaming Company Limited	4,966,416	—	—	4,966,416
Beijing Jingpeng Investment Management Company Limited	20,000,000	—	—	20,000,000
Shanghai Chuangan Trade Company Limited	2,000,000	—	—	2,000,000
Jinan Jin Hongda Textile Machinery Company Limited	5,000,000	—	(4,500,000)	500,000
Wuxi Jingwei Textile Technology Testing Company Limited	49,530,000	—	—	49,530,000
Shanghai Jingwei Dongxing Blowing-Carding Machinery Company Limited	50,000,000	—	—	50,000,000
Beijing Hongda Fangji Enterprise's Management Consulting Company Limited	3,800,000	—	—	3,800,000
Shanxi Jingwei Heli Machinery Manufacture Company	100,000,000	—	—	100,000,000
Changde Textile Machinery Company Limited	42,349,900	—	—	42,349,900
Kunshan Jingwei Textile Machinery Company Limited	—	3,208,260	—	3,208,260

3 Changes in the stock or owner's equity of the related party which controls the Company

Name	Beginning balance amount	%	Increase	%	Decrease	%	Year end balance amount	%
China Textile Machinery (Group) Company Limited ("CTMC")	220,000,000	36.44	—	—	—	—	220,000,000	36.44

4 For changes in the equity of those subsidiaries in which the Company has control, please refer to notes to the accounts VI 2.(b).



Notes to the Accounts

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

VII RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

5 Fellow subsidiaries in which the Company has no control:

Name of related party	Relationship with the Company
Tianjin Textile Machinery Plant	Fellow subsidiaries
Jingwei Machinery (Group) Company Limited	Fellow subsidiaries
Hengyang Textile Machinery Plant	Fellow subsidiaries
Shenyang Textile Machinery Plant	Fellow subsidiaries
Wuxi Textile Machinery & Special Parts Plant	Fellow subsidiaries
Changde Textile Machinery Plant	Fellow subsidiaries
Changzhou Textile Machinery Plant	Fellow subsidiaries
Taicang Textile Machinery Plant	Fellow subsidiaries
Qingdao Textile Machinery Plant	Fellow subsidiaries
Qingdao Textile Machinery Foundry Company Limited	Fellow subsidiaries
Qingdao Textile Machinery Wires Company Limited	Fellow subsidiaries
Qingdao Textile Machinery Jinhui Mould Company Limited	Fellow subsidiaries
Zhengzhou Textile Machinery Company Limited	Fellow subsidiaries
Zhengzhou Textile Machinery Plant	Fellow subsidiaries
Weinan Textile Machinery Plant	Fellow subsidiaries
China National Textile Machinery (Group) Company Limited	
Guangzhou branch office	Fellow subsidiaries
China National Textile Machinery Group Sales Company	Fellow subsidiaries
Huangshi Textile Machinery Plant	Fellow subsidiaries
Shaoyang Textile Machinery Company Limited	Fellow subsidiaries
Beijing Hongda Shiye Company Limited	Fellow subsidiaries
Trading Committee of Zhongji Company	Fellow subsidiaries
Shenyang Hongsheng Textile Machinery Company Limited	Fellow subsidiaries
Shenyang Textile Machinery Spare Parts Sales Company	Fellow subsidiaries
Yichang China National Textile Machinery Components Company Limited	Fellow subsidiaries
Tianjin Textile Machinery Steel Stripped-down Company Limited	Fellow subsidiaries
Tianjin Textile Machinery Heat-Treatment Company Limited	Fellow subsidiaries
Yichang China National Textile Machinery Industrial and Trading Company Limited	Fellow subsidiaries
Hong Kong Textile Machinery Company	Fellow subsidiaries
Urumchi Jingwei Xijin Company	Fellow subsidiaries
Hongda Investment Company Limited	Fellow subsidiaries
China National Textile Machinery Group Finance Company	Associated company of CTMC
Jingjin Associated Packing Plant	Associated companies
Luhuan Construction Company limited	Associated companies
Hongda International Trading Company Limited	Associated companies
Hongda Research Company Limited	Associated companies
Qingdao Jinyi Pressing and Casting Company Limited	Associated companies
Qingdao Textile Machinery Technology Co. Ltd,	Associated companies
Qingdao Qingfeng Technology Company Limited	Associated companies
Shenyang Jinxing Textile Machinery Company Limited	Associated companies
China National Textile Machinery Group Beijing Automatic Controlling Technology Company Limited	Associated companies
Shenzhen Bolue Science and Technology investment Company Limited	Associated companies
China Textile Machinery and Technology Import and Export Company Limited	Associated companies
Zhengzhou Hongda Non-woven Fabric Company Limited	Associated companies

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

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

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

Notes to the Accounts

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

VII RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

6 Related party transactions

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

Transactions with CTMC	Note	2004	2003
Sale of finished goods	(i)	—	7,461,509
Purchase of raw materials and components	(i)	—	372,736
Purchase of subsidiary companies	(ii)	—	2,000,000
Disposal of other equity investment	Note V (8,b,ii)	24,866,602	—
Purchase of other equity investment	Note V (8,b,ii)	24,866,602	—
Transactions with Jingwei Group Company			
Sale of finished goods	(i)	6,462,647	9,174,822
Sale of raw materials and components	(i)	31,738,049	1,610,539
Fees received for the provision of supporting services	(i)	4,839,072	1,303,950
Purchase of tools and moulds	(i)	5,653,724	12,413,738
Purchase of raw materials and components	(i)	4,399,704	10,003,344
Processing fees paid	(i)	17,988,755	9,131,592
Fees paid for transportation services	(i)	4,160,809	2,477,991
Fees paid for repairs and maintenance services	(i)	15,679,922	17,551,951
Fees paid for other supporting services	(i)	9,459,032	11,601,839
Rental expenses	(i)	505,029	450,000
Acquisition of subsidiaries	Note V (31)	4,254,632	37,935,414
Bank loan guarantees in favour of the Company	(i)	214,000,000	301,000,000
Transactions with an associated company of Jingwei Group Company			
Purchase of raw materials and components	(i)	14,030,701	—
Sale of finished goods	(i)	—	2,265
Sale of raw materials and components	(i)	3,931,555	4,390
Purchase of package	(i)	10,097,863	21,450,027
Transactions with other fellow subsidiaries			
Sale of finished goods	(i)	205,935,106	21,298,903
Sale of raw materials and components	(i)	242,418,451	384,040,355
Processing fees received	(i)	224,848	177,465
Provision of services	(i)	2,253,557	897,566
Rental income	(i)	6,619,338	1,029,000
Purchase of tools and moulds	(i)	319,651	2,002,831
Purchase of castings	(i)	103,604,335	165,288,656
Purchase of package	(i)	15,439,575	7,360,742
Purchase of energy	(i)	13,594,142	21,971,177
Purchase of raw materials and components	(i)	95,323,651	227,709,104
Purchase of finished goods	(i)	326,413,560	155,444,871
Processing fees paid	(i)	75,906,896	88,501,645
Transportation fee paid	(i)	4,265,448	9,085,835
Repairs and maintenance fee paid	(i)	5,322,688	2,258,537
Fees paid for other supporting services	(i)	8,828,942	7,185,894
Rental expenses	(i)	11,224,670	28,264,183
Interest expenses	(i)	—	1,146,633
Building maintenance fees paid	(i)	1,426,449	2,617,088
Bank loan guaranties in favour of the Group	(iii)	—	20,000,000

Notes:

- (i) The transactions were conducted in accordance with the composite service agreements entered into on 5th February 2002 .
- (ii) The transactions have been carried out in accordance with the agreement of acquiring 28% of equity interest of Heli from Jingwei Group Company entered into on 26th March 2003, and the agreement of acquiring 52.63% of equity interest of Hongda Fangji with CTMC entered into on 16th November 2002 respectively.
- (iii) Bank loan guarantee granted by Jingwei Group Company and other fellow subsidiaries in favour of the Company and the Group were executed in accordance with the related guarantee agreements.

**Notes to the Accounts**

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

VII RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)**6 Related party transactions (continued)****(b) Pricing policy**

The general price policy for ongoing connected transactions:

The term of these transactions with related parties follows the composite service agreements entered into by the Group and its related parties on 5th February 2002.

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

- (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 have reviewed the connected transactions undertaken by the group and confirmed that:

- (i) such transactions were entered into by the Group in the ordinary course of its business;
- (ii) such transactions were entered into on normal commercial terms or on terms no more favourable or less favourable than terms available to or made by independent third parties;
- (iii) such transactions were fair and reasonable so far as the independent shareholders are concerned;
- (iv) amounts involving such transactions were within the maximum limit set by The Stock Exchange of Hong Kong Limited in granting the exemption.

VIII CONTINGENT LIABILITIES

	Company	
	31st December 2004	31st December 2003
Guarantees for bank loans of subsidiaries	<u>82,800,000</u>	<u>82,800,000</u>
	Group	
	31st December 2004	31st December 2003
Guarantees for bank loans of third party	240,000,000	240,000,000
Guarantees for bank loans of related parties	<u>—</u>	<u>63,000,000</u>
	<u>240,000,000</u>	<u>303,000,000</u>

Notes to the Accounts

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

IX CAPITAL AND LEASE COMMITMENTS

As at 31st December 2004 and 31st December 2003, the following capital commitments and leasing commitments, principally for construction and equipment purchases, were outstanding:

Capital commitments

	31st December 2004	31st December 2003
Contracted but not provided for others	<u>11,364,096</u>	<u>13,502,153</u>

Lease commitments

	31st December 2004	31st December 2003
Lease in respect of land		
Within 1 year	2,045,103	2,045,103
1-2 years	2,045,103	2,045,103
2-3 years	2,045,103	2,045,103
3 years and above	5,153,700	7,526,006
	<u>11,289,009</u>	<u>13,661,315</u>
	31st December 2004	31st December 2003
Lease in respect of a building		
Within 1 year	13,758,919	3,037,606
1-2 years	13,758,919	1,064,662
2-3 years	13,758,919	1,064,662
3 years and above	—	2,129,324
	<u>41,276,757</u>	<u>7,296,254</u>

X SUBSEQUENT EVENT

On 25th March 2005, Beijing Hualian Department Store Company Limited (“Hualian”) applied for bank loan 200,000,000 which matured in one year. The Company provided guarantee for this loan to the bank in Hualian’s favor. The guarantee agreement was for a term of two years from the due date for Hualian to perform its repayment obligations under the original loan agreement. At the same time, the guarantee was counter-indemnified by the counter indemnity letter provided by Beijing Hualian Group Investment Holdings Company Limited, the shareholder of Hualian, in favour of the Company.

XI DEBT RESTRUCTURING

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

XII NON-MONETARY TRANSACTION

For disclosure of Non-Monetary transaction, see note V(8)(b)(ii).

XIII NET PROFIT AFTER DEDUCTING EXTRAORDINARY ITEMS

	2004
Net Profit	152,379,413
Add (Less): Extraordinary items	
– Loss on disposal of fixed assets	(122,879)
– Government subsidies	(30,000)
– Income of short-term investment	(4,206,221)
– Non-operating income after deducting the asset impairments	(631,791)
– Non-operating expense after deducting the asset impairments	3,021,950
– Reversal of the impairments recognised in previous years	(9,516,541)
Income tax impact of extraordinary items	295,341
Net profit after deducting the extraordinary items	<u>141,189,272</u>

XIV COMPARATIVE FIGURES

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