

## Chapter XIV Accounts Prepared in Accordance with Accounting Principles Generally Accepted in Hong Kong

### Consolidated Profit and Loss Account

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

FOR THE YEAR ENDED 31ST DECEMBER 2004

	Note	<b>2004</b> RMB'000	<b>2003</b> RMB'000
Turnover	2	3,611,043	4,305,743
Cost of sales		<u>(3,000,572)</u>	<u>(3,533,729)</u>
Gross profit		610,471	772,014
Other revenues	2	98,458	67,174
Distribution expenses		(119,379)	(111,019)
Administrative expenses		(392,006)	(494,173)
Other operating expenses, net		<u>(6,955)</u>	<u>(12,558)</u>
Operating profit	3	190,589	221,438
Interest expenses, net	5	(18,999)	(15,553)
Share of profits less losses of associated companies		<u>(589)</u>	<u>413</u>
Profit before taxation		171,001	206,298
Taxation	6	<u>(10,657)</u>	<u>(26,566)</u>
Profit after taxation		160,344	179,732
Minority interests		<u>(9,023)</u>	<u>(3,561)</u>
Profit attributable to shareholders	7	<u>151,321</u>	<u>176,171</u>
Dividends	8	<u>30,190</u>	<u>43,474</u>
Basic earnings per share	9	<u>RMB 0.25</u>	<u>RMB 0.29</u>

**Consolidated Balance Sheet**

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

*AS AT 31ST DECEMBER 2004*

	Note	2004 RMB'000	2003 RMB'000
<b>Non-current assets</b>			
Intangible assets	11	7,185	6,704
Fixed assets	12	1,191,331	1,118,431
Interests in associated companies	14	107,173	83,317
Investment securities	15(a)	272,493	373,191
Deferred tax assets	25	24,303	20,754
		<u>1,602,485</u>	<u>1,602,397</u>
<b>Current assets</b>			
Inventories	16	1,299,968	1,597,255
Trade and bills receivables	17	729,821	711,954
Prepayment to suppliers		198,308	177,741
Amount due from ultimate holding company	18	—	8,849
Amounts due from fellow subsidiaries	18	212,541	283,819
Deposits, other receivables and prepayments		88,729	114,760
Short-term investments	15(b)	8,526	116,728
Bank balances and cash			
– pledged	19	1,814	—
– unpledged		993,835	843,206
		<u>3,533,542</u>	<u>3,854,312</u>
<b>Current liabilities</b>			
Trade and bills payables	20	729,623	942,207
Advances from customers		619,506	976,803
Amounts due to ultimate holding company	18	10,252	—
Amounts due to fellow subsidiaries	18	67,824	82,729
Amount due to Jingwei Group Company	18	39,354	116,860
Other payables and accruals		295,226	306,302
Current portion of long-term bank loans	24	12,800	33,000
Taxation payable	21	33,661	13,855
Bank loans and overdrafts – unsecured		568,752	325,550
		<u>2,376,998</u>	<u>2,797,306</u>
<b>Net current assets</b>		<u>1,156,544</u>	<u>1,057,006</u>
<b>Total assets less current liabilities</b>		<u><u>2,759,029</u></u>	<u><u>2,659,403</u></u>
<b>Financed by:</b>			
Share capital	22	603,800	603,800
Reserves	23	1,936,903	1,815,776
Proposed final dividends	23	30,190	43,474
<b>Shareholders' funds</b>		<u>2,570,893</u>	<u>2,463,050</u>
<b>Minority interests</b>		146,917	142,826
<b>Non-current liabilities</b>			
Long-term bank loans	24	40,000	52,800
Deferred tax liabilities	25	1,219	727
		<u>2,759,029</u>	<u>2,659,403</u>

Ye Maoxin  
DirectorYao Yuming  
Director

**Balance Sheet**

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

*AS AT 31ST DECEMBER 2004*

	Note	<b>2004</b> RMB'000	<b>2003</b> RMB'000
<b>Non-current assets</b>			
Intangible assets	11	978	811
Fixed assets	12	549,905	526,731
Investments in subsidiaries	13	691,444	643,400
Interests in associated companies	14	102,000	78,000
Investment securities	15(a)	260,287	360,287
Deferred tax assets	25	12,772	11,312
		<u>1,617,386</u>	<u>1,620,541</u>
<b>Current assets</b>			
Inventories	16	679,877	859,227
Trade and bills receivables	17	280,364	279,730
Prepayment to suppliers		69,600	58,546
Amount due from ultimate holding company	18	5,568	24,493
Amounts due from fellow subsidiaries	18	111,649	179,072
Deposits, other receivables and prepayments		73,109	60,178
Short-term investments	15(b)	—	2,839
Bank balances and cash – unpledged		756,949	651,996
		<u>1,977,116</u>	<u>2,116,081</u>
<b>Current liabilities</b>			
Trade and bills payables	20	296,557	466,875
Advances from customers		438,412	613,819
Amount due to fellow subsidiaries	18	7,539	32,280
Amount due to Jingwei Group Company	18	5,204	46,631
Other payables and accruals		54,121	57,967
Current portion of long-term bank loans	24	—	23,000
Taxation payable	21	21,561	538
Bank loans and overdrafts – unsecured		500,913	247,000
		<u>1,324,307</u>	<u>1,488,110</u>
<b>Net current assets</b>		<u>652,809</u>	<u>627,971</u>
<b>Total assets less current liabilities</b>		<u><u>2,270,195</u></u>	<u><u>2,248,512</u></u>
<b>Financed by:</b>			
Share capital	22	603,800	603,800
Reserves	23	1,616,205	1,580,903
Proposed final dividends	23	30,190	43,474
<b>Shareholders' funds</b>		<u>2,250,195</u>	<u>2,228,177</u>
<b>Non-current liabilities</b>			
Long-term bank loans	24	20,000	20,000
Deferred tax liabilities	25	—	335
		<u>2,270,195</u>	<u>2,248,512</u>

**Ye Maoxin**  
Director**Yao Yuming**  
Director

**Consolidated Statement of Changes in Equity**

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

*FOR THE YEAR ENDED 31ST DECEMBER 2004*

	Note	<b>2004</b> RMB'000	<b>2003</b> RMB'000
Total equity as at 1st January		2,463,050	2,327,025
Exchange differences arising on translation of the accounts of a foreign subsidiary	23	(4)	(22)
Net losses not recognised in the profit and loss account		(4)	(22)
Profit for the year	23	151,321	176,171
Reserves transferred to profit and loss account upon disposal of investment property	23	—	(3,896)
Dividends	23	(43,474)	(36,228)
Total equity as at 31st December		<u>2,570,893</u>	<u>2,463,050</u>

**Consolidated Cash Flow Statement**

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

*FOR THE YEAR ENDED 31ST DECEMBER 2004*

	Note	2004 RMB'000	2003 RMB'000
Operating activities			
Net cash inflow generated from operations	30(a)	32,830	291,168
Interest received		17,383	14,641
Interest paid		(36,382)	(30,194)
PRC income tax paid		(13,462)	(37,093)
Net cash inflow from operating activities		369	238,522
Investing activities			
Establishment of associated companies		(30,697)	(16,369)
Investment income received		29,261	7,573
Purchase of intangible assets		(1,969)	(5,818)
Purchase of short-term investments and investment securities		(16,150)	(99,756)
Purchase of subsidiaries, net of cash acquired	30(d)	1,277	(23,276)
Purchase of fixed assets		(213,251)	(199,132)
Proceeds on sale of short-term investments and investment securities		209,556	58,482
Proceeds on sale of an associated company		6,698	—
Cash outflow for disposal of a subsidiary	30(e)	—	(3,131)
Proceeds on disposal of fixed assets		5,557	4,684
(Increase)/decrease in time deposits with maturity more than three months		(10,816)	42,542
(Increase)/decrease in pledged bank balances		(1,814)	23,026
Net cash outflow from investing activities		(22,348)	(211,175)
Net cash (outflow)/inflow before financing activities		(21,979)	27,347
Financing activities			
Dividends paid		(43,474)	(36,228)
Dividends paid to minority shareholders		(2,121)	(2,749)
Acquisition of minority interest		(2,811)	—
Capital contribution from minority shareholders		—	2,051
New bank loans		749,715	281,100
Repayment of bank loans		(539,513)	(301,235)
Net cash inflow/(outflow) from financing activities	30(b)	161,796	(57,061)
Increase/(decrease) in cash and cash equivalents		139,817	(29,714)
Cash and cash equivalents at 1st January		843,206	872,942
Effect of foreign exchange rate changes		(4)	(22)
Cash and cash equivalents at 31st December	30(c)	983,019	843,206



## Notes to the Accounts

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 1 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

#### (a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, short-term investments are stated at fair value.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1st January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31st December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

#### (b) Group accounting

##### (i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meeting of the board of directors.

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

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group’s share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the results and net assets of subsidiaries.

In the Company’s balance sheet, investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

##### (ii) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group’s share of the results of associated companies for the year, and the consolidated balance sheet includes the Group’s share of the net assets of the associated companies.

In the Company’s balance sheet, investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

## Notes to the Accounts

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### (b) Group accounting (continued)

##### (iii) Translation of foreign currencies

The companies within the Group maintain their books and records in either Renminbi or Hong Kong dollars.

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss accounts are translated at an average rate. Exchange differences are dealt with as a movement in reserves.

#### (c) Intangible assets

##### (i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiaries or associated companies at the date of acquisition.

Goodwill on acquisitions occurring on or after 1st January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life.

Goodwill on acquisitions that occurred prior to 1st January 2001 was eliminated against reserves. Any impairment arising on such goodwill is accounted for in the profit and loss account.

##### (ii) Patents and trademark

Expenditure on acquired patents and trademarks is capitalised and amortised using the straight-line method over their useful lives of ten years. Patents and trademarks are carried in the balance sheet at its cost less any accumulated amortisation and any accumulated impairment losses.

##### (iii) Software

Expenditure on acquired software is capitalised and amortised using the straight-line method over their useful lives of five years.

##### (iv) Research and development costs

Research expenditure is charged to the profit and loss account as incurred.

Development expenditure is charged to the profit and loss account as incurred, unless it is probable that the expenditure can be recovered from related future economic benefits in which case it will be recognised as an asset and amortised on a straight-line basis over the period in which the related economic benefits are expected to be recognised.

##### (v) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.



## Notes to the Accounts

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### (d) Fixed assets

##### (i) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods of greater than 20 years are valued annually by independent valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

##### (ii) Construction in progress

Construction in progress is carried at cost less accumulated impairment losses. No depreciation is provided on construction in progress.

##### (iii) Other fixed assets

Other fixed assets, comprising land and buildings, machinery and equipment and motor vehicles are stated at cost less accumulated depreciation and accumulated impairment losses.

Other fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Land	Over the lease term
Buildings	9 to 50 years
Machinery and equipment	7 to 22 years
Motor vehicles	9 years

##### (iv) Capitalisation of fixed assets

All direct and indirect costs relating to the acquisition or construction of buildings, plant and machinery and other fixed assets, including interest costs on related borrowed funds during the construction period and prior to the commissioning date, are capitalised as fixed assets.

A plant is considered to be commissioned when it is capable of producing saleable quality output in commercial quantities on an ongoing basis, notwithstanding any delays in the issue of the relevant commissioning certificate by the appropriate authorities of the PRC Government.

##### (v) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that other fixed assets and construction in progress are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.



## Notes to the Accounts

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### (e) Investments

##### (i) Investment securities

Investment securities are held for the long-term and are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amount. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account.

This impairment loss is written back to profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist in the foreseeable future.

##### (ii) Short-term investments

Short-term investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of short-term investments are recognised in the profit and loss account. Profits or losses on disposal of short-term investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

#### (f) Inventories

Inventories comprise raw materials, work in progress and finished goods. Inventories, other than components and consumables, are stated at the lower of cost and net realisable value. Cost of raw materials is computed using the weighted average method, while cost of work in progress and finished goods includes raw materials, direct labour and an appropriate proportion of production overheads. Net realisable value is determined by reference to the proceeds of goods sold in the ordinary course of business subsequent to the balance sheet date or to management estimates based on prevailing market conditions, less estimated selling expenses.

Components and consumables are stated at cost less any provision for obsolescence.

#### (g) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

#### (h) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, time deposits with a maturity of three months or less from the date of placing deposit and bank overdrafts.

#### (i) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

#### (j) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.



## Notes to the Accounts

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### (k) Employee benefits

##### (i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made by the Group for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

##### (ii) Bonus plans

The expected cost of bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

##### (iii) Retirement benefit costs

The companies within the Group, which were established in the PRC, contributes to a defined contribution retirement scheme established by the relevant local municipal government who undertakes the retirement benefit obligations of all existing and future retired employees employed by the Group. Contributions to the schemes are charged to the profit and loss accounts as incurred.

A subsidiary of the Group, which was incorporated in Hong Kong, operates a defined contribution scheme for employees employed in Hong Kong. Contributions to this scheme are calculated based on certain percentage of the employee's monthly salary. The assets of this scheme are held separately from the subsidiary in an independently administered fund. Contributions to this scheme are charged to the profit and loss account as incurred.

#### (l) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

#### (m) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

## Notes to the Accounts

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### (n) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, and associated companies, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

#### (o) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Unallocated costs represent operating expenses which cannot be identifiable to specific segment. Segment assets consists primarily of intangible assets, fixed assets, inventories, receivables and operating cash, and mainly exclude investments in securities and non-operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditures comprise additions to intangible assets and fixed assets, including additions resulting from acquisition through purchase of subsidiaries.

In respect of geographical segment reporting, sales are based on the country in which the ultimate customer is located. Total assets and capital expenditure are where the assets are located.

#### (p) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincide with the time when the goods are delivered to customers and title has passed.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Investment income is recognised when the right to receive payment is established.

Operating lease rental income is recognised on a straight-line basis over the lease terms.

**Notes to the Accounts**

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

**2 TURNOVER, REVENUE AND SEGMENT INFORMATION**

Turnover represents the value of goods sold, net of value added tax (“VAT”). VAT was assessed on the Group’s sales at the statutory rate of 17% less deductible input VAT (2003: 17%).

The Group is principally engaged in manufacturing and sale of textile machinery. Revenues recognised during the year are as follows:

	<b>2004</b> RMB’000	<b>2003</b> RMB’000
Turnover		
Sale of goods	3,611,043	4,305,743
Other revenues		
Gross rental income from investment property	—	20,544
Investment income	29,261	7,573
Sale of raw materials and others	69,197	39,057
	<u>98,458</u>	<u>67,174</u>
Total revenues	<u>3,709,501</u>	<u>4,372,917</u>

**Primary reporting format – business segments**

No analysis on business segments for 2004 is presented as the Group engaged only in the manufacture and sale of textile machinery during this year.

An analysis of the Group’s turnover, results, segment asset and liabilities and capital expenditure of 2003 by business segments is as follows:

	<b>Manufacture and sale of textile machinery 2003</b> RMB’000	<b>Property Investment 2003</b> RMB’000	<b>Group 2003</b> RMB’000
Turnover	<u>4,305,743</u>	<u>—</u>	<u>4,305,743</u>
Segment results	<u>215,011</u>	<u>17,689</u>	232,700
Investment income			7,573
Unallocated costs			<u>(18,835)</u>
Operating profit			221,438
Net interest expenses			(15,553)
Share of profits less losses of associated companies	413	—	<u>413</u>
Profit before taxation			206,298
Taxation			(26,566)
Minority interests			<u>(3,561)</u>
Profit attributable to shareholders			<u>176,171</u>
Segment assets	4,325,899	—	4,325,899
Interests in associated companies	83,317	—	83,317
Unallocated assets			<u>1,047,493</u>
Total assets			<u>5,456,709</u>
Segment liabilities	2,447,901	—	2,447,901
Unallocated liabilities			<u>402,932</u>
Total liabilities			<u>2,850,833</u>
Capital expenditure	317,071	—	317,071
Depreciation	93,873	—	93,873
Amortisation charge	1,992	—	1,992
Impairment charge	<u>110</u>	<u>—</u>	<u>110</u>

**Notes to the Accounts**

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

**2 TURNOVER, REVENUES AND SEGMENT INFORMATION (CONTINUED)****Secondary reporting format – geographical segments**

	<b>Turnover</b>		<b>Segment results</b>		<b>Total Assets</b>		<b>Capital expenditure</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
PRC	3,234,668	3,891,118	154,302	206,588	4,957,389	5,297,329	182,937	317,061
Other countries	376,375	414,625	7,026	7,277	71,465	76,063	–	10
	<u>3,611,043</u>	<u>4,305,743</u>	161,328	213,865	5,028,854	5,373,392	<u>182,937</u>	<u>317,071</u>
Investment income			29,261	7,573				
Operating profit			<u>190,589</u>	<u>221,438</u>				
Investments in associated companies					107,173	83,317		
Total assets					<u>5,136,027</u>	<u>5,456,709</u>		

**3 OPERATING PROFIT**

<b>2004</b>	<b>2003</b>
RMB'000	RMB'000

Operating profit is stated after crediting and charging the following:

**Crediting:**

Gain on disposal of fixed assets other than investment property	124	–
Realised and unrealised gain on short-term investments	204	7,366
Reversal of provision for inventories obsolescence	4,358	–
Reversal of provision for doubtful debts	<u>5,117</u>	<u>4,001</u>

**Charging:**

Amortisation of intangible assets (note 11)	1,488	1,992
Auditor's remuneration	3,100	2,900
Cost of inventories sold	3,000,572	3,533,729
Depreciation (note 12)	102,635	93,873
Loss on disposal of fixed assets other than investment property	–	6,556
Loss on disposal of investment property	–	4,580
Net exchange losses	149	19
Operating lease expenses – land and buildings	9,531	19,287
Outgoings in respect of an investment property	–	2,285
Provision for doubtful debts	21,435	44,155
Provision for inventories obsolescence	4,299	17,413
Repair and maintenance expenses	43,433	66,436
Research and development costs	30,147	46,169
Staff costs, include directors and supervisors' emoluments (note 4)	<u>408,014</u>	<u>458,620</u>

**Notes to the Accounts**

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

**4 STAFF COSTS**

	<b>2004</b> RMB'000	<b>2003</b> RMB'000
Wages, salaries and other benefits	369,761	424,666
Pension cost – defined contribution plan	38,253	33,954
	<u>408,014</u>	<u>458,620</u>

The retirement benefit costs charged to the profit and loss account represent contributions payable by the Group to the retirement schemes totalling RMB38,253,000 (2003: RMB33,954,000), representing 24% (2003: 24%) on the aggregate amount of total salaries that participate in the retirement schemes.

At 31st December 2004, contributions totalling RMB9,692,000 (2003: RMB4,469,600) were payable to the retirement schemes and were included in other payables and accruals. There were no forfeited contributions utilised during the year or available at 31st December 2004 to reduce future contributions (2003: Nil).

**5 INTEREST EXPENSES, NET**

	<b>2004</b> RMB'000	<b>2003</b> RMB'000
Interest income from banks and a fellow subsidiary	17,383	14,641
Interest expenses		
– bank loans wholly repayable within 5 years	(36,382)	(29,366)
– a fellow subsidiary	–	(1,147)
Less: amounts capitalised as construction in progress (note)	–	319
	<u>(36,382)</u>	<u>(30,194)</u>
Interest expenses, net	<u>(18,999)</u>	<u>(15,553)</u>

Note:

In 2003, interest was capitalised on loans borrowed to finance the construction of fixed assets at rates of 5.940% per annum.

**6 TAXATION**

Hong Kong profits tax has not been provided as the Group had no taxable profits in Hong Kong for the year (2003: Nil). The Company and its subsidiaries are subject to the PRC income tax on their taxable profits.

The amount of taxation (credited)/charged to the consolidated profit and loss account represents:

	<b>2004</b> RMB'000	<b>2003</b> RMB'000
Company and subsidiaries		
– PRC taxation	13,462	36,406
Deferred taxation (note 25)	(3,057)	(10,111)
Share of taxation attributable to associated companies	252	271
	<u>10,657</u>	<u>26,566</u>

**Notes to the Accounts**

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

**6 TAXATION (CONTINUED)**

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	<b>2004</b> RMB'000	<b>2003</b> RMB'000
Profit before taxation	171,001	206,298
Calculated at a taxation rate of 33% (2003: 33%)	56,430	68,078
Income not subject to taxation	(5,709)	(7,720)
Expenses not deductible for taxation purposes	322	569
Effect of different tax rates	(40,386)	(34,361)
Taxation charge	<u>10,657</u>	<u>26,566</u>

In accordance with an approval document issued by the State Administration of Taxation of Beijing on 19th January 2004, headquarter of the Company in Beijing enjoyed a preferential tax rate of 15% (2003: 15%) in 2004. The income tax rates of the Company's subsidiaries range from 15% to 33% (2003: 15% to 33%) and one of the Company's subsidiaries enjoys income tax rate of 15% with half-exemption from 2003 to 2005. Starting 2004, another subsidiary of the Company enjoys tax benefit of two years of full-exemption and three years of half-exemption from income tax. In addition, six other subsidiaries of the Company are subject to a preferential tax rate of 15% in 2004 (2003: 15%).

**7 PROFIT ATTRIBUTABLE TO SHAREHOLDERS**

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of RMB65,492,000 (2003: RMB124,373,000).

**8 DIVIDENDS**

	<b>2004</b> RMB'000	<b>2003</b> RMB'000
Proposed final dividend of RMB 0.05 (2003: RMB0.072)		
– per domestic share	11,000	15,840
– per A share	10,150	14,616
– per H share	9,040	13,018
	<u>30,190</u>	<u>43,474</u>

At the Board meeting hold on 29th March 2005, the directors proposed final dividend of RMB0.05 per share. Such dividend is not reflected as dividend payable in the accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2005.

**9 EARNINGS PER SHARE**

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of RMB151,321,000 (2003: RMB176,171,000) and the weighted average number of 603,800,000 (2003: 603,800,000) shares in issue during the year.

No diluted earnings per share is presented as the Group does not have any potential dilutive shares as at 31st December 2004 (2003: Nil).

**Notes to the Accounts**

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

**10 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT****(i) EMOLUMENTS OF DIRECTORS AND SUPERVISORS**

	<b>2004</b> RMB'000	<b>2003</b> RMB'000
Directors' emoluments		
Salaries and other benefits	951	990
Retirement benefit costs	25	25
	<u>976</u>	<u>1,015</u>
Supervisors' emoluments		
Salaries and other benefits	91	32
Bonuses	129	48
Retirement benefit costs	13	9
	<u>233</u>	<u>89</u>

The emoluments of the directors and supervisors were all within the band of Nil to RMB1,060,000 (2003: Nil to RMB1,060,000), equivalent to Nil to HK\$1,000,000 (2003: Nil to HK\$1,000,000).

The emoluments payable to the independent non-executive directors during the year was RMB50,000 (2003: Nil).

None of the directors has waived the right to receive his emoluments (2003: Nil).

**(ii) FIVE HIGHEST PAID INDIVIDUALS**

The five individuals whose emoluments were the highest in the Group for the year include five directors (2003: five), whose emoluments are reflected in the analysis presented above.

The emoluments of the five highest paid individuals were all within the band of Nil to RMB1,060,000 (2003: Nil to RMB1,060,000), equivalent to Nil to HK\$1,000,000 (2003: Nil to HK\$1,000,000).

During the year, no emoluments had been paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.



**Notes to the Accounts**

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

**11 INTANGIBLE ASSETS**

<b>Group</b>	<b>Patent and trademark RMB'000</b>	<b>Software RMB'000</b>	<b>Total RMB'000</b>
<b>Cost</b>			
At 1st January 2004	3,061	7,515	10,576
Additions	—	1,969	1,969
At 31st December 2004	3,061	9,484	12,545
<b>Accumulated amortisation</b>			
At 1st January 2004	2,735	1,137	3,872
Charge for the year	201	1,287	1,488
At 31st December 2004	2,936	2,424	5,360
<b>Net book value</b>			
At 31st December 2004	125	7,060	7,185
At 31st December 2003	326	6,378	6,704
<b>Company</b>	<b>Patent and trademark RMB'000</b>	<b>Software RMB'000</b>	<b>Total RMB'000</b>
<b>Cost</b>			
At 1st January 2004	2,000	700	2,700
Additions	—	569	569
At 31st December 2004	2,000	1,269	3,269
<b>Accumulated amortisation</b>			
At 1st January 2004	1,682	207	1,889
Charge for the year	200	202	402
At 31st December 2004	1,882	409	2,291
<b>Net book value</b>			
At 31st December 2004	118	860	978
At 31st December 2003	318	493	811

**Notes to the Accounts**

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

**12 FIXED ASSETS****Group**

	<b>Land and buildings (note a) RMB'000</b>	<b>Machinery and equipment RMB'000</b>	<b>Motor vehicles RMB'000</b>	<b>Construction in progress (note b) RMB'000</b>	<b>Total RMB'000</b>
<b>Cost</b>					
At 1st January 2004	639,273	1,252,142	70,955	95,799	2,058,169
Additions	24,139	56,027	8,248	90,269	178,683
Acquisition of a subsidiary (note 30(d))	1,274	369	642	—	2,285
Transfer upon completion	33,551	81,882	2,640	(118,073)	—
Disposals	(204)	(19,530)	(1,654)	—	(21,388)
At 31st December 2004	<u>698,033</u>	<u>1,370,890</u>	<u>80,831</u>	<u>67,995</u>	<u>2,217,749</u>
<b>Accumulated depreciation and impairment losses</b>					
At 1st January 2004	183,086	732,748	23,904	—	939,738
Charge for the year	22,315	75,542	4,778	—	102,635
Disposals	(144)	(14,707)	(1,104)	—	(15,955)
At 31st December 2004	<u>205,257</u>	<u>793,583</u>	<u>27,578</u>	<u>—</u>	<u>1,026,418</u>
<b>Net book value</b>					
At 31st December 2004	<u>492,776</u>	<u>577,307</u>	<u>53,253</u>	<u>67,995</u>	<u>1,191,331</u>
At 31st December 2003	<u>456,187</u>	<u>519,394</u>	<u>47,051</u>	<u>95,799</u>	<u>1,118,431</u>

**Notes to the Accounts**

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

**12 FIXED ASSETS****Company**

	<b>Land and buildings (note a) RMB'000</b>	<b>Machinery and equipment RMB'000</b>	<b>Motor vehicles RMB'000</b>	<b>Construction in progress (note b) RMB'000</b>	<b>Total RMB'000</b>
<b>Cost</b>					
At 1st January 2004	318,497	617,740	23,508	43,178	1,002,923
Additions	696	20,958	1,931	44,379	67,964
Transfer upon completion	26,852	34,969	2,123	(63,944)	—
Disposals	(175)	(9,804)	—	—	(9,979)
At 31st December 2004	<u>345,870</u>	<u>663,863</u>	<u>27,562</u>	<u>23,613</u>	<u>1,060,908</u>
<b>Accumulated depreciation and impairment losses</b>					
At 1st January 2004	86,986	381,214	7,992	—	476,192
Charge for the year	7,616	35,422	665	—	43,703
Disposals	(52)	(8,742)	(98)	—	(8,892)
At 31st December 2004	<u>94,550</u>	<u>407,894</u>	<u>8,559</u>	<u>—</u>	<u>511,003</u>
<b>Net book value</b>					
At 31st December 2004	<u>251,320</u>	<u>255,969</u>	<u>19,003</u>	<u>23,613</u>	<u>549,905</u>
At 31st December 2003	<u>231,511</u>	<u>236,526</u>	<u>15,516</u>	<u>43,178</u>	<u>526,731</u>

Notes:

- (a) All of the Group and Company's land and buildings are located in the PRC with lease terms of between 10 to 50 years.
- (b) At 31st December 2004, construction in progress comprises expenditure incurred, including interest expenses capitalised, on land and buildings, machinery and equipment and motor vehicles of the Group and the Company which have not yet been commissioned as at the balance sheet date.

**Notes to the Accounts**

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

**13 INVESTMENTS IN SUBSIDIARIES**

	<b>Company</b>	
	<b>2004</b>	<b>2003</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Unlisted investments, at cost	614,375	607,372
Amounts due from subsidiaries	77,069	36,028
	<u>691,444</u>	<u>643,400</u>

Amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayments.

Set out below are particulars of the subsidiaries at 31st December 2004.

<b>Name of company</b>	<b>Date of establishment</b>	<b>Registered capital RMB</b>	<b>Percentage of equity interest held by the</b>		<b>Principal activities</b>
			<b>Group</b>	<b>Company</b>	
			<b>%</b>	<b>%</b>	
Shanxi Jingwei Computer Technology Development Company Limited*	3rd November 1995	1,600,000	60	—	Distribution of computers and related services
Jinzhong Jingwei Ring Manufacturing Company Limited*	23rd November 1995	500,000	100	98	Manufacture of textile machinery components
Jingwei Textile Machinery Yuci Material Company Limited*	9th July 1996	5,000,000	100	99.2	Trading of furnace materials, metals, textile machinery component and charcoal
Taiyuan Jingwei Electrical Company Limited*	18th March 1997	5,000,000	100	98	Manufacturing and selling of transformers and electrical components
Ningbo Daxie Develop Zone Wu Fang Hongda Company Limited*	22nd September 1999	2,400,000	100	98	Sale of textile machinery and related components
Qingdao Hongda Textile Machinery Company Limited	16th August 1999	114,000,000	98	98	Manufacturing, selling, repairing and leasing of textile machinery and related components
Tianjin Hongda Textile Machinery Company Limited	17th August 1999	78,500,000	98	98	Provision of technical consultancy services, sales of textile, photocopying, agriculture processing machinery and related components
Zhengzhou Hongda New Textile Machinery Company Limited	11th August 1999	74,500,000	98	98	Developing and manufacturing of textile machinery and related components

**Notes to the Accounts**

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

**13 INVESTMENTS IN SUBSIDIARIES (CONTINUED)**

Name of company	Date of establishment	Registered capital RMB	Percentage of equity interest held by the		Principal activities
			Group %	Company %	
Shenyang Hongda Textile Machinery Company Limited	16th August 1999	71,000,000	98	98	Developing, manufacturing and processing of textile machinery and related components and provision of technical consultancy services
Changde Textile Machinery Company Limited	5th January 2002	42,349,900	95	70	Manufacturing and trading of textile machinery and other machinery, powder metallurgy (regulated by special regulations)
Beijing Jingwei Textile New Technology Company Limited*	2nd March 2000	100,000,000	98.4	98.4	Technical developing and manufacturing of textile machinery and computer software and hardware, sale of textile, industrial specialised machinery, agricultural machinery, instruments and panel and automobile components.
Shanghai Weixin Electrical and Machinery Company Limited*	30th June 2000	16,000,000	100	90	Textile machinery, automobile component and general machinery's developing and manufacturing
Beijing Jingpeng Investment Management Company Limited	30th July 2001	20,000,000	100	80	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
Shanghai Chuangan Trade Company Limited*	29th September 2001	2,000,000	90	90	Trading of textile, electronic products and chemical products (other than dangerous products), metal construction materials, wood, cement, mining-related sub-products.
Hong Kong Huaming Company Limited (Note b)*	31st December 2000	4,966,416	100	100	Imports and exports, general trading and consulting services

**Notes to the Accounts**

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

**13 INVESTMENTS IN SUBSIDIARIES (CONTINUED)**

Name of company	Date of establishment	Registered capital RMB	Percentage of equity interest held by the		Principal activities
			Group %	Company %	
Shanghai Jingwei Dongxing Blowing-Carding Machinery Company Limited	5th September 2001	50,000,000	83.874	73.874	Manufacturing and selling of blowing-carding machinery and related components
Beijing Ximen Information Technology Company Limited*	7th June 2001	6,600,000	63.08	—	Consulting services
Jinan Tianjin Hongda Textile Machinery Company Limited*	13th December 2001	500,000	94	—	Research of electronics and general machinery technology and production, consultation and services, processing and sale of textile industry equipment, switch control equipment, agriculture equipment, general equipment, component and parts
Wuxi Jingwei Textile Scientific Research Company Limited*	14th May 2003	49,530,000	55	55	Manufacturing and selling of textile products; research and development of technology related to textile machinery and equipments.
Shanxi Jingwei Heli Machinery Manufacturing Company Limited* (Note c)	26th February 2003	100,000,000	30	30	Designing, manufacturing, installing, selling, importing and exporting of various electromechanical products, mining products, self-manufactured products and products used by the company its own for production and scientific research.
Beijing Hongda Fangji Enterprise's Management Consulting Company Limited*	24th September 2001	3,800,000	100	—	Providing management consultation and corporate image services, technology research, transfer, training and consultation services, computer design, organisation of cultural activities and exhibitions.
Kunshan Jingwei Textile Machinery Manufacturing Company (Note a)*	20th July 1991	3,208,200	100	75	Manufacturing and installation of textile machines and providing after sales services, sales of own made products.

## Notes to the Accounts

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 13 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Notes:

- (a) In January 2004, the Group acquired 100% equity interests in Kunshan Jingwei Textile Machinery Manufacturing Company ("Kunshan") from its ultimate holding company at a consideration of RMB 4,255,000. The company became a wholly-owned subsidiary of the Group since then. The company is principally engaged in the manufacturing and installation of textile machines and providing after sales services and sales of own made textile products. The acquired subsidiary contributed a profit after tax of approximately RMB 836,000 to the Group for the period since acquisition. The aggregate net asset value of the acquired subsidiary as at 31 December 2004 was approximately RMB4,718,000.
- (b) Except for Hong Kong Huaming Company Limited which was incorporated in Hong Kong with limited liabilities, all other subsidiaries are limited liability companies established and operating in the PRC.
- (c) The Group is able to control the composition of the board of directors of the company. Accordingly, the company is regarded as a subsidiary of the Group.
- \* These subsidiaries are not audited by PricewaterhouseCoopers. The aggregate net assets value of subsidiaries not audited by PricewaterhouseCoopers amounted to approximately 4.45% (2003: 5.16%) of the Group's total net assets.

### 14 INTERESTS IN ASSOCIATED COMPANIES

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Unlisted investments, at cost	106,597	81,900
Share of post-acquisition profits	576	1,417
Share of net assets	<u>107,173</u>	<u>83,317</u>
	<b>Company</b>	
	<b>2004</b>	<b>2003</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Unlisted investments, at cost	<u>102,000</u>	<u>78,000</u>

The following is a list of associated companies, all of which were established in the PRC, as at 31st December 2004.

<b>Name of company</b>	<b>Date of establishment</b>	<b>Registered capital RMB</b>	<b>Attributable equity interest %</b>	<b>Principal activities</b>
Qingdao Jinyi Pressing and Casting Company Limited	24th March 2000	3,850,000	27	Pressing and casting of non-ferrous metal. Design, manufacturing and sales of model.
Shenzhen Bolue Technology Investment Company Limited	11th April 2001	85,500,000	40.94	Investing, setting up and management of new enterprises and investment consultation
Hongda Research Company Limited	8th May 2001	50,000,000	40	Sale and development of environmental protective machine Textile machine, office equipment, electronics and provision of technical support
Qingdao Jinshan City Company Limited	14th March 2002	1,000,000	20	Provision of accommodation, restaurant, hair and beauty care services, wholesale and retailing of drinks, wine, cigarettes and food

**Notes to the Accounts**

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

**14 INTERESTS IN ASSOCIATED COMPANIES**

Name of company	Date of establishment	Registered capital RMB	Attributable equity interest %	Principal activities
Qingdao Qingfeng Technology Company Limited	9th May 2002	2,910,000	35.80	Development of carding and textile machinery, research on textile technique; design of module; development of electronic devices, computer software, etc
Qingdao Lanlifeng Laser Technology Company Limited	9th August 2002	3,200,000	31.25	Manufacturing and trading of laser machine and equipment, digital control machinery; maintenance and related repair services.
Shenyang Jingxing Textile Machinery Company Limited	5th June 2002	3,200,000	31.25	Manufacturing of textile machinery, spare parts and related components
Zhengzhou Hongda Non-Woven Fabric Company Limited	10th June 2003	40,000,000	42.5	Manufacturing and sales of various non-woven fabrics; consultation and training services of relevant techniques. Research and development of new products, techniques, equipments and materials.
China Textile Machinery and Technology Import and Export Corporation (Note a)	16th December 2004	120,000,000	25	Manufacturing and installation of textile machines and providing after sales services, sales of own made products.

Note:

- (a) In December 2004, the Group acquired 25% equity interests in China Textile Machinery and Technology Import and Export Corporation at a consideration of RMB 30,000,000. Since then, the company became an associate company of the Group. The company is principally engaged in the manufacture and installation of textile machines and provision of after sales services and sales of own made textile products.



**Notes to the Accounts**

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

**15 INVESTMENT IN SECURITIES****(a) Investment securities**

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted equity securities	262,799	362,800	260,287	360,287
Unlisted government debentures and others, at cost	9,694	10,391	—	—
<b>Total</b>	<b>272,493</b>	<b>373,191</b>	<b>260,287</b>	<b>360,287</b>

At 31st December 2004, the carrying amounts of interest in the following company exceeded 10% of total assets of the Company and the Group, respectively.

<b>Name</b>	<b>Place of establishment</b>	<b>Principal activities</b>	<b>Registered capital</b>	<b>Interest held</b>
Shanghai Jingwei Zhonglian Commercial Development Company Limited	People's Republic of China	Investment and investment consultancy	700,000,000	47.92%

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 on or before 31st December 2004 and 2005 respectively. The consideration of transfer is RMB335,420,000. 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 RMB100,000,000 as the consideration for share transfer and the Company's investment cost in Shanghai Zhonglian remained to be RMB237,933,000. As agreed by management of the Company and Beijing Hualian, transfer consideration of RMB70,000,000, 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.

**(b) Short-term investments**

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	RMB'000	RMB'000	RMB'000	RMB'000
Government debentures and Equity securities, at fair value				
– listed outside Hong Kong	—	105,470	—	2,839
Open investment fund, at fair value				
– unlisted	8,526	11,258	—	—
	<u>8,526</u>	<u>116,728</u>	<u>—</u>	<u>2,839</u>
<b>Market value of listed investments</b>	<b>—</b>	<b>105,470</b>	<b>—</b>	<b>2,839</b>

In 2003, listed investment of carrying amount of RMB100,000 have been pledged as security for short term bank loan.

**Notes to the Accounts**

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

**16 INVENTORIES**

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	267,307	358,703	104,581	120,799
Work in progress	356,203	350,247	183,391	204,393
Finished goods	707,224	919,130	401,964	541,502
	<u>1,330,734</u>	<u>1,628,080</u>	<u>689,936</u>	<u>866,694</u>
Less: Provision	(30,766)	(30,825)	(10,059)	(7,467)
	<u>1,299,968</u>	<u>1,597,255</u>	<u>679,877</u>	<u>859,227</u>

At 31st December 2004, the carrying amount of inventories of the Group and Company carried at net realisable value amounted to approximately RMB35,186,000 (2003: RMB13,362,000) and RMB27,417,000 (2003: RMB4,633,000) respectively.

**17 TRADE AND BILLS RECEIVABLES**

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bill receivables	883,913	861,171	316,927	317,211
Less: Provision	(154,092)	(149,217)	(36,563)	(37,481)
	<u>729,821</u>	<u>711,954</u>	<u>280,364</u>	<u>279,730</u>

At 31st December 2004, the ageing analysis of the gross trade and bills receivables were as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	RMB'000	RMB'000	RMB'000	RMB'000
Less than 1 year	647,747	642,411	243,895	262,379
1-2 years	81,172	68,259	36,422	15,083
2-3 years	39,117	29,871	10,691	10,570
Over 3 years	115,877	120,630	25,919	29,179
Total	<u>883,913</u>	<u>861,171</u>	<u>316,927</u>	<u>317,211</u>

The Group requires advanced deposits from customers. Settlement is normally due on presentation of sales invoices.

**18 AMOUNT DUE FROM/TO ULTIMATE HOLDING COMPANY, FELLOW SUBSIDIARIES AND JINGWEI GROUP COMPANY**

The amounts with the ultimate holding company and Jingwei Group Company are unsecured, interest free and have no fixed terms of repayment.

The amounts with fellow subsidiaries are unsecured, except for deposits of RMB 7,540,000 (2003: RMB15,122,000) placed with China Textile Machinery Group Finance Company ("CTMGFC") carries interest at a rate of 1.98% (2003: 1.98%) per annum and are repayable within one year, all other balance with fellow subsidiaries are interest free and have no fixed terms of repayment.

**19 BANK BALANCES AND CASH**

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

**Notes to the Accounts**

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

**20 TRADE AND BILLS PAYABLES**

At 31st December 2004, the ageing analysis of the trade and bills payables were as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	RMB'000	RMB'000	RMB'000	RMB'000
Less than 1 year	692,949	898,738	291,423	452,104
1-2 years	16,350	11,168	3,150	4,538
2-3 years	4,095	4,943	530	359
Over 3 years	16,229	27,358	1,454	9,874
Total	<u>729,623</u>	<u>942,207</u>	<u>296,557</u>	<u>466,875</u>

**21 TAXATION RECOVERABLE/PAYABLE**

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	RMB'000	RMB'000	RMB'000	RMB'000
Income tax payable	5,304	10,716	1,195	1,260
Other taxes payable/(recoverable)	28,357	3,139	20,366	(722)
Net taxation payable	<u>33,661</u>	<u>13,855</u>	<u>21,561</u>	<u>538</u>

Taxation recoverable/payable represent assets/liabilities of the Group and the Company in respect of PRC income tax, value added tax, sales tax and government levies.

**22 SHARE CAPITAL**

	<b>Registered, issued, and fully paid</b>	
	<b>No. of shares</b>	<b>RMB'000</b>
Registered, issued and fully paid		
Domestic shares of RMB1.00 each	220,000,000	220,000
H shares of RMB1.00 each	180,800,000	180,800
A shares of RMB1.00 each	203,000,000	203,000
At 31st December 2003 and 2004	<u>603,800,000</u>	<u>603,800</u>

The domestic shares, H shares and A shares rank pari passu in all respects.

**Notes to the Accounts**

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

**23 RESERVES****Group**

	Capital reserve RMB'000	Investment property revaluation reserve RMB'000	Statutory surplus reserve (note a) RMB'000	Statutory public welfare reserve (note b) RMB'000	Discretionary surplus reserve RMB'000	Exchange difference RMB'000	Retained profit RMB'000	Total RMB'000
At 1st January 2003	1,249,865	3,896	83,010	83,010	27,764	66	275,614	1,723,225
Transfer from profit and loss account (Note a and b)	—	—	29,083	29,083	—	—	(58,166)	—
Reserve transferred to profit and loss account upon disposal of investment properties								
– gross	—	(4,583)	—	—	—	—	—	(4,583)
– taxation	—	687	—	—	—	—	—	687
Exchange difference	—	—	—	—	—	(22)	—	(22)
Dividends	—	—	—	—	—	—	(36,228)	(36,228)
Profit for the year	—	—	—	—	—	—	176,171	176,171
At 31st December 2003	<u>1,249,865</u>	<u>—</u>	<u>112,093</u>	<u>112,093</u>	<u>27,764</u>	<u>44</u>	<u>357,391</u>	<u>1,859,250</u>
Representing:								
Reserves	1,249,865	—	112,093	112,093	27,764	44	313,917	1,815,776
2003 final dividends proposed	—	—	—	—	—	—	43,474	43,474
As at 31st December 2003	<u>1,249,865</u>	<u>—</u>	<u>112,093</u>	<u>112,093</u>	<u>27,764</u>	<u>44</u>	<u>357,391</u>	<u>1,859,250</u>
Company and subsidiaries	1,249,865	—	112,093	112,093	27,764	44	355,974	1,857,833
Associated companies	—	—	—	—	—	—	1,417	1,417
At 31st December 2003	<u>1,249,865</u>	<u>—</u>	<u>112,093</u>	<u>112,093</u>	<u>27,764</u>	<u>44</u>	<u>357,391</u>	<u>1,859,250</u>
At 1st January 2004		1,249,865	112,093	112,093	27,764	44	357,391	1,859,250
Transfer from profit and loss account (Note a and b)		—	25,745	25,745	—	—	(51,490)	—
Exchange difference		—	—	—	—	(4)	—	(4)
Dividends		—	—	—	—	—	(43,474)	(43,474)
Profit for the year		—	—	—	—	—	151,321	151,321
At 31st December 2004	<u>1,249,865</u>	<u>137,838</u>	<u>137,838</u>	<u>137,838</u>	<u>27,764</u>	<u>40</u>	<u>413,748</u>	<u>1,967,093</u>
Representing:								
Reserves	1,249,865	137,838	137,838	137,838	27,764	40	383,558	1,936,903
2004 final dividends proposed	—	—	—	—	—	—	30,190	30,190
As at 31st December 2004	<u>1,249,865</u>	<u>137,838</u>	<u>137,838</u>	<u>137,838</u>	<u>27,764</u>	<u>40</u>	<u>413,748</u>	<u>1,967,093</u>
Company and subsidiaries	1,249,865	137,838	137,838	137,838	27,764	40	413,172	1,966,517
Associated companies	—	—	—	—	—	—	576	576
At 31st December 2004	<u>1,249,865</u>	<u>137,838</u>	<u>137,838</u>	<u>137,838</u>	<u>27,764</u>	<u>40</u>	<u>413,748</u>	<u>1,967,093</u>

**Notes to the Accounts**

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

**23 RESERVES (CONTINUED)****Company**

	Capital reserve RMB'000	Investment property revaluation reserve RMB'000	Statutory surplus reserve (note a) RMB'000	Statutory public welfare reserve (note b) RMB'000	Discretionary surplus reserve RMB'000	Retained profit RMB'000	Total RMB'000
At 1st January 2003	1,239,298	3,896	59,905	59,905	27,764	149,360	1,540,128
Transfer from profit and loss account (Note a and b)	–	–	16,153	16,153	–	(32,306)	–
Deficit on revaluation of investment property	–	–	–	–	–	–	–
– gross	–	(4,583)	–	–	–	–	(4,583)
– taxation	–	687	–	–	–	–	687
Dividends	–	–	–	–	–	(36,228)	(36,228)
Profit for the year	–	–	–	–	–	124,373	124,373
At 31st December 2003	<u>1,239,298</u>	<u>–</u>	<u>76,058</u>	<u>76,058</u>	<u>27,764</u>	<u>205,199</u>	<u>1,624,377</u>
Representing:							
Reserves	1,239,298	–	76,058	76,058	27,764	161,725	1,580,903
2003 final dividend proposed	–	–	–	–	–	43,474	43,474
As at 31st December 2003	<u>1,239,298</u>	<u>–</u>	<u>76,058</u>	<u>76,058</u>	<u>27,764</u>	<u>205,199</u>	<u>1,624,377</u>
At 1st January 2004	1,239,298	–	76,058	76,058	27,764	205,199	1,624,377
Transfer from profit and loss account (Note a and b)	–	–	15,238	15,238	–	(30,476)	–
Dividends	–	–	–	–	–	(43,474)	(43,474)
Profit for the year	–	–	–	–	–	65,492	65,492
At 31st December 2004	<u>1,239,298</u>	<u>–</u>	<u>91,296</u>	<u>91,296</u>	<u>27,764</u>	<u>196,741</u>	<u>1,646,395</u>
Representing:							
Reserves	1,239,298	–	91,296	91,296	27,764	166,551	1,616,205
2004 final dividend proposed	–	–	–	–	–	30,190	30,190
As at 31st December 2004	<u>1,239,298</u>	<u>–</u>	<u>91,296</u>	<u>91,296</u>	<u>27,764</u>	<u>196,741</u>	<u>1,646,395</u>

**Notes:**

- (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 RMB25,745,000 to the Statutory Surplus Reserve Fund in 2004 (2003: RMB29,084,000).
- (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 RMB25,745,000 to the Statutory Public Welfare Reserve in 2004 (2003: RMB29,084,000).
- (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 RMB100,000,000 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.

**Notes to the Accounts**

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

**24 LONG-TERM BANK LOANS**

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	RMB'000	RMB'000	RMB'000	RMB'000
Unsecured bank loans wholly repayable within five years	52,800	85,800	20,000	43,000
Current portion of long-term bank loans	(12,800)	(33,000)	–	(23,000)
	<u>40,000</u>	<u>52,800</u>	<u>20,000</u>	<u>20,000</u>

At 31st December 2004, bank loans were repayable as follow:

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	12,800	33,000	–	23,000
In the second year	20,000	12,800	–	–
In the third to fifth year	20,000	40,000	20,000	20,000
	<u>52,800</u>	<u>85,800</u>	<u>20,000</u>	<u>43,000</u>

**25 DEFERRED TAXATION**

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 15-33% (2003: 15-33%).

The movement on the net deferred tax assets are as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January	20,027	9,229	10,977	4,020
Deferred taxation credited to profit and loss account (Note 6)	3,057	10,111	1,795	6,270
Taxation credited to equity	–	687	–	687
At 31st December	<u>23,084</u>	<u>20,027</u>	<u>12,772</u>	<u>10,977</u>

**Notes to the Accounts**

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

**25 DEFERRED INCOME TAXATION (CONTINUED)**

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year are as follows:

**Group**

<b>Deferred tax asset</b>	<b>Provisions</b>		<b>Impairment of assets</b>		<b>Total</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January	9,002	4,612	11,795	6,021	20,797	10,633
(Charged)/credited to profit and loss account	3,534	4,390	(28)	5,774	3,506	10,164
At 31st December	<u>12,536</u>	<u>9,002</u>	<u>11,767</u>	<u>11,795</u>	<u>24,303</u>	<u>20,797</u>
<b>Deferred tax liabilities</b>	<b>Accumulated tax depreciation</b>		<b>Others</b>		<b>Total</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January	—	—	(770)	(1,404)	(770)	(1,404)
(Charged)/credited to profit and loss account	(1,201)	—	752	(53)	(449)	(53)
Credited to equity account	—	—	—	687	—	687
At 31st December	<u>(1,201)</u>	<u>—</u>	<u>(18)</u>	<u>(770)</u>	<u>(1,219)</u>	<u>(770)</u>

**Company**

<b>Deferred tax asset</b>	<b>Provisions</b>		<b>Impairment of assets</b>		<b>Total</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January	726	612	10,586	4,812	11,312	5,424
(Charged)/credited to profit and loss account	1,489	114	(29)	5,774	1,460	5,888
At 31st December	<u>2,215</u>	<u>726</u>	<u>10,557</u>	<u>10,586</u>	<u>12,772</u>	<u>11,312</u>
<b>Deferred tax liabilities</b>	<b>Revaluation of investment property</b>		<b>Others</b>		<b>Total</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January	—	(687)	(335)	(717)	(335)	(1,404)
Credited to profit and loss account	—	—	335	382	335	382
Credited to equity account	—	687	—	—	—	687
At 31st December	<u>—</u>	<u>—</u>	<u>—</u>	<u>(335)</u>	<u>—</u>	<u>(335)</u>

**Notes to the Accounts**

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

**25 DEFERRED TAXATION (CONTINUED)**

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets	24,303	20,754	12,772	11,312
Deferred tax liabilities	(1,219)	(727)	–	(335)
	<u>23,084</u>	<u>20,027</u>	<u>12,772</u>	<u>10,977</u>

The amounts shown in the balance sheet include the following:

Deferred tax assets to be recovered after more than 12 months	<u>24,303</u>	<u>20,754</u>	<u>12,772</u>	<u>11,312</u>
Deferred tax liabilities to be settled after more than 12 months	<u>(1,219)</u>	<u>(727)</u>	<u>–</u>	<u>(335)</u>

**26 COMMITMENTS****(a) Capital commitment**

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	RMB'000	RMB'000	RMB'000	RMB'000
Authorised but not contracted for construction and equipment	14,227	25,536	14,227	14,516
Contracted but not provided for Construction and equipment	<u>11,364</u>	<u>13,502</u>	<u>11,364</u>	<u>13,502</u>
	<u>25,591</u>	<u>39,038</u>	<u>25,591</u>	<u>28,018</u>

**(b) Lease commitments**

At 31st December 2004, the Group and the Company had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	RMB'000	RMB'000	RMB'000	RMB'000
Land and buildings				
Not later than one year	15,804	5,082	2,466	–
Later than one year and not later than five years	35,698	12,439	2,466	–
Later than five years	<u>1,063</u>	<u>3,437</u>	<u>–</u>	<u>–</u>
	<u>52,565</u>	<u>20,958</u>	<u>4,932</u>	<u>–</u>



**Notes to the Accounts**

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

**27 CONTINGENT LIABILITIES**

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	RMB'000	RMB'000
Guarantees for bank loans of third party	240,000	240,000
Guarantees for bank loans of related parties	—	63,000
	<u>240,000</u>	<u>303,000</u>
	<b>Company</b>	
	<b>2004</b>	<b>2003</b>
	RMB'000	RMB'000
Guarantees for bank loans and overdraft of subsidiaries	<u>82,800</u>	<u>82,800</u>

Management anticipates that no material liabilities will arise from the above bank guarantees.

**28 RELATED PARTY TRANSACTIONS**

Except as disclosed elsewhere in the accounts, the following is a summary of significant related party transactions, which in the opinion of the directors, were entered into by the Group in the normal course of business.

	<b>Notes</b>	<b>2004</b>	<b>2003</b>
		RMB'000	RMB'000
<b>Transactions with China National Textile Machinery (Group) Limited ("CTMC")</b>			
Sale of finished goods	(i)	—	7,462
Purchase of raw materials and components	(i)	—	373
Acquisition of subsidiaries	(ii)	—	2,000
Disposal of a subsidiary	note 15(a)	24,867	—
Purchase of unlisted equity securities	note 15(a)	<u>24,867</u>	<u>—</u>
<b>Transactions with a fellow subsidiary Jingwei Machinery (Group) Company Limited ("Jingwei Group Company")</b>			
Sale of finished goods	(i)	6,463	9,175
Sale of raw materials and components	(i)	31,738	1,611
Fees received for the provision of supporting services	(i)	4,839	1,304
Purchase of tools	(i)	5,654	12,414
Purchase of raw materials and components	(i)	4,400	10,003
Fees paid for processing services	(i)	17,989	9,132
Fees paid for transportation services	(i)	4,161	2,478
Fees paid for repairs and maintenance services	(i)	15,680	17,552
Fees paid for other supporting services	(i)	9,459	11,602
Rental expense	(i)	505	450
Bank loan guarantee in favour of the Company	(iii)	214,000	301,000
Acquisition of subsidiaries	(iv)/(ii)	<u>4,255</u>	<u>37,935</u>

**Notes to the Accounts**

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

**28 RELATED PARTY TRANSACTIONS (CONTINUED)**

	Notes	2004 RMB'000	2003 RMB'000
<b>Transactions with associated companies of Jingwei Group Company</b>			
Purchase of raw materials and components	(i)	14,031	—
Purchase of package materials	(i)	10,098	21,450
Sales of raw material and spare parts	(i)	3,932	4
Sales of finished goods	(i)	—	2
<b>Transactions with other fellow subsidiaries</b>			
Sale of finished goods	(i)	205,935	21,299
Sale of raw materials and spare parts	(i)	242,418	384,040
Fees received for processing services	(i)	225	177
Fees received for the provision of supporting services	(i)	2,254	898
Rental income	(i)	6,619	1,029
Purchase of tools	(i)	320	2,003
Purchase of casts	(i)	103,604	165,289
Purchase of package materials	(i)	15,440	7,361
Purchase of energy	(i)	13,594	21,971
Purchase of raw material and spare parts	(i)	95,324	227,709
Purchase of finished goods	(i)	326,414	155,445
Fees paid for processing service	(i)	75,907	88,502
Fees paid for transportation	(i)	4,265	9,086
Fees paid for repairs and maintenance services	(i)	5,323	2,259
Fees paid for other supporting services	(i)	8,829	7,186
Rental expenses	(i)	11,225	28,265
Estate administration expenses	(i)	1,426	2,617
Bank loan guarantee in favour of the Group	(iii)	—	20,000
Interest expense	(i)	—	1,147

Note:

- (i) The transactions carried out in 2004 and 2003 were conducted in accordance with the composite service agreement dated 5th February 2002.
- (ii) These transactions have been carried out in accordance with the agreement of the acquisition of 28% equity interest of Shanxi Jingwei Heli Machinery Manufacturing Company from Jingwei Group dated on 26th March 2003, and the agreement of the acquisition of 52.63% equity interest of Beijing Hongda Fangji Enterprise's Management Consulting Company Limited from the ultimate holding company dated 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.
- (iv) The transactions have been carried out in accordance with the agreement of the acquisition of 75% equity interest of Kunshan Jingwei Machinery Manufacturing Company from the Kunshan Branch of Jingwei Textile Machinery Plant dated on 28th September 2003, and the agreement with Hong Kong Jingwei Machinery Plant dated 28 September 2003 of the acquisition of the remaining 25% equity interest respectively.

**29 SUBSEQUENT EVENT**

On 25th March 2005, Beijing Hualian Department Store Company Limited ("Hualian") applied for bank loan of RMB200,000,000 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.

**Notes to the Accounts**

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

**30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT****(a) Reconciliation of operating profit to net cash inflow from operating activities**

	<b>2004</b> RMB'000	<b>2003</b> RMB'000
Operating profit	190,589	221,438
Depreciation	102,635	93,873
(Gain)/loss on disposal of fixed assets	(124)	6,556
Amortisation of intangible assets	1,488	1,992
Realised and unrealised gain on short-term investments	(204)	(7,366)
Investment income	(29,261)	(7,573)
Provision for Impairment loss of fixed assets	—	110
Operating profit before working capital changes	265,123	309,030
Decrease/(increase) in inventories	300,451	(151,725)
Decrease/(increase) in trade and bills receivables, deposits, other receivables and prepayments	42,772	(87,860)
Decrease in amount due from ultimate holding company	19,101	31,801
Decrease/(increase) in amounts due from fellow subsidiaries	71,278	(103,060)
(Decrease)/increase in trade and bills payables, advances from customers, and other payables and accruals	(593,495)	208,436
(Decrease)/increase in amount due to Jingwei Group Company	(77,506)	78,632
(Decrease)/increase in amounts due to fellow subsidiaries	(14,905)	15,217
Increase/(decrease) in taxation payable	20,011	(9,303)
Net cash inflow from operating activities	<u>32,830</u>	<u>291,168</u>

**(b) Analysis of changes in financing during the year**

	<b>Minority interests</b>		<b>Bank loans</b>	
	<b>2004</b> RMB'000	<b>2003</b> RMB'000	<b>2004</b> RMB'000	<b>2003</b> RMB'000
Balance as at 1st January	142,826	50,531	411,350	387,595
Purchase of subsidiaries (Note 30 (d))	—	88,218	—	28,750
Acquisition of minority interest	(2,811)	—	—	—
Capital contribution from minority shareholders	—	23,419	—	8,140
Transfer of a subsidiary to unlisted equity securities	—	(20,154)	—	—
Minority interests' share of profit	9,023	3,561	—	—
Dividend to minority interest	(2,121)	(2,749)	—	—
Net cash inflow/(outflow) from financing	—	—	210,202	(13,135)
Balance as at 31st December	<u>146,917</u>	<u>142,826</u>	<u>621,552</u>	<u>411,350</u>

**Notes to the Accounts**

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

**30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)****(c) Analysis of the balances of cash and cash equivalents**

	<b>2004</b> RMB'000	<b>2003</b> RMB'000
Bank balances and cash	995,649	843,206
Bank balances and cash – pledged	(1,814)	–
Time deposits with maturity more than three months	(10,816)	–
	<u>983,019</u>	<u>843,206</u>

**(d) Acquisition of subsidiaries**

	<b>2004</b> RMB'000	<b>2003</b> RMB'000
Net assets acquired		
Fixed assets (note 12)	2,285	76,789
Investment securities	–	2,661
Inventories	3,164	128,223
Trade and other receivables	5,581	100,153
Bank balances and cash	5,532	16,659
Trade and other payables	(12,512)	(160,882)
Other taxes recoverable/(payable)	205	(4,967)
Bank loans	–	(28,750)
Minority shareholders' interest	–	(88,218)
Others	–	(1,733)
Total purchase consideration satisfied by cash	<u>4,255</u>	<u>39,935</u>

Analysis of the net cash inflow/(outflow) in respect of the purchase of subsidiaries:

	<b>2004</b> RMB'000	<b>2003</b> RMB'000
Cash consideration	(4,255)	(39,935)
Bank balances and cash in hand acquired	<u>5,532</u>	<u>16,659</u>
Net cash outflow in respect of the purchase of subsidiaries	<u>1,277</u>	<u>(23,276)</u>

The subsidiary acquired during the year contributed outflow of RMB377,000 (2003: inflow of RMB30,150,000) to the Group's net operating cash flows and utilized RMB256,000 (2003: RMB5,697,000) and RMB582,000 (2003: RMB21,890,000) for investing and financing activities respectively.

**(e) Disposal of a subsidiary**

	<b>2003</b> RMB'000
Fixed assets	7,280
Intangible assets	10
Inventories	7,044
Trade and other receivables	31,147
Trade and other payables	(2,000)
Other taxes payable	1,021
Minority interest	(20,154)
Investment in subsidiaries	<u>(27,479)</u>
Decrease in bank balances and cash	<u>(3,131)</u>

**31 ULTIMATE HOLDING COMPANY**

The directors regard China National Textile Machinery (Group) Company Limited, a stated-owned enterprise established in the PRC, as being the Company's ultimate holding company.

**32 APPROVAL OF ACCOUNTS**

The accounts were approved by the Board of Directors on 29th March 2005.