

Chapter VII Directors' Report

Section 1 Operations of the Company during the reporting period

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

Despite challenges such as intensified international trade disputes, reform of RMB exchange regime and surging oil price in international marketplace, in 2005, the textile industry in the PRC achieved a rapid growth in terms of production, sales, exports, profitability and investment through consistent scientific point of view and a sustainable growth model.

In 2005, under the accurate decision of the Board and the strong protection of the Supervisory Committee, the Company continued to accelerate the progress on technology and research development and commercialisation of results by adhering closely to the business mission of 'satisfying customers' demand and securing corporate growth', notwithstanding the operating environment characterised by declining market demand with escalating competition. More efforts were devoted to expand domestic and international markets. Integration of resources was pursued to a further extent in order to widen the scope of restructuring for internal management. Business process flow was further rationalised and the competitiveness of the Company on a consolidated basis was improved. Steady growth in the economic operation of the Company was realized with better economic efficiency being preserved by the Company. The Company was awarded "An Outstanding Enterprise of the China Hengtian Group", "Leading Enterprise in the Industrial Sector of PRC in 2005" by China Industrial Bulletin Association and the "Advanced After-Sales Services Unit of National Famous Brands" in the second annual election by the China General Chamber of Commerce, China Corporate Culture Promotion Association and the Selection Committee of the Advanced After-Sales Services Unit of National Famous Brands.

As stated in the financial report prepared in accordance with the HKFRS for the year ended 31st December 2005, turnover and profit attributable to shareholders of the Group amounted to RMB4,241,912,000 and RMB153,028,000 respectively, representing an increase of 17.47% and 1.13% from last year respectively. As at 31st December 2005, the Group's carrying amount of bank balances was RMB807,179,000, short-term bank loans was RMB709,739,000, of which borrowings in US dollars amounted to US\$25,000,000 (equivalent to RMB201,755,000), and the balance were borrowings in Renminbi. The interest rates of the loans were fixed at the range of 3.46% to 6.14% per annum. The Group had no long-term borrowings. The gearing ratio (long-term borrowing divided by net assets) was 0.

As at 31st December 2005, bank and cash balances of RMB4,656,000 (2004: RMB1,814,000) were pledged as collateral for the Group's short-term bank loan.

As at 31st December 2005, no fixed assets of the Group (2004: Nil) were pledged as security for the Group's bank loans.

As at 31st December 2005, none of the short-term investments of the Group (2004: Nil) have been pledged as security for the Group's bank loans.

As stated in the financial report prepared in accordance with the PRC GAAP for the year ended 31st December 2005, revenue from main operations of the Group amounted to RMB4,241,912,000, representing an increase of 17.47% from last year. Profit from the main operations was RMB689,339,000, representing an increase of 15.45% from last year. Net profit was RMB136,242,000, representing a decrease of 10.59%. The decrease in profit was due to intense competition among the textile machinery sector during the year, resulting in lower gross profit margin of the Company's products in general. For the purpose of prudence and financial stability, the Company made sufficient provisions for impairment during the year, and at the same time increased investment in research and development so as to raise the technological contents of its products, therefore lower profit level was achieved as compared with the previous year.

Among which:

Revenue from main operations of the Company was RMB2,985,037,000, representing an increase of 31.71% over the previous year while its profit from main operations was RMB246,139,000, representing an increase of 8.64% over the previous year.



Section 1 Operations of the Company during the reporting period (continued)

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

Subsidiaries: Revenue from main operations of Qingdao Hongda Textile Machinery Company Limited was RMB922,084,000 while profit from its main operations was RMB98,329,000.

Revenue from main operations of Shenyang Hongda Textile Machinery Company Limited was RMB186,550,000 while profit from its main operations was RMB37,635,000.

Revenue from main operations of Tianjin Hongda Textile Machinery Company Limited was RMB357,304,000 while profit from its main operations was RMB69,211,000.

Revenue from main operations of Changde Textile Machinery Company Limited was RMB426,696,000 while profit from its main operations was RMB104,527,000.

Revenue from main operations of Beijing Jingwei Textile New Technology Company Limited was RMB38,522,000 while profit from its main operations was RMB11,732,000.

Revenue from main operations of Shanghai Jingwei Dongxing Blowing Carding Machinery Company Limited was RMB80,013,000 while profit from its main operations was RMB17,954,000.

Revenue from main operations of Wuxi Jingwei Textiles Technology Experiment Company Limited was RMB90,292,000 while profit from its main operations was RMB12,292,000.

Revenue from main operations of Shanxi Jingwei Heli Machinery Manufacture Company was RMB452,657,000 while profit from main operations was RMB51,061,000.

The main operating activities of the Group in 2005 were as follows:

- (1) New achievements in technology research and development, and good progress has been made on technology cooperation. In 2005, the technology research and development work of the Company focused mainly on the development of new technology for international textile machinery and customers' demand. New products with international advanced standard were researched and developed. New products such as new carding machine, new winding machine, new roving machine, high end combing machine, tight spinning machine, vertical twisting machine, KS series horizontal weaving machine through numerous tests, upgrades and improvements have been placed in the market with recognitions from customers in the market. Thanks to the enhancement of sophisticated products such as Premium Luolai, high-speed spindle, airflow weaver, efficiency has been increased significantly by technology innovation. While the research in cotton weaving technique in sets was strengthened, the subsidiaries and branches of the Company were developing their proprietary technologies from the existing range of products. Parallel with the proprietary development by the entities, the Company also expanded its technology cooperation relationship within and outside the PRC. Technology cooperation and development arrangements were entered into with reputable enterprises in US, Germany, Switzerland, Italy, which facilitated new product development in a faster pace and technology upgrade to a more significant extent.

Section 1 Operations of the Company during the reporting period (continued)

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

Products planning, production techniques, technological modification and product quality management were enhanced. Beijing Jingwei Textiles New Technology Company Limited together with the Company's headquarter conducted certification for ISO 9001, and successfully passed the certification by Quality Assurance Centre of China Association for Quality. Remarkable measures were adopted by the subsidiaries and branches in technology enhancement, technology equipment upgrade and quality improvement. Enormous amount of personnel resources and finance were invested to enhance the level of production technology of the enterprise by building up a sophisticated production line, which formed the core manufacturing capability of the entities. Continuous improvements in product quality were achieved. The competitiveness of the Company in the market was enhanced and the reputation of the Company's brand name was reinforced.

- (2) Progress on resources integration proceeded steadily. The effects of integrated and rationalized operation was gradually reflected. Through integrating international trading operations and market promotion, strategic measures to expand in the international market were gradually developed. A pilot site of overseas technology service centre was established in Pakistan, which made exports of cotton weaving equipment in sets possible. This procured the Company to achieve the sales strategies of single item bundling in a set and a set bundling with single item in the international market. Through the consolidation of associated products, and combined products, marketing and sales were centralized and fundamentally eliminated notorious competition within the Group. Downward moving trend in pricing was controlled. Market share was consolidated. Product pricing was stabilised with signs of increase. Returned rate and quality of transactions was apparently improved, which realised the consolidated profit brought by the integration, of resources to significant extent through the integration of supply chain. Purchase costs were considerably reduced and brought significant economic benefit to the Company. In 2005, the Company expanded scope of centralized purchasing and further reduced the costs of purchasing at an amount of approximately RMB70,000,000. Through the establishment in evaluation certification system with suppliers within and outside the PRC, and the strategic cooperation relationship with the suppliers, as well as improvement to the purchasing information platform, effective implementation of cost reduction was pursued for effectively, integration with respect to "hotel model" sales network will be continuously pursued through the integration of domestic sales network in Shangdong, Jiangsu, Zhejiang Fujian. Centralised office, uniform image as well as resources and information sharing will be achieved. At the same time, the usual operation of the CRM system will be promoted and the application and maintenance of the system will be strengthened. This will in turn establish a solid foundation for a marketing and sales system with accurate information and prompt response.
- (3) Various management activities were effectively commenced. Integrated management level was enhanced continuously. In 2005, with respect to financial management, bank borrowings were reduced to RMB300 million and decreased by 43% as compared with the same period of the previous year. This reduced the interest expenses to a considerable extent, and saved funding costs. Financial management in the Group on a centralized basis was actively pursued for and strengthened the process management of financial final accounting. Accounting information sharing was achieved. Centralised accounts management was made through the application of computer network. Remarkable progress was made on the application of centralised accounting. At the same time, budgetary management was strengthened. Flexible budgeting was further improved and realized. Investment in fixed assets was under tight control and management and control over capital expenditures was strengthened. Capital turnover was improved and further pursued to reduce appropriation of capital. Remarkable results were achieved. Research and risk control in the economic operation of customers was strengthened. More control over accounts receivables was exercised through marketing and sales. In terms of audit, the supervisory function in audit was strengthened, so as to facilitate the standardized operation of the subsidiaries and branches. In terms of information management, construction of information infrastructure was accelerated. Through the construction of the Company's information infrastructure network, the application of enterprise resource planning system in entities was facilitated. This made the production activities in the entities becoming more rationalized and balanced. The production cycle reduced on average by 40%. Enterprise inventory was effectively reduced. Capital turnover was speeded up. Labour productivity was enhanced. Bottlenecks in the management of production operation processes were resolved. Enterprise resources allocation was optimized. Market response rate was further enhanced. Solid foundation was laid to enhance production capabilities and fulfill customer requirements.

**Section 1 Operations of the Company during the reporting period (continued)****2. Analysis of main operations by product and region****(1) Analysis of main operations by product**

The Company is a large-scale textile machinery manufacturer in the PRC. Its principal businesses are the development, production and sale of textile machinery and the related parts and accessories.

(Unit: RMB'000)

Item	Revenue from main operations	Cost of main operations	Gross profit margin (%)	Increase or decrease of revenue from main operations compared with last year (%)	Increase or decrease of cost of main operations compared with last year (%)	Increase or decrease of gross profit margin compared with last year (%)
Natural fibre textile machinery	3,364,686	2,847,881	15.36	17.22	16.68	2.61
Of which being connected transactions	251,013	213,246	15.05	22,522.92	22,285.22	6.14
Chemical fibre textile machinery	93,202	76,081	18.37	28.72	40.35	(26.90)
Weaving machinery	402,632	342,338	14.97	74.37	76.41	(6.20)
Accessories and special parts for weaving machinery	268,930	185,468	31.03	0.70	3.00	(4.76)
Others	112,462	88,588	21.23	(33.95)	(32.60)	(6.97)
Total	4,241,912	3,540,356	16.54	17.47	17.99	(2.19)

During the reporting period, sales of natural fibre textile machinery accounted for 79.32% of the revenue from main operation, which was increased by 17.22% as compared with the same period last year, and reached RMB3,364,686,000. Of which, combing machine, winding machine and spindle machine accounted for a larger proportion. As there were increase from horizontal weaving machine and jet weaving machine, sales of weaving machine was increased by 74.37% as compared with the same period last year. The fall in gross profit margin of chemical fibre twisting machine had greater effect on the chemical fibre textile machinery.

During the reporting period, an associate acted as the agent of the Company's export sales. As the channel of sales was different from that in the last year, there was a significant increase in the amount of connected transactions. However, trading price was still set according to the market rules.

(2) Principal activities of the Group by region:

(Unit: RMB'000)

Region	2005 Revenue from main operation	2004 Revenue from main operation	Change %
PRC	3,918,074	3,234,668	21.13
Asia	275,251	331,992	(17.09)
Africa	34,238	34,073	0.48
Others	14,349	10,310	39.18
Total	4,241,912	3,611,043	17.47

(3) Suppliers and customers

For the year ended 31st December 2005, the aggregate purchase by the Group from the 5 largest suppliers amounted to RMB757,888,000, representing 22.95% of the total purchases for the year.

For the year ended 31st December 2005, the aggregate sales by the Group to the 5 largest customers amounted to RMB1,014,892,000, representing 23.93% of the total sales for the year.

None of the Directors, supervisors, their associates nor any shareholders (which to the knowledge of Directors own 5% or more interests of the Company's total share capital) had any interests in the five largest suppliers or customers of the Group referred to above.

Section 1 Operation of the Company during the reporting period (continued)**3. Change in the assets composition and charges during the reporting period**

Items	2005 (RMB'000)	2004 (RMB'000)	Change %	Reasons for change
Cash at bank and on hand	807,179	1,005,463	(20)	Repayment of borrowings and increase in investment of fixed assets
Short term investments	–	8,526	(100)	Investment in last year being collected
Notes receivable	567,214	400,434	42	More customers adopted the settlement by way of notes from banks during the year as compared to last year
Accounts receivable	375,452	445,202	(16)	Control was tightened over the delivery of goods without repayment and made provision for bad debt according to ageing movement
Other receivable	230,190	129,551	78	The increase was mainly attributable to the consideration receivable from the transfer in equity interests of Shanghai Jingwei Zhonglian Company
Advances to suppliers	300,793	260,821	15	Mainly due to increased prepayment for materials
Inventories	1,694,529	1,299,968	30	The increase was mainly due to the consideration for transfer of land and resettlement fees at Beijing Chenyutaihe Property Development Co., Ltd.
Long term equity investments	185,587	379,982	(51)	Equity investment in Shanghai Jingwei Zhonglian company was transferred
Fixed assets, net	1,049,767	978,573	7	Transfer from the portion of construction in progress completed
Construction in progress	48,073	56,494	(15)	Transferred to fixed asset at this period Anhui Huamao Jingwei Textiles Co., Ltd.
Short term loans	338,705	580,502	(42)	Repayment of borrowings due progress completed
Notes payable	342,397	252,277	36	Increase in the use of bank notes to the settlement of accounts payable
Accounts payable	954,178	539,330	77	Increase in the land development costs not yet paid by Beijing Chenyutaihe Property Development Co., Ltd.
Advances from customers	542,117	632,150	(14)	Advances from customers in the previous years being settled during the period by delivery pursuant to the contract
Taxes payable	52,536	33,661	56	More value-added taxes paid in arrears at the end of the year
Other payables	311,914	279,440	12	Increase in the amount due to connected parties
Accrued expenses	19,355	14,117	37	Accrued interests of bank borrowing and intermediaries fees
Current portion of long term loans	20,000	12,800	56	Long term loans within one year during the period more than last year
Long term loans	–	40,000	(100)	Repayment of loans with certain amounts reclassified to current portion
Surplus reserve	445,913	303,440	47	Discretionary surplus reserve was withdrawn during the year
Profit from main operations	689,338	597,113	15	The increase was attributable to the increase in income from main operations
Profit from other operations	34,915	60,585	(42)	The decrease was mainly attributable to the decrease in revenue from other operations
Administration expenses	457,623	391,826	(17)	More provisions were made to the investment in research and development and provision for impairment
Financial expenses	1,811	20,172	(91)	The decrease was mainly attributable to the repayment of loans which decreased the interests expenses and the foreign exchange Income arising from the depreciation in US dollar
Investment Income	10,989	32,105	(66)	The decrease in gain after the transfer of equity interests in Shanghai Jingwei Zhonglian Company
Income taxes	27,391	13,462	103	More impairment provision is made in this year, and the investment income that should be adjusted for taxable profit is less than last year. Certain subsidiaries no longer enjoy the taxation benefit of the deductible purchase of state-production equipment. Those mentioned above led to a higher taxable profit this year, thus the income tax increased.

**Section 1 Operation of the Company during the reporting period (continued)****4. Composition of the Company's cashflow**

Net cash inflows from the Group's operating activities in 2005 were RMB286,723,000, which were increased by RMB267,996,000 from RMB18,727,000 in 2004. This was mainly attributable to the increase in sales for the period and the increase in proportion of accounts receivable being collected during the period. Meanwhile, aging amounts due were further settled, inputs to production remained reasonable and level of inventory was reduced. Net cash outflows from investing activities were RMB170,897,000, which were increased by RMB152,426,000 from RMB18,471,000 in 2004. This was mainly attributable to the increase in refund from investment in last year and gain in investment exceeded last year for over RMB100,000,000. Net cash outflows from financing activities were RMB316,819,000, which were increased against the net inflows in 2004 of RMB145,068,000 by RMB461,887,000. This was mainly attributable to the reduction in debts and obligations through the repayment of bank borrowings.

Items	2005 (RMB '000)	2004 (RMB '000)
Cash flows from operating activities	286,732	18,727
Cash flows from investing activities	(170,896)	(18,471)
Cash flows from financing activities	(316,819)	145,068
Effect of foreign exchange rate to cash	(135)	(3)
Net increase in cash and cash equivalents	(201,127)	145,321

5. Important information relating to the Company's operations

- (1) Current facility utilization of the Group is generally normal. Expansion of production capacity of the Company is primarily achieved through social collaboration and functional divisions.
- (2) For the year ended 31st December 2005, new contracts signed by the Company for the forthcoming year amounted to RMB1,880,000,000.
- (3) The Group prioritizes corporate competitiveness through product development, with attractive incentive schemes for technical staff, and turnover of technical staff is relatively low.

6. Operations and Results analysis of the Company's major subsidiaries and associates

As at 31st December 2005, the Group's major subsidiaries were as follows:

(Unit: RMB'000)

Name of enterprise	Main operations	Registered capital	Equity interest held by the Group (%)	Net assets	Net profit
Qingdao Hongda Textile Machinery Company Limited	Manufacture, sales, installation, repairing and leasing of special equipment for textile industry, textile machinery and related components	114,000	98	238,248	27,373
Shenyang Hongda Textile Machinery Company Limited	Technological development and manufacture of textile machinery and related components; electronic and electric machinery and equipment, providing technical consultation	71,000	98	116,575	14,745
Tianjin Hongda Textile Machinery Company Limited	Technological development consultation, sales of photocopiers, agriculture processing machinery and related components	78,500	98	140,699	22,341
Changde Textile Machinery Company Limited	Manufacture and sales of textile machinery and other machinery and parts and components, powder metallurgy	42,350	95	136,322	43,188
Beijing Jingwei Textile New Technology Company Limited	Technological development and sale of textile machinery and computer hardware and software, sale of special textile equipment, agricultural machinery, instruments and meters as well as automobile components	100,000	98.40	132,545	17,423
Shanghai Jingwei Dongxing Blowing-Carding Machinery Company Limited	Manufacture and sales of blowing-carding machinery and related components	50,000	83.87	77,984	11,368
Wuxi Jingwei Textiles Technology Experiment Co., Ltd.	Manufacture and sales of cotton yarn; research and development in textile machinery and equipment, devices and relevant technologies	49,530	55	53,907	2,347
Shanxi Jingwei Heli Machinery Manufacturing Co., Ltd.	Manufacture and sales of textiles machinery and equipment	100,000	30	131,423	4,804

7. Property, Plant and Equipment

Details of the movements in property, plant and equipment during the year are set out in note 7 to the accounts prepared in accordance with the HKFRS.

8. Retirement benefit scheme

Details of the retirement benefit scheme of the Group are set out in note 26 to the accounts prepared in accordance with the HKFRS.

9. Donations

Donations made by the Group during the year amounted to RMB341,000 (2004: RMB390,000).

Section 2 Prospects in the future development of the Company

1. Development trend of the textiles machinery industry and competition faced by the Company in the market

2006 marked the beginning of the Eleventh Five Year Plan. It is also the year critical to the accelerated structural reorganization of the textiles industry and promotion of industry improvement. According to the forecast, growth will sustain in the economy within and outside the PRC in 2006. The steady growth in the economy within and outside the PRC will further promote the demand for textiles and apparels. This will facilitate the development of the textiles industry in the PRC. At the same time, the execution of textiles agreement between China and US as well as China and Europe will create a relatively stable environment. Export will continue to grow. The macroeconomic policies of the State relating to increasing internal demand, job vacancies, improving social protection and rural area will be beneficial to the growth in consumption. In addition, the emerging economy of Central PRC, the restructuring of matured industrial bases in Northeast and the development of western PRC will initiate and bring development to the textiles industry in these regions. At the same time, during the “Eleventh Five Year” Period, efforts will be devoted to improve the machinery manufacturing industry in the PRC. Textiles machinery industry was categorized as one of such 16 industries. “Eleventh Five Year” period is also the critical period to consolidate the foundation of textiles industry from being a major textiles producing country to a leading textiles producing country. Therefore the textiles machinery industry assumed two missions in the “Eleventh Five Year” period. On the one hand, it has to fulfill the demands for advanced technology equipment by the textiles industry for the purpose of industry upgrade. On the other hand, it has to achieve growth in the industry through the promotion of the machinery industry. In order to fulfill both missions, the Company will place emphasis to develop advanced textiles equipment, accelerate the improvement in textiles industry through advance equipment and promote the upgrade of the textiles industry.

By capitalizing on the opportunities arising, the challenges subsisting will be adequately identified at the same time. First, conflicts in international trade became multi-faceted and occurred in further areas. Integrated capabilities will still be an important factor to develop the comparative advantage of the textiles industry in the PRC in the international market. International competition will become intensified. Second, raw materials such as cotton and chemical fibres as well as the restraints from environment also will limit the development of the industry. Third, the structural conflict remained in the industry for many years still affected the ongoing sound development of the textiles industry.

From the prevailing economic development outside and within PRC, the development of the textiles industry and the textiles machinery market, the Company is facing with opportunities in the upgrade of the textiles industry and additional demand for advanced textiles machineries, but also challenges arising from both the leading international textiles machinery enterprises and private enterprises.

2. Future development strategies of the Company

The Company is one of the largest and best textiles machinery enterprises in the PRC. The operating results of the Company in the industry is good. The standard of management is relatively high. The production chain is relatively intact. Sales channels are broad. There are many competitive advantages in the industry. The development strategies of the Company are “sophisticated core business capabilities”, “leading in the industry” and “powerful as an enterprise”. It is expected that Jingwei will become the top three global textiles machinery enterprise within three to five years.

3. New annual operation plan

The Company will focus on the operation direction of “increase in innovation” and “enhancing competitiveness” for the coming year. More efforts will be devoted to technology innovation. Endeavours will be given to core competitiveness. By leveraging on the edge in resources, the stable growth in the Company will be secured. The final operating results of the Company in 2006 will be growth from the basis of 2005 to an appropriate extent.

4. Capital requirement, capital application plans and capital sources required to achieve future development strategies of the Company

The fund for the usual course of production, operation and research of the Company is satisfied through internal resources and the remaining will be satisfied through bank borrowings. At the same time, the Company will actively seek new investment projects pursuant to the strategic development requirements, such as acquisition of external relevant resources or introduction of technologies. New economic growth centre will be formed. Amount of fund required will depend on the potential projects. Sources of funds will also be raised through potential projects. Sources of fund will include various financing channels such as internal funding, bank loans or capital market financing.



Section 2 Prospects in the future development of the Company (continued)

5. Inherent risks and mitigation strategies

The market in the PRC is currently characterized as a perfectly competitive market. Risk is mainly derived from two sources. The first is the factories established by leading overseas textiles machinery enterprises in the PRC. Middle to low end products as well as high-end products were introduced into the PRC. This had impacted and challenged the textiles machinery produced in the PRC. On the other hand, the emergence of private enterprises and joint stock enterprises in the industry added existing and potential competitors for the Company.

However, as there is change in direction of market demand in the PRC due to ongoing development of the textiles industry as well as industry upgrade, more overseas enterprises investing in the PRC, the possibilities of global international cooperation expanded. With the strength of the Company in the PRC, the edge is distinct and competitiveness is relatively stronger. The Company is prudent and will improve itself proactively through additional technology innovation, endeavours to enhance core competitiveness, adequate application of technologies from within and outside the PRC and purchasing. This will fully capitalize the edge of the Company in terms of market and management, which may mitigate risk. Efforts will be devoted to realize the strategic development missions and the Company and create more value for the shareholders.

Section 3 Investments of the Company

1. Use of proceeds

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

2. Use of funds not raised through the issue of shares during the period

The Group's investment during the reporting period was RMB52,741,000, representing a decrease of RMB2,842,000 or 5.11%, over the RMB55,583,000 of that of the prior year.

The major investments were as follows.

- (1) The Company and Hong Kong Huaming Co., Ltd. ("Hong Kong Huaming"), a wholly-owned subsidiary of the Company, through the contribution of RMB12,500,000 and RMB12,500,000 respectively, established Anhui Huamao Jingwei New Styles Textiles Co., Ltd. (安徽華茂經緯新型紡織有限公司) ("Anhui Huamao") jointly with Anhui Huamao Textiles Co., Ltd. (安徽華茂紡織有限公司). The registered capital of Anhui Huamao was RMB50,000,000 and the Company and Hong Kong Huaming accounted for 25% of the shareholding of Anhui Huamao respectively. Anhui Huamao is principally engaged in the production, processing and sales of yarn and textile products, the technological research and development of textile equipment and facilities, and the sales of cotton. During the reporting period, the establishment of Anhui Huamao was still pending.
- (2) Hong Kong Huaming entered into "Equity Transfer Agreement" with China Textile Machinery (Group) Limited in June 2005, and pursuant to which, Hong Kong Huaming acquired 25% of interest of Wuxi Hongda Texparts Co., Ltd. ("Wuxi Texparts") held by China Textile Machinery (Group) Limited at a consideration of RMB11,293,561.17 in December 2005. The consideration for the transaction was determined by 25% of the appraised net asset value of Wuxi Texparts of RMB45,174,244.67 as at 31 August 2004, representing a total of RMB11,293,561.17. The registration procedure in respect of capital contribution and shareholding transfer was completed. The transaction is a connected transaction and the details were set out in the Securities Times and in Wen Wei Po and The Standard in Hong Kong on 10 June 2005. During the period, the operating results of Wuxi Texparts was enjoyed by China Textile Machinery (Group) Limited.
- (3) In August 2005, the Company and Hong Kong Huaming established Tianjin Jingwei New Style Textile Machinery Co., Ltd. (天津經緯新型紡織機械有限公司) ("Tianjin Jingwei") through capital contribution of RMB12,000,000 and RMB4,000,000 respectively. The registered capital of Tianjin Jingwei was RMB16,000,000 and Tianjin Jingwei is held as to 75% and 25% by the Company and Hong Kong Huaming. Tianjin Jingwei is principally engaged in the research and development of textile machinery and related components and equipment, the manufacturing and processing of electronic and electric machinery, electronic equipment and common parts and economic technology consultation. As at the end of the reporting period, part of the capital investment had not yet been contributed by Hong Kong Huaming, and Tianjin Jingwei did not yet commence operation.
- (4) Shenyang Hongda Textile Machinery Company Limited ("Shenyang Hongda"), a subsidiary of the Company, and Hong Kong Huaming jointly established Shenyang Hongda Huaming Textiles Machinery Co., Ltd. (沈陽宏華明紡織機械有限公司) ("Shenyang Huaming") in July 2005 through the capital contribution of RMB30,000,000 and RMB10,000,000 respectively. The registered capital of Shenyang Huaming was RMB40,000,000 and Shenyang Huaming is held as to 75% and 25% by Shenyang Hongda and Hong Kong Huaming respectively. Shenyang Huaming is principally engaged in the technological development of textile machinery and related components, the manufacturing and processing of electronic and electric machinery, electronic equipment and common parts and economic technology consultation. As at the end of the reporting period, part of the capital investment had not yet been contributed by Shenyang Hongda and Hong Kong Huaming, and Shenyang Huaming did not yet commence operation.
- (5) In November 2005, the registered capital of Beijing Jingpeng Investment Management Co., Ltd., a subsidiary of the Company, was increased from RMB20 million to RMB100 million.
- (6) In November 2005, Beijing Jingpeng Investment Management Co., Ltd., a subsidiary of the Company, acquired 70% equity share of Beijing Chenyutaihe Property Development Co., Ltd from Hainan Daermei Industrial Co., Ltd at a consideration of RMB44 million.
- (7) In December 2005, Qingdao Hongda Textile Machinery Company Limited, a subsidiary of the Company invested RMB8,000,000 in Qingdao Textile Machinery Co., Ltd. (青島紡織機械股份有限公司) for 10% of shareholding. The project was completed and no revenue was recorded during the reporting period.

**Section 4 Routine work of the Board of Directors (continued)****1. The Board meeting and the details of resolutions during the reporting period (continued)**

Details are as follows (continued):

Meeting	Summary of resolutions	Date on which meeting was held	Announcement in which resolution was published	Date of announcement
Extraordinary Board meeting	To provide guarantee for the one-year term loan of RMB200 million offered to Beijing Hualian Commercial Building Joint Stock Company Limited by Beijing City Bank Joint Stock Company Limited	25th March 2005	Securities Times, Wen Wei Po and the Standard in Hong Kong	29th March 2005
The fifth meeting of the fourth Board	<ol style="list-style-type: none"> To consider and approve the Company's 2004 Annual Report and its summary; To consider and approve the Company's 2004 Profit Distribution Proposal for the submission to approval at 2004 Annual General Meeting; To consider and approve Mr. Zhang Qingxi's resignation from the office of Deputy General Manager of the Company; To consider and approve the proposal for the grant of authority to the Board to repurchase on the Stock Exchange of Hong Kong Limited, with the consent of the relevant PRC authorities, its H shares not exceeding 10% of the aggregate H shares in issue as at the date of passing such resolution at the general meeting of the Company and to make corresponding amendments to its Articles of Association and to submit the proposals to 2004 Annual General Meeting, General Meeting for holders of A Shares and General Meeting for holders of H Shares for approval; To consider and approve the proposal for the reappointment of PricewaterhouseCoopers (Hong Kong Certified Public Accountants) and PricewaterhouseCoopers Zhong Tian CPAs Limited Company (PRC Certified Public Accountants) as the Company's international auditors and PRC auditors respectively for the year ended 31st December 2005 for submission to 2004 Annual General Meeting for approval. 	29th March 2005	Securities Times, Wen Wei Po and the Standard in Hong Kong	30th March 2005

Section 4 Routine work of the Board of Directors (continued)**1. The Board meeting and the details of resolutions during the reporting period (continued)**

Details are as follows (continued):

Meeting	Summary of matters resolved	Date on which meeting was held	Announcement for which resolution was published	Date of announcement
The sixth meeting of the fourth Board	<ol style="list-style-type: none"> To consider and approve the Company's First Quarterly Report of 2005; To consent the proposal for "agreement to Mr. Liu Xianming's resignation as shareholders' representative supervisor and to the election of Ms. Peng Zeqing's election as shareholders' representative supervisor and the submission of such proposal for approval at the 2004 Annual General Meeting 	15th April 2005	Securities Times, Wen Wei Po and the Standard in Hong Kong	18th April 2005
The seventh meeting of the fourth Board	<ol style="list-style-type: none"> To consider and approve the amendments to the Company's Article of Association, effective upon the approval at 2004 Annual General Meeting; To consider and approve the rules of proceedings of the Company's general meeting, effective upon the approval at 2004 Annual General Meeting; To consider and approve the rules of proceedings of the Company's board meeting, effective upon the approval at 2004 Annual General Meeting; To consider and approve the format and content of the notice of 2004 Annual General Meeting, to be determined at 2004 Annual General Meeting, General Meeting for holders of A Shares and General Meeting for holders of H Shares held on 9th June 2004. 	21st April 2005	Securities Times, Wen Wei Po and the Standard in Hong Kong	22nd April 2005
Extraordinary Board meeting	<p>Considered and approved on the basis that resolutions numbered 1 to 9 for the Company's 2004 Annual General Meeting remain unchanged, the following two resolutions were proposed to the 2004 Annual General Meeting of the Company as resolutions numbered 10 and 11:</p> <ol style="list-style-type: none"> "10. To consider and approve Mr. Gong Enqing's resignation as the Company's executive director with effect from the close of the 2004 Annual General Meeting of the Company; 11. To consider and approve the election of Mr. Shi Tinghong as the Company's executive director for a term from the close of the 2004 Annual General Meeting of the Company to 15 August 2007 and to authorise the board of directors of the Company to fix his remuneration." 	27th May 2005	Securities Times, Wen Wei Po and the Standard in Hong Kong	28th May 2005

**Section 4 Routine work of the Board of Directors (continued)****1. The Board meeting and the details of resolutions during the reporting period (continued)**

Details are as follows (continued):

Meeting	Summary of matters resolved	Date on which meeting was held	Announcement for which resolution was published	Date of announcement
The eighth meeting of the fourth Board	<ol style="list-style-type: none"> To appoint Mr. Liu Xianming and Mr. Shi Jianping as the Company's Deputy General Manager under the nomination of General Manager; To agree Hong Kong Huaming Co., Ltd., a wholly owned subsidiary of the Company, be transferred 25% interest of Wuxi Hongda Texparts Co., Ltd. held by China Textile Machinery (Group) Co. Ltd. at the consideration of RMB 11,293,561.17 and to authorize any one of the Directors to execute the "Equity Transfer Agreement". 	9th June 2005	Securities Times, Wen Wei Po and the Standard in Hong Kong	10th June 2005
The ninth meeting of the fourth Board	<ol style="list-style-type: none"> To consider and approve "2005 Half-yearly Report" and "Summary of 2005 Half-yearly Report" and declare that no interim dividend would be distributed and no appropriation from surplus reserve to capital; To consider and approve "Work System of Independent Non-executive Directors", to be effective on the date of passing the resolution by the Board; To consider and approve "Management System of Investors Relationship" of the Company, to be effective on the date of passing the resolution by the Board; To consider and approve "Information Disclosure System", to be effective on the date of passing the resolution by the Board; To consider and approve "Internal Reporting System of Significant Information", to be effective on the date of passing the resolution by the Board 	12th August 2005	Securities Times, Wen Wei Po and the Standard in Hong Kong	15th August 2005
Extraordinary Board meeting	To agree the Company's provision of guarantee in respect of the one-year term loan of RMB165 million applied by Beijing Hualian Commercial Trading Development Company Limited to the Operation Department of the Headquarters of China Industrial and Commercial Bank. The term of loan is one year, commencing from 23rd September 2005 and expiring on 22nd September 2006	23rd September 2005	Securities Times, Wen Wei Po and the Standard in Hong Kong	26th September 2005
The tenth meeting of the fourth Board	To consider and approve the Company's Third Quarterly Report	26th October 2005	Securities Times, Wen Wei Po and the Standard in Hong Kong	27th October 2005

Section 4 Routine work of the Board of Directors (continued)**1. The Board meeting and the details of resolutions during the reporting period (continued)**

Details are as follows (continued):

Meeting	Summary of matters resolved	Date on which meeting was held	Announcement for which resolution was published	Date of announcement
The eleventh meeting of the fourth Board	<ol style="list-style-type: none"> 1. To consider and approve the resignation of Mr. Zhang Jie as Chairman for the reason of job rotation; 2. To elect Mr. Liu Haitao as the Company's Chairman; 3. To elect Mr. Ye Maoxin as the Company's Vice-chairman; 4. To agree Mr. Zhang Jie's resignation as Director and elect Mr. Yan Fuquan as the candidate of the Director of the Company for the consideration and approval at General Meeting; 5. To determine to convene Extraordinary General Meeting for the consideration and approval of the following matters at the Extraordinary General Meeting: <ol style="list-style-type: none"> (1) To consider and approve Mr. Zhang Jie's resignation as Chairman for the reason of job rotation. (2) To approve the election of Mr. Yan Fuquan as the Company's Director and his terms of office shall commence from the date of passing resolution at the Extraordinary General Meeting to the expiry of the terms of office of the Directors of the fourth Board on 15th August 2007. 	30th December 2005	Securities Times, Wen Wei Po and the Standard in Hong Kong	5th January 2006



Section 4 Routine work of the Board of Directors (continued)

2. Implementation of resolutions passed at the general meetings

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

Section 5 Profit distribution proposal for the year

In 2005, the Group realised a net profit of RMB136,242,000 under PRC GAAP, 10% of which amounting to RMB13,624,000 and RMB13,624,000 respectively will be appropriated to each of the statutory surplus reserve and statutory public welfare fund in accordance with the Articles of Association of the Company. The balance of the current year's profit of RMB108,994,000 available for distribution, when combined with the undistributed profit of RMB475,612,000 at beginning of the year and less the payment of 2004 final dividend of RMB30,190,000 in 2005 and the discretionary surplus reserve of RMB100,000,000 appropriated for the year, net profit available for the distribution to the shareholders amounted to RMB454,416,000.

For the year 2005, the Board of the Company proposed for the appropriation of discretionary surplus of RMB50,000,000 and payment of 2005 final dividend of RMB0.05 per share (inclusive of tax), totalling RMB30,190,000. The Company's balance of the undistributed profit of RMB374,226,000 will be carried forward to the following year.

Section 6 Other reporting items

1. Directors' and Supervisors' interest in contracts

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

2. Adoption of Model Code for Securities Transactions by Directors

The Company has adopted a set of code which is not lower than the standard and the requirements of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. After having made specific enquiries of all Directors, the Company is satisfied that the Directors have complied with such set of code during the reporting period.

3. Special illustrations and independent opinions by the independent non-executive directors regarding external guarantees of the Company

Pursuant to the provisions of the "Notice regarding the Regulation of Certain Issues on the movements of funds and External Guarantees of Listed Companies" ("關於規範上市公司與關聯方資金往來及上市公司對外擔保若干問題的通知") (CSRC [2003]56) issued by the China Securities Regulatory Committee, we, as independent non-executive directors of the Company, have examined thoroughly the decision-making process and circumstances of external guarantees of the Company, and declared those external guarantees of the Company are compliant with provisions of laws, regulations and the Articles of Association: as at 31st December 2005, the Company had not provided any guarantees, either for the current period or on accumulative basis, to any controlling shareholder, other related parties of the Company with less than 50% shareholding, any non-legal person entities or individuals.

4. Tax Relief and Exemption

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

5. Repurchase, Sale and Redemption of Shares

For the year ended 31st December 2005, there were no repurchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries.

Section 6 Report on other items (continued)

6. Pre-emptive Rights

There is no such provisions in the Articles of Association of the Company and the PRC Laws requiring to grant any pre-emptive rights for new shares to its existing shareholders according to their respective shareholding proportions.

7. Management Contract

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

8. Currency and Interest Rate Risks and Related Hedging

As the Group's revenue and expenses are mainly denominated in Renminbi, the Group does not expect that its business operating activities will incur material currency risk.

For its financing activities, during the reporting period, the Group's short-term borrowings amounted to RMB338,705,000, of which US\$25,000,000 (equivalent to RMB201,755,000) were in foreign currency, while the balance were in Renminbi. The management of the Company considers that the Group did not have any interest rate risk, and therefore the Group had not made any hedging against exchange risks during the reporting period.

9. Connected party transactions

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

10. Subsequent events

Details of subsequent events are set out in Note 37 to the accounts prepared in accordance with HKFRS.

11. Reserves

During the reporting period, significant changes in the amount of reserves of the Company and the details are set out in Note 19 to the account prepared in accordance with HKFRS.