

Chapter XI Accounts Prepared in Accordance with the PRC Accounting Standards and System**Balance Sheet
As At 31st December 2005**(Prepared in accordance with the PRC Accounting Standards and System)
(All amounts in Rmb Yuan unless otherwise stated)

ASSETS	NOTE	GROUP 31ST DECEMBER 2005	GROUP 31ST DECEMBER 2004	COMPANY 31ST DECEMBER 2005	COMPANY 31ST DECEMBER 2004
Current assets					
Cash at bank and in hand	V 1	807,178,788	1,005,463,163	540,061,991	764,488,556
Short-term investment	V 2	—	8,526,445	—	—
Notes receivable	V 3	567,213,540	400,434,231	208,225,303	132,517,889
Dividends receivable		—	—	28,482,501	20,689,449
Interest receivable		—	—	—	—
Accounts receivable	V 4, VI 1	375,451,589	445,202,457	218,859,138	245,684,993
Other receivables	V 4, VI 1	230,189,936	129,551,062	489,177,695	176,847,404
Advances to suppliers	V 5	300,792,922	260,820,854	134,185,142	125,851,511
Subsidies receivable		—	—	—	—
Inventories	V 6	1,694,529,363	1,299,968,019	605,823,344	679,877,009
Prepaid expenses	V 7	2,119,057	1,696,105	321,405	905,902
Long-term debt investments maturing within one year		—	—	—	—
Other current assets		—	—	—	—
Total current assets		3,977,475,195	3,551,662,336	2,225,136,519	2,146,862,713
Long-term investments					
Long-term equity investments	V 8, VI 2	185,586,818	379,982,233	1,220,313,889	1,290,724,428
Long-term debt investments		—	—	—	—
Total long-term investments		185,586,818	379,982,233	1,220,313,889	1,290,724,428
Including: Consolidation difference		30,745,179	316,259	—	—
Fixed assets					
Fixed assets – cost		2,127,403,274	1,985,392,879	966,845,087	943,713,258
Less: Accumulated depreciation		(1,034,216,430)	(962,645,854)	(493,418,629)	(466,113,906)
Fixed assets – net	V 9	1,093,186,844	1,022,747,025	473,426,458	477,599,352
Less: Provision for impairment of fixed assets	V 9	(43,419,662)	(44,174,402)	(31,733,693)	(31,992,401)
Fixed assets – net book value		1,049,767,182	978,572,623	441,692,765	445,606,951
Leasehold improvements		—	—	—	—
Construction materials	V 10	14,105,020	11,499,880	4,740,767	5,440,224
Construction in progress	V 11	48,072,766	56,494,212	12,159,396	18,908,615
Fixed assets pending disposal		—	—	—	—
Total fixed assets		1,111,944,968	1,046,566,715	458,592,928	469,955,790
Intangible assets and other assets					
Intangible assets	V 12	167,049,913	155,356,667	87,875,266	81,663,574
Long-term prepaid expenses		—	—	—	—
Other long-term assets		—	—	77,466,244	55,160,058
Total intangible assets and other assets		167,049,913	155,356,667	165,341,510	136,823,632
Deferred taxes					
Deferred tax debits		—	—	—	—
TOTAL ASSETS		5,442,056,894	5,133,567,951	4,069,384,846	4,044,366,563

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

Person-in-charge of the corporation: Ye Maoxin

Person in charge of accounting function: Yao Yuming

Person in charge of accounting department: Mao Faqing



Balance Sheet (continued) As At 31st December 2005

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

LIABILITIES AND SHAREHOLDERS' EQUITY	NOTE	GROUP 31ST DECEMBER 2005	GROUP 31ST DECEMBER 2004	COMPANY 31ST DECEMBER 2005	COMPANY 31ST DECEMBER 2004
Current liabilities					
Short-term loans	V 13	338,705,000	580,502,100	308,755,000	500,912,500
Notes payable	V 14	342,397,082	252,276,754	193,449,027	102,681,267
Accounts payable	V 15	954,177,980	539,330,389	369,293,903	319,374,241
Advances from customers	V 16	542,116,797	632,149,669	390,218,930	475,528,072
Accrued payroll		4,608,872	6,019,304	1,833,300	3,300,000
Welfare benefits payable		36,638,542	44,079,767	1,024,898	4,230,099
Interest payable		—	—	—	—
Dividends payable		—	—	—	—
Taxes payable	V 17	52,536,666	33,661,209	32,965,746	21,561,054
Other levies payable	V 18	1,722,501	748,417	548,221	519,911
Other payables	V 19	311,914,427	279,439,652	105,358,311	37,531,277
Accrued expenses	V 20	19,355,310	14,116,660	7,866,266	7,242,339
Provisions		—	—	—	—
Current portion of long-term liabilities	V 21	20,000,000	12,800,000	—	—
Deferred revenue		—	—	—	—
Other current liabilities		—	—	—	—
Total current liabilities		<u>2,624,173,177</u>	<u>2,395,123,921</u>	<u>1,411,313,602</u>	<u>1,472,880,760</u>
Long-term liabilities					
Long-term loans	V 21	—	40,000,000	—	20,000,000
Debentures payable		—	—	—	—
Long-term payables		—	—	—	—
Grants payable		—	—	—	—
Other long-term payables		—	—	—	—
Total long-term liabilities		<u>—</u>	<u>40,000,000</u>	<u>—</u>	<u>20,000,000</u>
Deferred taxes					
Deferred tax credits		—	—	—	—
Total liabilities		<u>2,624,173,177</u>	<u>2,435,123,921</u>	<u>1,411,313,602</u>	<u>1,492,880,760</u>
Minority interest		<u>159,906,066</u>	<u>146,917,043</u>	<u>—</u>	<u>—</u>
Shareholders' equity					
Share capital	V 22	603,800,000	603,800,000	603,800,000	603,800,000
Capital surplus	V 23	1,262,250,342	1,261,716,557	1,262,250,342	1,261,716,557
Surplus reserve	V 24	445,913,186	303,440,433	337,605,809	210,357,477
Including: Statutory public welfare fund		159,075,069	137,838,693	104,921,381	91,297,215
Undistributed profits	V 25	346,107,716	382,528,813	454,415,093	475,611,769
Including: Proposed final dividend		(30,190,000)	(43,473,495)	(30,190,000)	(43,473,495)
Foreign currency translation differences		(93,593)	41,184	—	—
Total Shareholders' equity		<u>2,657,977,651</u>	<u>2,551,526,987</u>	<u>2,658,071,244</u>	<u>2,551,485,803</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>5,442,056,894</u>	<u>5,133,567,951</u>	<u>4,069,384,846</u>	<u>4,044,366,563</u>

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

Person-in-charge of the corporation: Ye Maoxin

Person in charge of accounting function: Yao Yuming

Person in charge of accounting department: Mao Faqing

Income Statement

For the year ended 31st December 2005

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

ITEMS	NOTE	GROUP	GROUP	COMPANY	COMPANY
		Year ended 31st December 2005	Year ended 31st December 2004	Year ended 31st December 2005	Year ended 31st December 2004
Revenues from main operations	V 26, VI 3	4,241,911,846	3,611,042,901	2,985,037,263	2,266,437,929
Less: Cost of main operations	V 26, VI 4	(3,540,356,008)	(3,000,572,325)	(2,735,798,263)	(2,037,923,376)
Tax and levies on main operations	V 27	(12,217,489)	(13,357,951)	(3,100,232)	(1,955,141)
Profit from main operations		689,338,349	597,112,625	246,138,768	226,559,412
Add: Profit from other operations	V 28	34,915,299	60,584,942	11,832,498	15,045,020
Less: Selling and distribution expenses		(106,540,382)	(106,021,303)	(59,079,875)	(58,972,657)
General and administrative expenses		(457,623,117)	(391,826,302)	(188,195,171)	(147,994,625)
Finance expenses – net	V 29	(1,811,403)	(20,172,230)	11,661,007	(5,009,834)
Operating profit		158,278,746	139,677,732	22,357,227	29,627,316
Add: Investment income	V 30, VI 5	10,988,689	32,105,355	122,396,026	126,985,206
Subsidy income		4,023,972	5,337,593	–	–
Non-operating income		3,595,963	3,525,167	1,328,686	1,520,917
Less: Non-operating expenses		(4,765,190)	(5,782,010)	(2,341,939)	(2,783,656)
Total profit		172,122,180	174,863,837	143,740,000	155,349,783
Less: Income taxes		(27,391,296)	(13,461,814)	(7,498,344)	(2,970,370)
Gain of minority shareholders		(8,489,228)	(9,022,610)	–	–
Net profit		<u>136,241,656</u>	<u>152,379,413</u>	<u>136,241,656</u>	<u>152,379,413</u>
Supplementary information: ITEMS		GROUP	GROUP	COMPANY	COMPANY
		Year ended 31st December 2005	Year ended 31st December 2004	Year ended 31st December 2005	Year ended 31st December 2004
1. Gain on disposal of business units or investments		–	–	–	–
2. Loss arising from natural disasters		–	–	–	–
3. Increase in total profit as a result of changes in accounting policies		–	–	–	–
4. Increase in total profit as a result of changes in accounting estimates		–	–	–	–
5. Losses from debt restructuring		–	–	–	–
6. Other		–	–	–	–

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

Person-in-charge of the corporation: Ye Maoxin Person in charge of accounting function: Yao Yuming Person in charge of accounting department: Mao Faqing



Profit Appropriation Statement For the year ended 31st December 2005

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

ITEMS	NOTE	GROUP 2005	GROUP 2004	COMPANY 2005	COMPANY 2004
Net profit		136,241,656	152,379,413	136,241,656	152,379,413
Add: Undistributed profit at beginning of year	V 25	382,528,813	325,112,537	475,611,769	397,181,733
Other transfers		—	—	—	—
Distributable profit		518,770,469	477,491,950	611,853,425	549,561,146
Less: Transfer to statutory surplus reserve	V 24	(21,236,377)	(25,744,821)	(13,624,166)	(15,237,941)
Transfer to statutory public welfare fund	V 24	(21,236,376)	(25,744,821)	(13,624,166)	(15,237,941)
Transfer to employee bonus and welfare fund		—	—	—	—
Profit available for distribution to shareholders		476,297,716	426,002,308	584,605,093	519,085,264
Less: Dividend for preferred stock		—	—	—	—
Transfer to discretionary surplus fund	V 24	(100,000,000)	—	(100,000,000)	—
Dividend payable for common stock		(30,190,000)	(43,473,495)	(30,190,000)	(43,473,495)
Dividend for common stock transferred to shares		—	—	—	—
Undistributed profit at end of year	V 25	<u>346,107,716</u>	<u>382,528,813</u>	<u>454,415,093</u>	<u>475,611,769</u>

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

Person-in-charge of the corporation: Ye Maoxin Person in charge of accounting function: Yao Yuming Person in charge of accounting department: Mao Faqing

Cash Flow Statement

For the year ended 31st December 2005

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

ITEMS	GROUP	COMPANY
1. Cash flows from operating activities		
Cash received from sale of goods or rendering of services	6,237,097,728	4,122,008,193
Refund of taxes and levies	—	—
Cash received relating to other operating activities	139,382,405	12,624,132
Sub-total of cash inflows	6,376,480,133	4,134,632,325
Cash paid for goods and services	(5,106,052,244)	(3,613,192,502)
Cash paid to and on behalf of employees	(428,850,254)	(174,628,138)
Payments of taxes and levies	(226,148,349)	(85,951,682)
Cash paid relating to other operating activities	(328,705,881)	(48,983,605)
Sub-total of cash outflows	(6,089,756,728)	(3,922,755,927)
Net cash flows from operating activities	286,723,405	211,876,398
2. Cash flows from investing activities		
Cash received from disposal of investments, other than subsidiaries	77,949,521	70,000,000
Cash received from returns on investments	8,474,074	44,927,675
Net cash received from disposal of fixed assets	10,009,785	5,693,738
Cash received relating to other investing activities	—	—
Sub-total of cash inflows	96,433,380	120,621,413
Cash paid to acquire fixed assets, intangible assets and other long-term assets	(204,202,317)	(50,197,420)
Cash paid to acquire investments, other than subsidiaries	(19,763,770)	(12,500,000)
Cash paid to acquire subsidiaries	(43,363,866)	(92,000,000)
Cash paid relating to other investing activities	—	(164,770,736)
Sub-total of cash outflows	(267,329,953)	(319,468,156)
Net cash flows from investing activities	(170,896,573)	(198,846,743)
3. Cash flows from financing activities		
Cash received from capital contributions	—	—
Including: Cash received from issuing shares	—	—
to minority shareholders by subsidiaries	—	—
Cash received from borrowings	727,500,000	639,000,000
Cash received relating to other financing activities	—	—
Sub-total of cash inflows	727,500,000	639,000,000
Cash repayments of amounts borrowed	(996,939,600)	(846,000,000)
Cash payments for interest expenses and distribution of dividends or profits	(47,379,151)	(34,812,541)
Including: cash payments to minority shareholders for	—	—
distribution of dividends or profits	(1,195,396)	—
Cash payments relating to other financing activities	—	—
Including: cash payments to minority shareholders for distribution of capital	—	—
Sub-total of cash outflows	(1,044,318,751)	(880,812,541)
Net cash flows from financing activities	(316,818,751)	(241,812,541)
4. Effect of foreign exchange rate changes on cash and cash equivalents	(134,777)	—
5. Net decrease in cash and cash equivalents (Note V 1)	(201,126,696)	(228,782,886)

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

Person-in-charge of the corporation: Ye Maoxin

Person in charge of accounting function: Yao Yuming

Person in charge of accounting department: Mao Faqing



Cash Flow Statement (continued) For the year ended 31st December 2005

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

SUPPLEMENTARY INFORMATION	GROUP	COMPANY
1. Reconciliation of Net Profit to Cash Flows from Operating Activities		
Net Profit	136,241,656	136,241,656
Adjust for: Share of profit by minority shareholders	8,489,228	—
Provision for asset impairment	56,906,343	24,988,845
Depreciation of fixed assets	98,860,358	42,879,093
Amortisation of intangible assets	5,801,895	2,980,777
Amortisation of long-term prepaid expenses	—	—
Decrease (Increase) in prepaid expenses	(422,952)	584,497
Increase (Decrease) in accrued expenses	1,940,497	623,927
Losses (Gains) on disposal of fixed assets	(692,929)	(835,180)
Losses (Gains) on disposal of fixed assets	—	—
Financial expenses (income)	14,134,408	(534,959)
Investment losses (income)	(15,988,689)	(122,396,026)
Deferred tax credit (debit)	—	—
Decrease (Increase) in inventories	(344,307,252)	72,322,562
Decrease (Increase) in operating receivables	(97,746,144)	(79,594,750)
Increase (Decrease) in operating payables	423,506,986	134,615,956
Others	—	—
Net cash flows from operating activities	<u>286,723,405</u>	<u>211,876,398</u>
2. Investing and financing activities that do not involve cash receipts and payments		
Conversion of debt into capital	—	—
Reclassification of current portion of convertible bonds to current liabilities	—	—
Fixed assets capitalized under finance leases	—	—
3. Net decrease in cash and cash equivalents		
Cash at end of year	802,522,467	535,405,670
Less: Cash at beginning of year	1,003,649,163	764,188,556
Add: Cash equivalents at end of year	—	—
Less: Cash equivalents at beginning of year	—	—
Net increase/(decrease) in cash and cash equivalents (Note V 1)	<u>(201,126,696)</u>	<u>(228,782,886)</u>

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

Person-in-charge of the corporation: Ye Maoxin Person in charge of accounting function: Yao Yuming Person in charge of accounting department: Mao Faqing

Notes to the Financial Statements For the year ended 31st December 2005

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

I COMPANY BACKGROUND

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

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

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

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

(a) Basis of preparation

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

(b) Accounting period

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

(c) Recording currency

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

(d) Basis of accounting and measurement bases

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

(e) Foreign currency translation

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

(f) Translation of financial statements denominated in foreign currency

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

(g) Cash and cash equivalents

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



Notes to the Financial Statements For the year ended 31st December 2005

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

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

(h) Short-term investments

Short-term investments, comprising debentures, bonds and fund investments, are those investments that the Company does not have the intention to hold for more than one year and are readily convertible into known amounts of cash. It is recorded as cost less declared dividends and due interests receivables at the time of purchase. Apart from those dividends and interests that have been recorded as receivables, dividends and interests received during the holding period are deducted against the investment cost.

Short-term investments are carried at the lower of cost and market value as at the balance sheet date. An impairment provision against diminution in short-term investment values is made by individual investment when market value is lower than cost and recognized as expense in the period. When the market value of short-term investments is greater than the carrying value, the provision for impairment loss is reversed to the extent of the impairment loss previously recognized.

(i) Receivables and provision for bad debts

Receivables refer to accounts receivable and other receivables. The provision method is used to account for potential bad debts identified by management. Receivables is presented at actual amounts net of provision for bad debts.

(1) Accounts receivable

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

The Group makes specific bad debts provision on an individual basis for related-party receivables and third-party receivables that are distinctively different from any other receivables in recoverability. A general provision for the remaining third-party receivables that have not been specifically provided for is made based on the ageing of receivables, at the following percentages:

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

(2) Other receivable

Specific provisions are made for other receivables on an individual basis.

(3) Recognition criteria of bad debts loss

Where evidence exists that balances cannot be recovered, the bad debts are recognized and the balances are written off against the provision for bad debts.

(4) Factored out/discounted of accounts and notes receivable

Where accounts and notes receivable are factored out/discounted to the third parties or financial institutions without recourse, the corresponding payment is recorded as cash received from customers. The difference between proceeds derived from the transaction, net of relevant taxes, and the carrying amounts of the accounts and notes receivable is expensed in the period.

Notes to the Financial Statements For the year ended 31st December 2005

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

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

(j) Inventories

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

Inventories are recorded at cost. The cost of raw materials used and the sale of finished goods are accounted for using the weighted average method. Development cost is comprised by land cost, construction cost, other direct and indirect development cost. Finished goods and work in progress comprise material costs, direct labour and an appropriate allocation of all production overhead expenditures.

Relating public utility is projects approved by the government, such as load etc, the occurred amounts for the relating public utility are separately recorded in the development cost according to the cost centers; the cost related to the development of the land is also recorded in the development cost; the land that hasn't been developed is recorded in the intangible assets.

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

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

The Group adopts perpetual inventory system.

(k) Long-term equity investments

Long-term equity investments compromise equity investments in subsidiaries, jointly controlled entities and associates and other investments in companies that the Company intends to hold for more than one year.

(1) Equity investment

Subsidiaries are investees in which the Company has, directly or indirectly, an interest of more than 50% of the voting rights, or otherwise has power to govern the investees' financial and operating policies and obtain benefits from their operating activities. Jointly controlled entities are investees that are under the joint control of the Company and other entities. Associates generally represent investees in which the Company has an interest of between 20% to 50% of the voting rights or otherwise has significant influence over the financial and operating policies.

Long-term equity investments are recorded at the actual cost of acquisition less cash dividends which have been declared but unpaid at the time of acquisition. The Company accounts for long-term equity investments in subsidiaries, jointly controlled entities and associates using the equity method of accounting. Other equity investments, which the Company intends to hold for more than one year, are accounted for using the cost method of accounting.

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

Under the equity method of accounting, the attributable share of the investees' net profit or loss for the period is recognized as an investment income or loss and the carrying amount of the investment is adjusted accordingly. The investee's net loss incurred is recognized until the carrying amount of the long-term equity investment is reduced to zero. When the investees declare dividends, the carrying amount of the investment is reduced accordingly. Under the cost method of accounting, investment income is recognized when the investees declare dividends.



Notes to the Financial Statements For the year ended 31st December 2005

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

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

(k) Long-term equity investments (continued)

(2) Provision for impairment loss on long-term investment

When the recoverable amount is lower than the carrying values for individual long-term investment due to the continually decrease of market price or stagnancy of investees' operation, impairment provision is accrued for the difference. The recoverable amount of an individual asset item is the higher of its net selling price and its value in use. The net selling price is the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable and willing parties, after deducting any incremental direct disposal costs. Value in use is the present value of estimated future cash flows expected to be derived from continuing use of an asset and from its disposal at the end of its useful life.

When there is an indication that the need for an impairment provision recorded in a prior period is changed, the provision for impairment loss is reversed to the extent of the impairment loss previously recognized.

(l) Fixed assets and depreciation

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

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

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

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

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

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

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

Individual fixed assets for which there are indications that the carrying values are higher than their recoverable amounts, arising from the occurrence of events or changes in circumstances, are reviewed for impairment. If the carrying value of such assets is higher than the recoverable amount, the excess is recognized as an impairment loss.

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

Notes to the Financial Statements For the year ended 31st December 2005

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

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

(m) Construction in progress

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

Individual constructions in progress for which there are indications that the carrying values are higher than their recoverable amounts, arising from the occurrence of events or changes in circumstances, are reviewed for impairment. If the carrying value of such assets is higher than the recoverable amount, the excess is recognized as an impairment loss. When there is an indication that the need for an impairment provision recorded in a prior period is changed, the provision for impairment loss is reversed to the extent of the impairment loss previously recognized.

(n) Intangible assets and amortisation

Intangible assets include land use rights, trade marks, patents and softwares.

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

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

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

Individual intangible assets for which there are indications that the carrying values are higher than their recoverable amounts, arising from the occurrence of events or changes in circumstances, are reviewed for impairment. If the carrying value of such assets is higher than the recoverable amount, the excess is recognized as an impairment loss. When there is an indication that the need for an impairment provision recorded in a prior period is changed, the provision for impairment loss is reversed to the extent of the impairment loss previously recognized. The increased carrying amount of the assets should not exceed the carrying amount that would have been determined had no impairment loss been recognized for the assets in prior years.

(o) Borrowing costs

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

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

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



Notes to the Financial Statements For the year ended 31st December 2005

(Prepared in accordance with the PRC Accounting Standards and System)
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II. ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(p) Employee social security benefits

Employees of the Group participate in employee social security plans, including pension, medical, housing and other welfare benefits, organised and administered by the government authorities in accordance with relevant regulations.

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

(q) Profit distribution

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

(r) Revenue recognition

(i) Sales of goods

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

(ii) Other revenues are recognised on the following bases

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

Subsidy income is recognized when received.

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

(s) Operating Lease

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

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

(t) Income tax

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

(u) Basis of preparation of consolidated financial statement

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

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

For jointly controlled entities, the assets, liabilities, revenues, expenses, profit and cash flow are proportionate consolidated according to the equity investment shares, and the intercompany transactions are eliminated using the same rate.

Accounting policies adopted by the subsidiaries, jointly controlled entities and the Company are consistent.

Notes to the Financial Statements For the year ended 31st December 2005

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

III. TAXATION

The major taxes of the Group are listed as follows:

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

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

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

Pursuant to the approval document [2003] No. 51 issued by Liaoning Science and Technology Administration on 22nd December 2003, Shenyang Hongda Textile Machinery Company Limited enjoys the preferential income tax rate of 15% for new technology enterprises in 2004 and 2005.

Pursuant to the approval document issued by Tianjin New Technology Industry Zone on 19th March 2001, Tianjin Hongda Textile Machinery Company Limited enjoys the preferential income tax rate of 15% for new technology enterprises in 2004 and 2005.

Pursuant to the approval document [2001] No. 62 issued by Henan Municipal Administration of State Taxation, Zhengzhou Hongda Textile Machinery Company Limited enjoys the preferential income tax rate of 15% for new technology enterprises in 2004 and 2005.

Pursuant to the approval document issued by Qingdao Science and Technology Committee on 20th December 2000, Qingdao Hongda Textile Machinery Company Limited enjoys the preferential income tax rate of 15% for new technology enterprises in 2004 and 2005.

Pursuant to the approval document [2003] No. 184 issued by Taiyuan Municipal Administration of State Taxation in Shanxi Province on 18th July 2003, Taiyuan Jingwei Textile Electrical Company Limited enjoys the preferential tax rate of 15% for new technology enterprises in 2004 and 2005.

Pursuant to the approval document 09 Mian (03) Gao No. 14 issued by Jiading Branch of Shanghai Municipal Administration of State Taxation and Shanghai Local Taxation Bureau on 11th April 2003, Shanghai Jingwei Dongxing Blomming-Carding Machinery Company Limited enjoys the preferential income tax rate of 15% for high technology enterprises in 2004 and 2005.

Changde Textile Machinery Company Limited, a subsidiary of the Company, qualifies as a foreign invested production enterprise, which is entitled to two years' exemption from income taxes followed by three years of a 50% tax reduction, commencing from the first cumulative profit-making year net of losses carried forward.

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

Shanghai WSP Mould and Injection Plastic Limited, a subsidiary of the Company, qualifies as a foreign invested production enterprise, which is entitled to two years' exemption from income taxes followed by three years of a 50% tax reduction, which is from 2005 to 2010. Shanghai WSP is located in Shanghai Pudong development zone and applicable to 15% income tax rate. The Company is in the exemption period in 2005.



Notes to the Financial Statements For the year ended 31st December 2005

(Prepared in accordance with the PRC Accounting Standards and System)
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III. TAXATION (CONTINUED)

Beijing Ximen information Technology company Limited, a subsidiary of the Company, qualifies as self-development software research company, which is entitled to three years' exemption from income taxes followed by three years of a 50% tax reduction. According to the Central government's policy, the special tax treatment is from 2001 to 2006. The company is located in Beijing Zhongguancun Science Park, and qualified as a New and High Technology Company, which can enjoy the preferential income tax rate of 15%. In the year 2005, the company's income tax rate is 7.5%.

Kunshan Jingwei Textile Machinery Company Limited, a subsidiary of the Company, is a production enterprise located in Kunshan Economic & Technical Development Zone and enjoys the preferential income tax rate of 15%.

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

IV. SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

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

New subsidiaries

The new subsidiary of Tianjin Jingwei New Type Textile Machinery Company Limited ("Tianjin Jingwei") is under consolidation since 2005. The Company and its wholly-owned subsidiary, Hong Kong Huaming Co. Limited ("Huaming Company") invested RMB12,000,000 and RMB4,000,000 respectively to set up Tianjin Jingwei. The new company has been set up in August 2005, so it has been under consolidation since 2005.

The subsidiary, Tianjin Hongda Textile Machinery Co. Limited ("Tianjin Hongda Company") invested RMB450,000 to set up a subsidiary named Tianjin Hongda Textile Machinery Component Trading Company Limited ("Tianjin Component Trading Company") together with other third individual parties in January 2005. So it has been under consolidation since 2005.

The subsidiaries, Shenyang Hongda Textile Machinery Co. Limited ("Shenyang Hongda") and Huaming Company invested RMB30,000,000 and RMB10,000,000 respectively to set up a subsidiary named Shenyang Hongda Huaming Textile Machinery Company Limited ("Shenyang Hongda Huaming"). The paid in capital were RMB7,995,184 from Shenyang Hongda and RMB1,517,274 from Huaming Company up to 31st December 2005. The new company has been set up in July 2005, so it has been under consolidation since 2005.

The subsidiary, Beijing Jingpeng Investment Management Company ("Beijing Jingpeng Company") entered into a Transfer of Equity Interest Agreement with Hainan Daer Mei Industrial Co., Limited ("Hainan Daer Mei") in October 2005. According to the terms of the agreement, Beijing Jingpeng Company agreed to acquire 70% equity interest in Beijing Chen Yu Tai He Property Development Co. Ltd. ("Beijing Chen Yu Tai He") from Hainan Daer Mei at a consideration of RMB44,000,000. The consideration of this transaction was based on share capital fair value as at 31st March 2005, which amounted to RMB44,000,000. The acquisition has been accomplished in October 2005. Therefore Beijing Chen Yu has been under consolidation since 2005.

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

New jointly controlled entities

The Company set up two new jointly controlled entities in the year 2005, Anhui Huamao Jingwei New type Textile Company Limited ("Anhui Huamao Jingwei") and Shanghai WSP Mould and Injection Plastic ("Shanghai WSP").

The Company and its wholly-owned subsidiary, Huaming Company invested RMB12,500,000 and RMB12,500,000 respectively to set up a company named Anhui Huamao Jingwei jointly with Anhui Huamao Textile Company Limited. According to the Anhui Huamao's Articles of Association, the Group and Anhui Huamao Textile Company Limited will jointly control Anhui Huamao Jingwei. The new company has been set up in June 2005, so it has been under proportionate consolidation since 2005.

Notes to the Financial Statements For the year ended 31st December 2005

(Prepared in accordance with the PRC Accounting Standards and System)
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IV. SUBSIDIARIES (CONTINUED)

Establishment of jointly controlled entities (continued)

The subsidiary Shanghai Weixin Electrical and Machinery Co. Limited (“Shanghai Weixin Company”) invested Euro250,000 to set up a company named Shanghai WSP Mould and Injection Plastic Limited (“Shanghai WSP”) jointly with Italy S&P S.R.L. According to the Articles of Association of Shanghai WSP, the Group and Italy S&P S.R.L. will jointly control Shanghai WSP. The new company has been set up in May 2005, so it has been under proportionate consolidation since 2005.

Disposal of subsidiaries

The subsidiary, Beijing Hongda Fangji Enterprise’s Management Consulting Company Limited was disposed in May 2005, so it has been excluded from consolidation in 2005.

The subsidiary, Shanxi Jingwei Computer Technology Development Company Limited was disposed in April 2005, so it has been excluded from consolidation in 2005.

V. NOTES TO THE FINANCIAL STATEMENTS

1. CASH AT BANK AND IN HAND

	31st December 2005	31st December 2004
Cash in hand	1,283,249	624,877
Cash at bank	794,942,243	991,599,915
Other cash balances:		
– Other deposits	296,975	313,776
– Credit card deposits	–	294,595
– Time deposits over three months	6,000,000	10,816,000
– Deposit of bank draft	4,656,321	1,814,000
	<u>807,178,788</u>	<u>1,005,463,163</u>

Cash and bank balances at 31st December 2005 include foreign currencies as follows:

Type of foreign currencies	Foreign Currencies	Exchange rate	Rmb equivalent
USD	216,494	8.0702	1,747,150
HKD	18,655,483	1.0403	19,407,299
EUR	688,348	9.5797	6,594,167
CHF	1,408,478	6.1376	8,644,675
			<u>36,393,291</u>

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

	31st December 2005
Cash at bank and in hand as at 31st December 2005	807,178,788
Less: Cash in bank cannot be withdrawn as needed	(4,656,321)
Cash and cash equivalents as at 31 December 2005	802,522,467
Less: As at 31st December 2004 cash and cash equivalents	(1,003,649,163)
Net decrease of cash and cash equivalents	<u>(201,126,696)</u>



Notes to the Financial Statements For the year ended 31st December 2005

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

V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. SHORT TERM INVESTMENT

	31st December 2005	31st December 2004
Funds	—	8,526,445
Less: Provision for short term investment	—	—
Total	<u>—</u>	<u>8,526,445</u>

3. NOTES RECEIVABLE

The Group's note receivable as at 31st December 2005 are bank drafts amounted to RMB567,213,540 (2004: RMB400,434,231).

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

	31st December 2005	31st December 2004
— Due from fellow subsidiaries	<u>22,797,000</u>	<u>11,549,000</u>

4. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

(1) Accounts receivable

	31st December 2005	31st December 2004
Accounts Receivable	571,337,888	599,294,646
Less: Special Provision	(4,254,790)	—
General Provision	(191,631,509)	(154,092,189)
	<u>375,451,589</u>	<u>445,202,457</u>

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

	31st December 2005			31st December 2004		
	Amount	%	Bad debt provision	Amount	%	Bad debt provision
Aging:						
Within 1 year	300,219,854	53	—	343,490,108	57	—
Within 1 to 2 years	57,669,321	10	(11,374,407)	95,862,154	16	(14,794,438)
Within 2 to 3 years	45,187,579	8	(22,537,750)	40,041,416	7	(19,573,331)
Over 3 years	168,261,134	29	(161,974,142)	119,900,968	20	(119,724,420)
	<u>571,337,888</u>	<u>100</u>	<u>(195,886,299)</u>	<u>599,294,646</u>	<u>100</u>	<u>(154,092,189)</u>

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

	31st December 2005	31st December 2004
— Due from the holding company	3,610,711	9,023,464
— Due from fellow subsidiaries	86,782,216	66,691,893
— Due from associated companies	37,903,519	28,551,803
— Due from jointly controlled entities	8,228,012	—
	<u>136,524,458</u>	<u>104,267,160</u>

Notes to the Financial Statements For the year ended 31st December 2005

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V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES (CONTINUED)

(1) Accounts receivable (continued)

The five largest individual balance of accounts receivable at the year end amount to RMB136,243,780 which accounts for 24% of the total accounts receivable (2004: 103,978,543, 17 %).

Due to stagnancy of Urumqi Jingwei Xijin Company Limited and low financial capabilities to meet its obligations, the Group made RMB4,254,790 bad debt provision for the balance due from Urumqi Jingwei Xijin Company Limited as at 31st December 2005.

Due to bankruptcy of some customers, the Group wrote off accounts receivable balance amounted to RMB5,118,040 in 2005, which has been fully provided provision in 2004.

(2) Other receivables

	31st December 2005	31st December 2004
Due from Beijing Ruifeng Hengtai Coal Trading Company	16,024,534	—
Due from Beijing Hualian for the equity transfer (i)	175,153,014	—
Receivables of acquisition	—	49,463,000
Others	57,325,068	103,945,988
Less: Specific provisions	(18,312,680)	(23,857,926)
	<u>230,189,936</u>	<u>129,551,062</u>

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

	31st December 2005			31st December 2004		
	Amount	%	Bad debt provision	Amount	%	Bad debt provision
Aging:						
Within 1 year	181,949,736	73	—	34,809,102	23	—
Within 1 to 2 years	19,182,295	8	(7,584,818)	70,184,317	46	—
Within 2 to 3 years	33,155,988	13	(725,078)	5,321,686	3	—
Over 3 years	14,214,597	6	(10,002,784)	43,093,883	28	(23,857,926)
	<u>248,502,616</u>	<u>100</u>	<u>(18,312,680)</u>	<u>153,408,988</u>	<u>100</u>	<u>(23,857,926)</u>

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

	31st December 2005	31st December 2004
— Due from the holding company	—	4,879,622
— Due from fellow subsidiaries	—	32,638,284
— Due from associated companies	2,497,614	5,000,000
	<u>2,497,614</u>	<u>42,517,906</u>

The five largest individual balances of other receivables at the year end amount to RMB201,206,346 which accounts for 81% of the total other receivables (2004: RMB83,128,717, 54%).

Note:

- (i) According to the share transfer agreement (the "Agreement") entered into between the board of Directors of the Company and Beijing Hualian Group Investment Holdings Company Limited ("Beijing Hualian") in December 2003, the Company disposed its 47.92% equity interest ("Relevant Equity") in Shanghai Jingwei Zhonglian Commercial Development Company Limited ("Shanghai Zhonglian") to Beijing Hualian in two phases, each with 50% of share transfer, each on or before 31st December 2004 and 2005 respectively. The consideration of transfer is 335,420,000 upon signing of the Agreement, Beijing Hualian is appointed by the Company to manage Shanghai Zhonglian. Before the effective date of transfer, the Company will receive from Shanghai Zhonglian a fixed investment income based on the Company's investment cost in it. The payment of investment income to the Company is guaranteed by Beijing Hualian. The realized investment income in 2005 is RMB15,548,200.



Notes to the Financial Statements For the year ended 31st December 2005

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V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES (CONTINUED)

(2) Other receivables (continued)

The remaining balance of RMB175,153,014 was going to be collected before 31st August 2006 according to the payment arrangement signed between the Company and Beijing Hualian, and the remaining balance will bear an interest rate of 8.5%. Up to April 2006, 30,000,000 was collected from Beijing Hualian.

5. ADVANCES TO SUPPLIERS

	31st December 2005		31st December 2004	
	Amount	%	Amount	%
Aging:				
Within 1 year	275,670,809	92	241,526,975	93
Within 1 to 2 years	9,185,896	3	15,736,745	6
Within 2 to 3 years	11,489,794	4	940,895	—
Over 3 years	4,446,423	1	2,616,239	1
	<u>300,792,922</u>	<u>100</u>	<u>260,820,854</u>	<u>100</u>

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

	31st December 2005	31st December 2004
– Due from fellow subsidiaries	131,577,029	62,312,831
– Due from associated companies	—	200,000
	<u>131,577,029</u>	<u>62,512,831</u>

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

6. INVENTORIES

	31st December 2004	31st December 2005
Goods in transit	676,634	7,964,585
Raw materials	266,630,905	286,609,678
Development Cost(i)	—	443,339,700
Work in progress	356,203,040	381,079,021
Finished goods	707,223,231	610,948,340
	<u>1,330,733,810</u>	<u>1,729,941,324</u>

Provision—

	31st December 2004	Addition	Decrease	31st December 2005
Raw materials	(4,541,726)	(7,344,292)	419,284	(11,466,734)
Work in progress	(5,161,985)	(1,891,616)	2,678,060	(4,375,541)
Finished goods	(21,062,080)	(1,293,075)	2,785,469	(19,569,686)
	<u>(30,765,791)</u>	<u>(10,528,983)</u>	<u>5,882,813</u>	<u>(35,411,961)</u>
	<u>1,299,968,019</u>			<u>1,694,529,363</u>

In 2005, the inventory recognized as cost and expense by the group is RMB4,289,717,056 (2004: RMB 3,890,827,688)

Notes to the Financial Statements For the year ended 31st December 2005

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

V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. INVENTORIES (CONTINUED)

Note:

- (i) Development costs are for the payment of the land cost that numbered 3-2, which located in inner side of Fuxing Meng, the South Naoshi Kou, together with compensation for the development of the land, as well as other pre-development costs, which paid by Beijing Chen Yu Tai He. The estimated total investment of the project about RMB860,000,000.

7. PREPAID EXPENSES

	31st December 2004	Addition	Amortisation	31st December 2005
VAT input pending deduction	681,903	13,463,852	(12,394,768)	1,750,987
Heating fee	457,482	1,196,567	(1,635,693)	18,356
Others	556,720	2,535,087	(2,742,093)	349,714
	<u>1,696,105</u>	<u>17,195,506</u>	<u>(16,772,554)</u>	<u>2,119,057</u>

8. LONG-TERM EQUITY INVESTMENT

		31 December 2004	Addition	Disposal	31st December 2005
Investment in associated companies	(a)	107,173,275	13,979,584	(3,055,460)	118,097,399
Other equity investment	(b)	274,315,954	8,050,000	(239,298,459)	43,067,495
Consolidation difference	(c)	316,259	30,711,220	(282,300)	30,745,179
Long-term equity investment		381,805,488	52,740,804	(242,636,219)	191,910,073
Provision for long term equity investment (i)		(1,823,255)	(5,000,000)	500,000	(6,323,255)
		<u>379,982,233</u>	<u>47,740,804</u>	<u>(242,136,219)</u>	<u>185,586,818</u>

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

Note:

- (i) Qingdao Hongda Textile Machinery Company Limited ("Qingdao Hongda") made fully provision of RMB5,000,000 for the long term investment in Qingdao Qingfeng Foundry Company ("Qingfeng Foundry"). Since disputes on the progress and the quality of the project raised during the launching and construction of Qingdao Foundry, and no solutions can be reached by both parties, the agreement entered between the Qingdao Hongda and Qingfeng Foundry thus can not be implemented. Considering this risk, the management made fully impairment provision for this long term investment.

In the previous years, Beijing Jingwei New Technology Company Limited ("New Technology") had provided RMB500,000 provision for the long-term investment in Beijing Garden Automobile Lease Company Limited ("Garden Automobile"). In the year 2005, Garden Automobile finished liquidation, and the provision has been written off.



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V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. LONG TERM EQUITY INVESTMENT (CONTINUED)

(a) Associated companies

Name of investee	Investment period	Equity Interest Held (%)		Investment Cost		Accumulated Equity Movement			Balance	
		31st December 2004	31st December 2005	31st December 2004	31st December 2005	31st December 2004	Movement in equity	31st December 2005	31st December 2004	31st December 2005
Hongda Research Company Limited	2001 to 2101	40.00	40.00	20,000,000	20,000,000	3,003,612	311,336	3,314,948	23,003,612	23,314,948
Shenzhen Bolue Technology Investment Company Limited	2001 to 2031	40.94	40.94	35,000,000	35,000,000	1,298,730	507,993	1,806,723	36,298,730	36,806,723
Zhengzhou Hongda Non-woven Fabric Textile Machinery Company Limited	2003 to 2010	42.50	42.50	17,000,000	17,000,000	(3,777,678)	(1,645,299)	(5,422,977)	13,222,322	11,577,023
Qingdao Jinyi Pressing and Casting Company Limited	2000 to 2007	27.00	27.00	997,000	997,000	60,000	-	60,000	1,057,000	1,057,000
Qingdao Jinshan City Company Limited	2002 to permanent	20.00	20.00	200,000	200,000	-	-	-	200,000	200,000
Qingdao Lanlifeng Laser Technology Company Limited	2002 to 2012	31.25	31.25	1,000,000	1,000,000	-	-	-	1,000,000	1,000,000
Qingdao Qingfeng Technology Company Limited	2002 to 2005	35.80	-	1,400,000	-	-	-	-	1,400,000	-
Shenyang Jingxing Textile Machinery Company Limited	2002 to 2022	31.25	31.25	1,000,000	1,000,000	(8,389)	(7,072)	(15,461)	991,611	984,539
China Textile machinery and Technology Import and Export Corporation	2004 to permanent	25.00	25.00	30,000,000	30,000,000	-	1,446,485	1,446,485	30,000,000	31,446,485
Wuxi Hongda Technology Research Center Company Limited	2005 to 2015	-	23.00	-	420,000	-	-	-	-	420,000
Wuxi Jiwei Textile Machinery & Special Parts Company Limited	2005 to 2035	-	25.00	-	11,293,770	-	(3,089)	(3,089)	-	11,290,681
				<u>106,597,000</u>	<u>116,910,770</u>	<u>576,275</u>	<u>610,354</u>	<u>1,186,629</u>	<u>107,173,275</u>	<u>118,097,399</u>

(b) Other equity investment

Name of investee	Investment period	Investment Cost	Equity Interest Held (%)
Hongda Investment Company Limited	2004 to 2029	24,866,602	9.38%
Qingdao Textile Machinery Company Limited (i)	2005 to permanent	8,000,000	10.00%
Others		<u>10,200,893</u>	
Total		<u>43,067,495</u>	

(i) Qingdao Hongda invested RMB8,000,000 in Qingdao Textile Machinery Company Limited in December 2005, and held 10% equity interest.



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V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. LONG TERM EQUITY INVESTMENT (CONTINUED)

(c) Consolidation difference

	Original cost	Amortisation Period	Accumulated Amortisation	31st December 2004	Addition	Amortisation	31st December 2005
Impartible investment difference for 4 Hongda subsidiaries(i)	(6,213,559)	10年	3,806,379	(3,028,536)	–	621,356	(2,407,180)
Shanxi Jingwei Heli Machinery Manufacturing Company Limited(ii)	3,918,020	10年	(965,027)	3,344,795	–	(391,802)	2,952,993
Beijing Chen Yu Tai He Property Development Company Limited(iii)	30,711,220	10年	(511,854)	–	30,711,220	(511,854)	30,199,366
	<u>28,415,681</u>		<u>2,329,498</u>	<u>316,259</u>	<u>30,711,220</u>	<u>(282,300)</u>	<u>30,745,179</u>

- (i) In the course of asset exchange with the holding company in 1999, there is a positive difference between the cost of the long-term investment and the net assets of the acquired subsidiary at the date of purchase.
- (ii) The difference refers to the negative difference between the cost of the long-term investment and the net asset of the acquired subsidiary at the date of purchase.
- (iii) Beijing Jingpeng Company entered into a Transfer of Equity Interest Agreement with Hainan Daer Mei Industry Company Limited in October 2005. According to the terms of the agreement, Beijing Jingpeng Company agreed to acquire 70% equity interest in Beijing Chen Yu Tai He from Hainan Daer Mei at a consideration of RMB44,000,000. The consideration of this transaction was based on share capital fair value as at 31st March 2005. The difference refers to the negative difference between the cost of the long-term investment and the net asset of Beijing Chen Yu at the day of purchase.

9. FIXED ASSETS AND ACCUMULATED DEPRECIATION

	Land and Building	Machinery and equipment	Motor vehicles	Total
Cost				
At 31st December 2004	532,444,374	1,371,588,410	81,360,095	1,985,392,879
Purchases from third parties	2,905,790	42,142,338	8,968,739	54,016,867
Acquisition of subsidiaries	–	–	2,794,697	2,794,697
Disposed subsidiaries	–	(474,644)	(316,067)	(790,711)
Transfer from CIP	47,058,661	75,968,758	–	123,027,419
Other disposals	(4,684,328)	(28,712,405)	(3,641,144)	(37,037,877)
At 31st December 2005	<u>577,724,497</u>	<u>1,460,512,457</u>	<u>89,166,320</u>	<u>2,127,403,274</u>
Accumulated depreciation				
At 31st December 2004	182,938,045	751,611,564	28,096,245	962,645,854
Charge for the year	14,136,991	79,179,114	5,544,253	98,860,358
Acquisition of subsidiaries	–	–	371,166	371,166
Disposed subsidiaries	–	(416,482)	(212,870)	(629,352)
Other disposals	(1,985,866)	(23,840,978)	(1,204,752)	(27,031,596)
At 31st December 2005	<u>195,089,170</u>	<u>806,533,218</u>	<u>32,594,042</u>	<u>1,034,216,430</u>
Fixed assets impairment provision				
At 31st December 2004	1,494,350	42,669,260	10,792	44,174,402
Reversal	–	(754,740)	–	(754,740)
At 31st December 2005	<u>1,494,350</u>	<u>41,914,520</u>	<u>10,792</u>	<u>43,419,662</u>
Net book value				
At 31st December 2005	<u>381,140,977</u>	<u>612,064,719</u>	<u>56,561,486</u>	<u>1,049,767,182</u>
At 31st December 2004	<u>348,011,979</u>	<u>577,307,586</u>	<u>53,253,058</u>	<u>978,572,623</u>



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V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. FIXED ASSETS AND ACCUMULATED DEPRECIATION (CONTINUED)

As at 31st December 2005, no fixed assets had been pledged as security for loans (2004: Nil).

As at 31st December 2005, fixed assets with a net book value of RMB49,022,140 and original cost of RMB103,886,669 (2004: Nil) had been used for operating.

As at 31st December 2005, land, building and equipment with net book value RMB1,537,726 (original cost: RMB30,755,512) are idle.

As at 31st December 2005, there was no fixed assets discarded or intend to disposed.

10. CONSTRUCTION MATERIALS

	31st December 2005	31st December 2004
Special equipment	1,932,352	490,100
Prepayment for equipment	12,172,668	6,867,224
Tools and equipment for production	—	4,142,556
	<u>14,105,020</u>	<u>11,499,880</u>

11. CONSTRUCTION IN PROGRESS

	Budget	31st December 2004	Addition	Transfer to fixed assets	Other disposal	31st December 2005	Source of capital	Project amount incurred as a percentage of budget(%)
Scientific research base	32,388,573	28,741,407	1,103,342	(29,844,749)	—	—	Self financing & Proceeds from additional share issue	—
Science and Technology center	22,000,000	2,195,945	181,349	(1,087,607)	—	1,289,687	Self financing & Proceeds from additional share issue	11
Enlarge Project	20,000,000	3,449,172	6,177,878	(6,275,395)	(539,720)	2,811,935	Self financing & Proceeds from additional share issue	48
Maintenance of Yuci workshop	1,500,000	1,404,179	—	(80,026)	—	1,324,153	Self financing	94
Yuci plant improvement	2,890,000	2,609,103	158,574	(1,324,153)	—	1,443,524	Self financing	96
Building of workshop-Shengyang	30,000,000	—	5,890,476	—	—	5,890,476	Self financing	20
Hongda Huaming								
Equipment of Anhui Huamao	119,000,000	—	48,698,922	(29,435,261)	—	19,263,661	Self financing	41
Appropriate Equipment	5,545,602	5,545,602	—	(5,545,602)	—	—	Self financing & Proceeds from additional share issue	100
Others	12,548,804	54,248,836	(49,434,626)	(1,313,684)	—	16,049,330		
Total	<u>56,494,212</u>	<u>116,459,377</u>	<u>(123,027,419)</u>	<u>(1,853,404)</u>	<u>—</u>	<u>48,072,766</u>		
Include: Total of Capitalized borrowing cost	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>		

Notes: 1. Others include projects less than 1,000,000.

2. Construction in progress includes no capitalised interest expense.

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V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. INTANGIBLE ASSETS

Item	Cost	31st December 2004	Addition for the year	Amortisation for the year	31st December 2005	Accumulated Amortisation	Remaining amortisation years	Acquisition method
Land use rights	173,846,928	148,171,831	8,302,672	(3,357,662)	153,116,841	(20,730,087)	41.3 years to 49.7 years	Purchase
Trademark and patents	10,494,472	125,000	7,433,619	(682,522)	6,876,097	(3,618,375)	9.3 years	Purchase
Software	11,243,097	7,059,836	1,758,850	(1,761,711)	7,056,975	(4,186,122)	1.5 years to 4.9 years	Purchase
Total	195,584,497	155,356,667	17,495,141	(5,801,895)	167,049,913	(28,534,584)		

13. SHORT TERM LOANS

Categories	Currency	31st December 2005	31st December 2004
Guaranteed	RMB	84,000,000	242,000,000
Unsecured	RMB	52,950,000	131,589,600
	USD	201,755,000	206,912,500
		<u>338,705,000</u>	<u>580,502,100</u>

The guarantors and the guaranteed amount are as follows:

Guarantor	Loans guaranteed
Jingwei Machinery (Group) Company Limited	74,000,000
Jingwei Textile Machinery Company Limited	10,000,000
	<u>84,000,000</u>

As at 31st December 2005, the total amount of overdue loan was RMB5,000,000 (2004: RMB5,000,000), which is working capital loan due to China Textile Association with the interest rate of 5.31% (2004: 5.31%) per annum. The amount has not been repaid as China Textile Association is still undergoing a restructuring exercise.

The range of the interest rate of short term-loans in 2005 was from 3.46% to 6.14% per annum (2004: 3.46% to 5.31%).

14. NOTES PAYABLE

	31st December 2005	31st December 2004
Trade acceptance	13,567,989	16,652,474
Bank acceptance	328,829,093	235,624,280
	<u>342,397,082</u>	<u>252,276,754</u>

Notes payable due to the related companies are as follow:

	31st December 2005	31st December 2004
Due to fellow subsidiaries	<u>—</u>	<u>10,350,000</u>



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V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. ACCOUNTS PAYABLE

Accounts payable mainly represents the payable for purchase of materials and land development cost.

Accounts payable due to the related companies are as follows:

	31st December 2005	31st December 2004
Due to the holding company	6,320,023	6,320,023
Due to fellow subsidiaries	55,587,343	42,589,118
Due to associated companies	1,417,124	2,725,292
Due to jointly controlled entities	3,180,000	—
	<u>66,504,490</u>	<u>51,634,433</u>

As at 31st December 2005, accounts payable with aging over three years amount to RMB29,739,764 (2004: RMB20,123,598), which mainly represent payable for raw materials. Since the supplier has not provided the invoice, the amount remains unsettled.

16. ADVANCES FROM CUSTOMERS

Advances from customers due to related companies are as follows:

	31st December 2005	31st December 2004
Due to the holding company	9,831,700	10,835,387
Due to fellow subsidiaries	7,626,695	1,608,708
Due to associated companies	—	200,000
	<u>17,458,395</u>	<u>12,644,095</u>

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

As at 31st December 2005, advance from customer with aging over one year amount to RMB85,387,616 (2004: RMB129,828,954), mainly represent the advance of sales. Since the production cycle and fixing period is long, this amount remains unsettled.

17. TAXES PAYABLE

	31st December 2005	31st December 2004
Value added tax	35,395,769	21,698,034
Business tax payable	237,206	11,401
City construction tax payable	1,017,742	2,046,166
Income tax payable	10,812,077	5,303,924
Land usage tax	2,455,529	2,022,582
Others	2,618,343	2,579,102
	<u>52,536,666</u>	<u>33,661,209</u>

18. OTHER LEVIES PAYABLE

	31st December 2005	31st December 2004
Education fee levy	732,685	738,096
Others	989,816	10,321
	<u>1,722,501</u>	<u>748,417</u>

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V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. OTHER PAYABLES

	31st December 2005	31st December 2004
Due to China Textile Machinery (Group) Company limited	11,423,516	7,000,000
Due to Jingwei Machinery (Group) Company limited	46,324,598	31,849,957
Due to China Energy Investment Group (Hong Kong) Company Limited	55,401,496	54,442,851
Social insurance	46,003,417	39,274,737
Others	152,761,400	146,872,107
	<u>311,914,427</u>	<u>279,439,652</u>

Other payables due to the related companies are as follows:

	31st December 2005	31st December 2004
Due to the holding company	11,423,516	7,000,000
Due to fellow subsidiaries	84,604,702	39,750,211
Due to associated companies	—	1,303,961
	<u>96,028,218</u>	<u>48,054,172</u>

As at 31st December 2005, other payable with aging over three years amount to RMB25,493,563 (2004: RMB14,981,855), mainly due to third parties, which remains unsettled.

20. ACCRUED EXPENSES

	31st December 2005	31st December 2004
Interest expense	6,012,660	4,253,688
Others	13,342,650	9,862,972
	<u>19,355,310</u>	<u>14,116,660</u>

The RMB6,012,660 interest is accrued for the year 2005, according to the loan contracts, the accrued interest will be paid in the year 2006.

21. LONG TERM LOANS

	31st December 2005	31st December 2004
Guaranteed	20,000,000	52,800,000
Less: Current portion of long term loans	<u>(20,000,000)</u>	<u>(12,800,000)</u>
	<u>—</u>	<u>40,000,000</u>

As at 31st December 2005, the guarantors and the guaranteed amounts is as follows:

Name of banks	Amount	Maturity date	Annual Rate	Guarantor	Terms
China Industrial and Commercial Bank	20,000,000	2006.01.22	5.49%	Jingwei Textile Machinery Company Limited	Guaranteed

The interest of the long-term loan of the Group is paid quarterly.

The interest rate for the long-term loan is 5.49% as at 31st December 2005 (2004: 5.46% to 5.58%).



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V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. SHARE CAPITAL

face value: RMB 1 per share

	31st December 2004	Rights issue	Bonus issue	Placing	Shares transfer from reserve funds	Others	Sub-total	31st December 2005
Shares not permitted to be traded								
Shares held by promoter	220,000,000	-	-	-	-	-	-	220,000,000
Including:								
State-owned shares	-	-	-	-	-	-	-	-
Shares owned by domestic legal persons	220,000,000	-	-	-	-	-	-	220,000,000
Shares owned by foreign legal persons	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
Subscriber legal person shares	-	-	-	-	-	-	-	-
Employee shares	-	-	-	-	-	-	-	-
Preferred shares and others	-	-	-	-	-	-	-	-
Including:								
Bonus issue shares	-	-	-	-	-	-	-	-
Sub-total	220,000,000	-	-	-	-	-	-	220,000,000
Listed shares								
Share Permitted to be traded								
Domestically listed domestic shares (A Shares)	203,000,000	-	-	-	-	-	-	203,000,000
Domestically listed foreign shares	-	-	-	-	-	-	-	-
Overseas listed foreign shares	180,800,000	-	-	-	-	-	-	180,800,000
Others	-	-	-	-	-	-	-	-
Sub-total	383,800,000	-	-	-	-	-	-	383,800,000
Total number of shares in issue	603,800,000	-	-	-	-	-	-	603,800,000

23. CAPITAL SURPLUS

	31st December 2004	Addition	Deduction	31st December 2005
Share premium	1,247,954,114	-	-	1,247,954,114
Equity Investment Provision	9,562,443	533,785	-	10,096,228
Surplus on revaluation of assets	4,200,000	-	-	4,200,000
Total	1,261,716,557	533,785	-	1,262,250,342

24. SURPLUS RESERVE

	Statutory surplus fund	Discretionary surplus fund	Statutory public welfare	Total
Balance at 31st December 2004	137,838,693	27,763,047	137,838,693	303,440,433
Addition	21,236,377	100,000,000	21,236,376	142,472,753
Balance at 31st December 2005	159,075,070	127,763,047	159,075,069	445,913,186

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V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. SURPLUS RESERVE (CONTINUED)

- (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 RMB21,236,377 to the Statutory Surplus Reserve Fund which takes 10% of the net profit in 2005 (2004: RMB25,744,821).
- (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 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 Fund. The related expenditure are either capitalized as an asset of the Company or expensed, as applicable. The Company and its subsidiaries appropriated RMB21,236,376 to the Statutory Public Welfare Fund which takes 10% of the net profit in 2005 (2004: RMB25,744,821).
- (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. Approved by the meeting of share holders at 9 th June 2005, the Company appropriated RMB100,000,000 to the discretionary surplus reserve fund for the year 2004 and intend to appropriate RMB50,000,000 for the year 2005 which is subject to approval of share holders.

After the transfer of the above reserves, cash dividend is distributed according to the lower of the profit after taxation prepared in accordance with the PRC Accounting Standards and system or prepared in accordance with generally accepted accounting principles of Hong Kong.

25. UNDISTRIBUTED PROFITS

	2005	2004
Undistributed profit at the beginning of the year	382,528,813	325,112,537
Add: Profit for the year	136,241,656	152,379,413
Less: Transfer to statutory surplus reserve	(21,236,377)	(25,744,821)
Transfer to statutory public welfare fund	(21,236,376)	(25,744,821)
Transfer to discretionary surplus reserve fund	(100,000,000)	—
Dividend for common stock		
– Cash dividends approved by general meeting of shareholders	(30,190,000)	(43,473,495)
Undistributed profit at end of the year	<u>346,107,716</u>	<u>382,528,813</u>

Pursuant to the Board of Directors’ meeting held on 18th April 2006, the Company proposed to distribute a final cash dividend of 0.5 (Pre-tax) for every ten shares held by shareholders, totalling RMB30,190,000. The proposal is subject to approval of the general meeting.



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V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26 REVENUES FROM MAIN OPERATIONS AND COST OF GOODS SOLD

Primary reporting format – business segment

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

Other operations of the Group include sale of textile machinery components, special parts and other products, neither of which are of a sufficient size to be reported separately.

Secondary reporting format – geographical segment

Location	2005		2004	
	Sales revenue	Cost of goods Sold	Sales revenue	Cost of goods sold
China	3,918,073,650	3,243,810,356	3,234,667,506	2,654,424,128
Africa	34,237,591	28,858,618	34,072,805	28,012,325
Asia	275,251,092	257,911,306	331,991,680	309,278,079
Others	14,349,513	9,775,728	10,310,910	8,857,793
Total	<u>4,241,911,846</u>	<u>3,540,356,008</u>	<u>3,611,042,901</u>	<u>3,000,572,325</u>

The top five customers' sales are RMB1,014,892,296, as 24% of the Group's total sales (2004: 847,601,205, 23%).

The cost of goods sold for 2005 include RMB3,064,849 unrecorded cost of goods sold in the previous years which is due to the calculation errors.

27 TAX AND LEVIES ON MAIN OPERATIONS

	2005	2004
Business tax	40,496	148,825
City construction tax	8,383,142	9,638,202
Education levy	3,395,187	3,570,924
Price control fund	398,664	—
Total	<u>12,217,489</u>	<u>13,357,951</u>

28 PROFITS FROM OTHER OPERATIONS

	2005	2004
Income from other operations		
Operating lease income	11,375,811	9,672,394
Sales of materials and others	762,321,277	925,833,693
Other	21,949,167	24,134,962
Subtotal	<u>795,646,255</u>	<u>959,641,049</u>
Cost of other operations		
Operating lease cost	(8,435,862)	(6,897,700)
Cost of materials and others	(735,210,586)	(874,373,364)
Other	(17,084,508)	(17,785,043)
Subtotal	<u>(760,730,956)</u>	<u>(899,056,107)</u>
Total	<u>34,915,299</u>	<u>60,584,942</u>

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V NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29 FINANCIAL EXPENSES

	2005	2004
Interest expense	19,291,908	31,908,481
Less: Interest income	(16,001,225)	(17,383,461)
Exchange loss, net	(4,046,578)	148,967
Others	2,567,298	5,498,243
	<u>1,811,403</u>	<u>20,172,230</u>

30 INVESTMENT INCOME

	2005	2004
Share of associated companies' income/(Loss)	610,354	(841,120)
Amortisation of investment difference	(282,300)	229,554
Income from investment in stock	342,073	4,206,221
Other investment income	15,318,562	28,510,700
Provision for long-term investment	(5,000,000)	—
	<u>10,988,689</u>	<u>32,105,355</u>

31 THE CASH FLOW RELATING TO THE ACQUISITION OF THE SUBSIDIARY

As noted in V(8)(c)(iii), the Company acquired 70% equity interest of Beijing Chen Yuk Tai He from Haina Daer Mei Industry Company Limited. The acquisition has been accomplished at 31 st October 2005. As at 31 st October 2005, the assets and liabilities of Beijing Chen Yu Tai He and cash flow related to the acquisition are shown as below:

Cash at bank and in hand	636,134
Current assets except cash	66,838,007
Fix assets	2,423,531
Less: Current liabilities	<u>(50,913,701)</u>
Net assets	18,983,971
% acquired equity	<u>70%</u>
Net assets acquired	13,288,780
Plus: premium (consolidation difference)	<u>30,711,220</u>
Total acquisition consideration	44,000,000
Less: Cash inflow from acquisition	<u>(636,134)</u>
Net cash outflow in respect of acquisition	<u>(43,363,866)</u>
Condensed income statement from the date of acquisition to 31st December 2005:	
General Administration Expense	<u>(228,639)</u>
Total loss	<u>(228,639)</u>
Income tax	<u>—</u>
Net Loss	<u>(228,639)</u>



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VI NOTES TO FINANCIAL STATEMENTS – COMPANY

1. ACCOUNTS RECEIVABLES AND OTHER RECEIVABLES

(1) Accounts receivables

	31st December 2005			31st December 2004		
Accounts receivables	277,801,584			282,247,879		
Less: General bad debt provision	(58,942,446)			(36,562,886)		
	<u>218,859,138</u>			<u>245,684,993</u>		
	31st December 2005			31st December 2004		
	Amount	%	Provision	Amount	%	Provision
Aging:						
Within 1 year	188,233,126	68	–	193,927,924	68	–
1 to 2 years	20,681,601	7	(4,057,253)	50,114,276	18	(4,072,921)
2 to 3 years	12,425,728	5	(6,202,922)	11,241,365	4	(5,525,651)
Over 3 years	56,461,129	20	(48,682,271)	26,964,314	10	(26,964,314)
	<u>277,801,584</u>	<u>100</u>	<u>(58,942,446)</u>	<u>282,247,879</u>	<u>100</u>	<u>(36,562,886)</u>

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

	31st December 2005	31st December 2004
– Due from the holding company	3,508,667	8,792,000
– Due from fellow subsidiaries	52,699,693	43,616,966
– Due from associated companies	36,355,292	27,532,291
– Due from jointly controlled entities	8,228,012	–
	<u>100,791,664</u>	<u>79,941,257</u>

The total amount of the five largest individual balance of accounts receivables is RMB100,577,102 and this accounts for 36% of the total accounts receivables balance(2004: 89,345,163, 32%).

No general provision has been made for subsidiaries and related companies included in accounts receivable with aging over 1 year.

(2) Other receivables

	31st December 2005	31st December 2004
Other receivables	490,325,877	177,117,404
Less: Specific bad debts provision	(1,148,182)	(270,000)
Net value	<u>489,177,695</u>	<u>176,847,404</u>

Aging and specific bad debts provision of other receivables:

	31st December 2005			31st December 2004		
	Amount	Percent (%)	Bad debt provision	Amount	Percent (%)	Bad debt provision
Aging:						
Within 1 year	455,253,857	93	–	126,995,405	71	–
1-2 years	22,680,230	5	–	34,662,132	20	–
2-3 years	3,219,396	1	–	49,055	–	–
Over 3 years	9,172,394	1	(1,148,182)	15,410,812	9	(270,000)
	<u>490,325,877</u>	<u>100</u>	<u>(1,148,182)</u>	<u>177,117,404</u>	<u>100</u>	<u>(270,000)</u>

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VI NOTES TO FINANCIAL STATEMENTS – COMPANY (CONTINUED)

1. ACCOUNTS RECEIVABLES AND OTHER RECEIVABLES (CONTINUED)

(2) Other receivables (continued)

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

	31st December 2005	31st December 2004
– Due from the holding company	–	4,775,700
– Due from fellow subsidiaries	–	1,358,040
– Due from associated companies	–	5,000,000
	<u>–</u>	<u>11,133,740</u>

The total amount of the five largest individual balance of other receivables is RMB183,698,402 and this accounts for 37% of the total other receivables balance (2004: RMB63,316,443, 36%).

2. LONG-TERM EQUITY INVESTMENT

		31st December 2004	Addition	Disposal	31st December 2005
Investment in associated companies (a)		102,524,664	14,765,814	(1,645,299)	115,645,179
Investment in subsidiaries (b)		925,083,840	197,593,807	(43,421,352)	1,079,256,295
Other equity investment (c)		262,799,665	–	(237,933,063)	24,866,602
Investment Difference		316,259	–	229,554	545,813
Total		<u>1,290,724,428</u>	<u>212,359,621</u>	<u>(282,770,160)</u>	<u>1,220,313,889</u>

(a) Investment in associated companies

	Investment period	Equity Interest Held(%)		Investment Cost		Accumulated Equity Movement			Balance	
		31st		31st		31st			31st	
		December 2004	December 2005	December 2004	December 2005	December 2004	Changes in equity	December 2005	December 2004	December 2005
Hongda Research Company Limited	2001 to 2101	40	40	20,000,000	20,000,000	3,003,612	311,336	3,314,948	23,003,612	23,314,948
Shenzhen Bolue Technology Co., Ltd.	2001 to 2031	40.94	40.94	35,000,000	35,000,000	1,298,730	507,993	1,806,723	36,298,730	36,806,723
Zhengzhou Non-woven Fabric Company Limited	2003 to 2007	42.5	42.5	17,000,000	17,000,000	(3,777,678)	(1,645,299)	(5,422,977)	13,222,322	11,577,023
China Textile machinery and Technology Import and Export corporation	2004 to permanent	25	25	30,000,000	30,000,000	–	1,446,485	1,446,485	30,000,000	31,446,485
Anhui Huamao Jingwei New type Textile company Limited	2005 to 2020	–	25	–	12,500,000	–	–	–	–	12,500,000
Total				<u>102,000,00</u>	<u>114,500,000</u>	<u>524,664</u>	<u>620,515</u>	<u>1,145,179</u>	<u>102,524,664</u>	<u>115,645,179</u>



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VI NOTES TO FINANCIAL STATEMENTS – COMPANY (CONTINUED)

2. LONG-TERM EQUITY INVESTMENT (CONTINUED)

(b) Investment in subsidiaries

Name of investee	Investment period	Equity Interest Held (%)		Investment Cost		Accumulated Equity Movement			Balance	
		31st December 2004	31st December 2005	31st December 2004	31st December 2005	31st December 2004	Changes in equity	31st December 2005	31st December 2004	31st December 2005
Beijing Jingpeng Investment Management Company Limited	2001 to 2051	80	96	16,000,000	96,000,000	3,967,700	(6,291,347)	(2,323,647)	19,967,700	93,676,353
Shanghai Chuangan Trade Company Limited	2001 to 2011	90	90	1,800,000	1,800,000	535,862	249,118	784,980	2,335,862	2,584,980
Hongkong Huaming Company Limited	2000 to 2030	100	100	4,966,416	4,966,416	7,405,890	3,737,671	11,143,561	12,372,306	16,109,977
Beijing Jingwei Textile Machinery New Technology Company Limited	2000 to 2050	98.4	98.4	98,407,084	98,407,084	16,053,647	15,963,644	32,017,291	114,460,731	130,424,375
Tianjin Hongda Textile Machinery Company Limited	1999 to 2009	98	98	71,390,523	71,390,523	64,540,297	1,887,071	66,427,368	135,930,820	137,817,891
Shenyang Hongda Textile Machinery Company Limited	1999 to 2009	98	98	81,742,695	81,742,695	30,433,417	2,141,268	32,574,685	112,176,112	114,317,380
Zhengzhou Hongda New Textile Machinery Company Limited	1999 to 2009	98	98	81,243,200	81,243,200	15,980,897	(12,013,946)	3,966,951	97,224,097	85,210,151
Qingdao Hongda Textile Machinery Company Limited	1999 to 2009	98	98	96,863,612	96,863,612	112,646,073	23,970,481	136,616,554	209,509,685	233,480,166
Changde Textile Machinery Company Limited	2002 to 2012	70	70	35,279,928	35,279,928	35,949,909	24,219,181	60,169,090	71,229,837	95,449,018
Jinzhong Jingwei Ring Manufacturing Company Limited	1993 to permanent	98	98	500,000	500,000	661,461	98,311	759,772	1,161,461	1,259,772
Jingwei Textile Machinery Yuci Material Company	1996 to 2006	99.20	99.20	5,000,000	5,000,000	118,854	73,127	191,981	5,118,854	5,191,981
Taiyuan Jingwei Electrical Company Limited	1997 to 2047	98	98	9,412,000	9,412,000	(2,614,451)	(613,154)	(3,227,605)	6,797,549	6,184,395
Shanghai Jingwei Dongxing Blowing-Carding Machinery Company Limited	2001 to 2011	73.874	73.874	36,974,000	36,974,000	12,145,847	9,548,167	21,694,014	49,119,847	58,668,014
Ningbo Daxie Machinery and Develop Zone Wu Fang Hongda Company Limited	1999 to 2009	98	98	2,352,000	2,352,000	1,777,979	(284,769)	1,493,210	4,129,979	3,845,210
Shanghai Weixin Electrical & Machinery Company Limited	2000 to 2050	90	90	14,400,000	14,400,000	(1,336,987)	(2,531,626)	(3,868,613)	13,063,013	10,531,387
Wuxi Jingwei Textile Technology Testing Company Limited	2003 to 2013	55	55	27,240,807	27,240,807	1,299,944	957,746	2,257,690	28,540,751	29,498,497
Jingwei Heli Machinery Manufacturing Company Limited	2003 to permanent	30	30	36,727,094	36,727,094	1,679,790	780,154	2,459,944	38,406,884	39,187,038
Kunshan Jingwei Textile Machinery Company Limited	2004 to permanent	75	75	3,190,974	3,190,974	347,378	281,358	628,736	3,538,352	3,819,710
Tianjing Jingwei New Type Textile Machinery Company Limited	2005 to 2015	-	75	-	12,000,000	-	-	12,000,000	-	12,000,000
				<u>623,490,333</u>	<u>715,490,333</u>	<u>301,593,507</u>	<u>62,172,455</u>	<u>363,765,962</u>	<u>925,083,840</u>	<u>1,079,256,295</u>

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VI NOTES TO FINANCIAL STATEMENTS – COMPANY (CONTINUED)

2. LONG-TERM EQUITY INVESTMENT (CONTINUED)

(c) Other equity investment

Name of investee	Investment period	Investment cost	Equity interest held (%)
Hongda Investment Company Limited	2004 to 2029	<u>24,866,602</u>	9.38%

3. REVENUES FROM MAIN OPERATIONS

	2005	2004
Mainland China	2,751,396,067	1,967,773,433
Africa	5,553,745	10,501,616
Asia	223,438,842	288,150,750
Other	4,648,609	12,130
	<u>2,985,037,263</u>	<u>2,266,437,929</u>

4. COST OF GOODS SOLD

	2005	2004
Mainland China	2,510,784,519	1,754,397,950
Africa	5,307,465	9,136,406
Asia	215,169,140	274,378,467
Other	4,537,139	10,553
	<u>2,735,798,263</u>	<u>2,037,923,376</u>

5. INVESTMENT INCOME

	2005	2004
Share of associated companies' income/(loss)	620,515	(822,652)
Adjustment for the changes in the equity of subsidiaries and associated companies at year end	105,997,757	99,167,006
Loss from investment of stock	—	(99,402)
Amortisation of investment difference	229,554	229,554
Other investment income	15,548,200	28,510,700
	<u>122,396,026</u>	<u>126,985,206</u>



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VII RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

1 Related party with controlling relationship

Name	Registered Address	Main business	Relation with the Company	Nature or type	Legal representative
China Hengtian Group Company	PRC	Manufacturing and trading machinery (Mainly are textile machinery)	Ultimate holding company of the Company	Limited company	Wang Tiankai
China National Textile Machinery (Group) Co., Ltd ("CTMC")	PRC	Manufacturing and trading textile machinery	Holding company of the Company	Limited company	Wang Tiankai
Jinzhong Jingwei Ring Manufacturing Company Limited	PRC	Manufacture of textile machinery components	Subsidiary	Limited company	He Lizhao
Jingwei Textile Machinery Yuci Material Company Limited	PRC	Trading of furnace materials, metals textile machinery components and charcoal	Subsidiary	Limited company	Guan Xuefeng
Taiyuan Jingwei Electrical Company Limited	PRC	Manufacture and sales of transformers and electrical components	Subsidiary	Limited company	Guan Xuefeng
Ningbo Daxie Machinery and Development Zone Wu Fang Hongda Company Limited	PRC	Sales of textile machinery and related components; providing related services	Subsidiary	Limited company	Yao Yuming
Qingdao Hongda Textile Machinery Company Limited	PRC	Manufacture, sales, repairing and leasing of textile machinery and related components	Subsidiary	Limited company	Ye Maoxin
Tianjin Hongda Textile Machinery Company Limited	PRC	Technological development consultation, sales of textile machinery, related components and other machinery	Subsidiary	Limited company	Zhang Jianguo
Zhengzhou Hongda New Textile Machinery Company Limited	PRC	Developing and manufacturing textile machinery and related components	Subsidiary	Limited company	Tang Qiwei
Shenyang Hongda Textile Machinery Company Limited	PRC	Developing and processing textile machinery and related components; providing technical consultation	Subsidiary	Limited company	Ye Maoxin

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VII RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

1 Related party with controlling relationship (continued)

Name	Registered Address	Main business	Relation with the Company	Nature or type	Legal representative
Beijing Jingwei Textile Machinery New Technology Company Limited	PRC	Technological development sales of textile machinery and computer hardware, agricultural machinery equipment instrument automobile components	Subsidiary	Limited company	Ye Maixin
Shanghai Weixin Electrical & Machinery Company Limited	PRC	Textile machinery, automobile component and development and manufacture of general machinery	Subsidiary	Limited company	Ye Maixin
Beijing Ximen Information Technology Company Limited	PRC	Research & Development, Sales of Management software	Subsidiary	Limited company	Liu Shitong
Hong Kong Huaming Company Limited	HK	Imports and exports, general trading and consulting services	Subsidiary	Limited company	Ye Maixin
Beijing Jingpeng Investment Management Company Limited	PRC	Investment management, sales of electronic & chemical products (other than dangerous products), machinery, construction materials, wood, automobile parts, local products, fashion and exhibitions and provision of technology information	Subsidiary	Limited company	Ye Maixin
Shanghai Chuangan Trade Company Limited	PRC	Trading sales of textile, electronic products, chemical products (other than dangerous products), metal construction materials, wood, cement, mining-related sub-products.	Subsidiary	Limited company	Yao Yuming
Shanghai Jingwei Dongxing Blowing-Carding Machinery Company Limited	PRC	Manufacturing and sales of blowing-carding machinery and related components	Subsidiary	Limited company	Guan Xuefeng
Changde Textile Machinery Company Limited	PRC	Manufacturing and trading of textile machinery and other machinery, powder metallurgy (regulated by the special regulations)	Subsidiary	Limited company	Ye Maixin



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VII RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

1 Related party with controlling relationship (continued)

Name	Registered Address	Main business	Relation with the Company	Nature or type	Legal representative
Wuxi Jingwei Textile Technology Testing Company Limited	PRC	Production and sales of cotton yarn, research and development of textile machinery and related technology	Subsidiary	Limited company	Ye Maixin
Shanxi Jingwei Heli Machinery Manufacture Company	PRC	Manufacturing, design, installation and sales of machinery and electrical equipment and mineral production; import and export;	Subsidiary	Joint Corporation	Guan Xuefeng
Kunshan Jingwei Textile Machinery Limited	PRC	Manufacturing and installation of textile machinery and providing after sales services; sales of own made products	Subsidiary	Limited company	Guan Xuefeng
Tianjing Jingwei New Type Textile Machinery Company Limited	PRC	Developing and processing textile machinery and related components; providing technical consultation.	Subsidiary	Limited company	Zhang Jianguao
Tianjing Hongda Textile Machinery Component Trading Company Limited.	PRC	Trading of textile, electronic products, textile machinery and related components, raw materials and chemical products (other than dangerous products); providing technical consultation.	Subsidiary	Limited company	Li Xiangjie
Shengyang Hongda Huangming Textile Machinery Company Limited	PRC	Developing and processing textile machinery and related components; providing technical consultation.	Subsidiary	Limited company	Ye Maixin
Beijing Chen Yu Tai He Property Development Company Limited	PRC	Property development, Sale and management, technical service, Information consultation	Subsidiary	Limited company	Yao Yuming

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VII RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

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

Name of enterprise	Beginning balance	Increase	Decrease	Year end balance
China Hengtian Group Company	1,801,950,000	—	—	1,810,950,000
China National Textile Machinery (Group) Co., Ltd (“CTMC”)	2,735,820,000	—	—	2,735,820,000
Jinzhong Jingwei Ring Manufacturing Company Limited	500,000	—	—	500,000
Jingwei Textile Machinery Yuci Material Company	5,000,000	—	—	5,000,000
Taiyuan Jingwei Electrical Company Limited	5,000,000	—	—	5,000,000
Ningbo Daxie Development Zone Wu Fang Hongda Company Limited	2,400,000	—	—	2,400,000
Qingdao Hongda Textile Machinery Company Limited	114,000,000	—	—	114,000,000
Tianjin Hongda Textile Machinery Company Limited	78,500,000	—	—	78,500,000
Zhengzhou Hongda New Textile Machinery Company Limited	74,500,000	—	—	74,500,000
Shenyang Hongda Textile Machinery Company Limited	71,000,000	—	—	71,000,000
Beijing Jingwei Textile Machinery New Technology Company Limited	100,000,000	—	—	100,000,000
Shanghai Weixin Electrical & Machinery Company Limited	16,000,000	—	—	16,000,000
Beijing Ximen Information Technology Company Limited	12,000,000	—	—	12,000,000
Hong Kong Huaming Company Limited	4,966,416	—	—	4,966,416
Beijing Jingpeng Investment Management Company Limited	20,000,000	80,000,000	—	100,000,000
Shanghai Chuangan Trade Company Limited	2,000,000	—	—	2,000,000
Wuxi Jingwei Textile Technology Testing Company Limited	49,530,000	—	—	49,530,000
Shanghai Jingwei Dongxing Bowing-Carding Machinery Company Limited	50,000,000	—	—	50,000,000



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VII RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

2 Changes in the registered capital of related party with controlling relationship (continued)

Name of enterprise	Beginning balance	Increase	Decrease	Year end balance
Shanxi Jingwei Heli Machinery Manufacture Company	100,000,000	—	—	100,000,000
Changde Textile Machinery Company Limited	42,349,900	—	—	42,349,900
Kunshan Jingwei Textile Machinery Company Limited	3,208,260	—	—	3,208,260
Tianjing Jingwei New Type Textile Machinery Company Limited	—	16,000,000	—	16,000,000
Tianjing Hongda Textile Machinery Component Trading Company Limited.	—	500,000	—	500,000
Shengyang Hongda Huangming Textile Machinery Company Limited	—	9,510,200	—	9,510,200
Beijing Chen Yu Tai He Property Development Company Limited	—	20,000,000	—	20,000,000

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

Name	Beginning balance amount	%	Increase	%	Decrease	%	Year end balance amount	%
China National Textile Machinery (Group) Co., Ltd ("CTMC")	220,000,000	36.44	—	—	—	—	220,000,000	36.44

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

5 Jointly controlled entities:

Name	Registered Address	Main business	Relation with the Company	Nature or type	Legal representative
Anhui Huamao Jingwei New type Textile company Limited	PRC	Production, processing and sale of various kinds of yarn and textile products, technological research and development for textile equipment and accessories and the sale of cotton.	Jointly controlled entities	Limited company	Hua guanxiong
Shanghai WSP Mould and Injection Plastic Limited	PRC	Textile machinery, automobile component, mould and general machinery's developing, manufacturing and trading.	Jointly controlled entities	Limited company	Shang zhengkai

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VII RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

6 Changes in the stock or owner's equity of the jointly controlled entities:

Name	Beginning balance amount	Increase	Decrease	Year end balance amount
Anhui Huamao Jingwei New type Textile company Limited	—	50,000,000	—	50,000,000
Shanghai WSP Mould and Injection Plastic Limited	—	500,000 EU	—	500,000 EU

7 Fellow subsidiaries in which the Company has no control:

Name of related party	Relation with the Company
Tianjin Textile Machinery Plant	Subsidiaries of holding company
Jingwei Machinery (Group) Company Limited	Subsidiaries of holding company
Hengyang Textile Machinery Plant	Subsidiaries of holding company
Shenyang Textile Machinery Plant	Subsidiaries of holding company
Wuxi Textile Machinery & Special Parts Plant	Subsidiaries of holding company
Changde Textile Machinery Plant	Subsidiaries of holding company
Changzhou Textile Machinery Plant	Subsidiaries of holding company
Taichang Textile Machinery Plant	Subsidiaries of holding company
Qingdao Textile Machinery Plant	Subsidiaries of holding company
Qingdao Textile Machinery Foundry Company Limited	Subsidiaries of holding company
Qingdao Textile Machinery Wires Company Limited	Subsidiaries of holding company
Qingdao Textile Machinery Jinhui Mould Company Limited	Subsidiaries of holding company
Zhengzhou Textile Machinery Company Limited	Subsidiaries of holding company
Zhengzhou Textile Machinery Plant	Subsidiaries of holding company
Weinan Textile Machinery Plant	Subsidiaries of holding company
China National Textile Machinery (Group) Company Limited	
Guangzhou branch office	Subsidiaries of holding company
China National Textile Machinery Group Sales Company	Subsidiaries of holding company
Huangshi Textile Machinery Plant	Subsidiaries of holding company
Shaoyang Textile Machinery Company Limited	Subsidiaries of holding company
Beijing Hongda Shiye Company Limited	Subsidiaries of holding company
Trading Committee of Zhongji Company	Subsidiaries of holding company
Shenyang Hongsheng Textile Machinery Company Limited	Subsidiaries of holding company
Shenyang Textile Machinery Spare Parts Sales Company	Subsidiaries of holding company
Yichang China National Textile Machinery Components Company Limited	Subsidiaries of holding company
Tianjin Textile Machinery Steel Stripped-down Company Limited	Subsidiaries of holding company
Tianjin Textile Machinery Heat-Treatment	Subsidiaries of holding company
Yichang China National Textile Machinery Industrial and Trading Company Limited	Subsidiaries of holding company
Hongkong Textile Machinery Company	Subsidiaries of holding company
Urumchi Jingwei Xijin Company	Subsidiaries of holding company
Hongda International Trading Company Limited	Subsidiaries of holding company
China National Textile Machinery (Group) Investment Company Limited Fellow subsidiaries	Subsidiaries of holding company
China Garments Company Limited	Subsidiaries of ultimate holding company
Jingjin Associated Packing Plant	Associates of Jingwei Group
Luhuan Construction Company limited	Associated companies
Hongda Research Company Limited	Associated companies
Hongda Investment Company Limited	Associated companies
Qingdao Jinyi Pressing and Casting Company Limited	Associated companies
Qingdao Textile Machinery Technology Co. Ltd,	Associated companies
Qingdao Qingfeng Technology Company Limited	Associated companies
Shenyang Jingxing Textile Machinery Company Limited	Associated companies



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VII RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

7 Fellow subsidiaries in which the Company has no control: (continued)

Name of related party	Relation with the Company
China National Textile Machinery Group Beijing Automatic Controlling Technology Company Limited	Associated companies
Shenzhen Bolue Science and Technology investment Company Limited	Associated companies
China Textile Technology Import and Export Corporation Limited	Associated companies
Zhengzhou Hongda Non-Woven Fabric Company Limited	Associated companies
Wuxi Hongda Textile Machinery & Special Parts Company Limited	Associated companies
Wuxi Jingwei Technology Research Center Company Limited	Associated companies

The subsidiaries of China Textile Machinery (Group) Company Limited, China Hengtian Group Company and the associated companies of Jingwei Machinery (Group) Co., Ltd are collectively referred to as “fellow subsidiaries”.

Related companies include the ultimate holding company, holding company, fellow subsidiaries, associated companies and jointly controlled entities.

8 Related party transactions

The Group is controlled by CTMC which owns 36.44% of the Company's shares. The remaining 63.56% of the shares are widely held. So the holding company of the Group is CTMC.

CTMC is the controlled subsidiary of China Hengtian Group Company (the “Controlling Shareholder”). The Controlling Shareholder and the holding company also hold investments in various fellow subsidiaries. These parties sell goods and provide relevant services and leases services to the Group. Fellow subsidiaries, similar to the Company are also under the control of the Controlling Shareholder or the holding company, and therefore constitute related parties of the Company.

(a) The following is a summary of the significant related party transactions carried out in the normal course of the Group's business:

i) Investments

	Note	For the year ended 31st December 2005	2004
Disposal of investments			
– To holding company	(i)	–	24,866,602
Purchase of other investments			
– To holding company	(i)	11,293,600	24,866,602
Acquisitions of subsidiaries			
– To fellow subsidiaries	(ii)	–	4,254,632

ii) Sales of goods and services

	Note	For the year ended 31st December 2005	2004
Sales of finished goods:			
– Fellow subsidiaries	(iii)	36,834,948	25,692,826
– Associated companies		171,935,087	186,704,926
– Jointly controlled entities		38,940,181	–
Sale of raw materials and components			
– Fellow subsidiaries	(iii)	262,828,285	278,088,055
– Associated companies		4,315,635	–
Receive of processing fee			
– Associated companies		131,534	224,848
Provision of other supporting services expense			
– Fellow subsidiaries	(iii)	6,029,442	7,092,629
Rental income			
– Fellow subsidiaries	(iii)	7,198,259	6,619,338

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VII RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

8 Related party transactions (continued)

(a) The following is a summary of the significant related party transactions carried out in the normal course of the Group's business: (continued)

iii) Purchases of goods and services

		For the year ended 31st December	
	Note	2005	2004
Purchases of finished goods:			
– Fellow subsidiaries	(iii)	502,956,310	326,413,560
Purchases of raw material and components:			
– Fellow subsidiaries	(iii)	177,007,759	105,444,917
– Associated companies		17,206,589	8,309,119
Purchase of tools model			
– Fellow subsidiaries	(iii)	16,516,977	5,973,374
Purchase of castings			
– Fellow subsidiaries	(iii)	111,429,798	95,802,714
– Associated companies		17,789,580	7,801,621
Purchase of package			
– Fellow subsidiaries	(iii)	–	25,537,439
Purchase of energy			
– Fellow subsidiaries	(iii)	13,245,338	13,594,142
Processing fees paid			
– Fellow subsidiaries	(iii)	104,573,399	93,895,651
Fees paid for transportation services			
– Fellow subsidiaries	(iii)	10,149,055	8,426,258
Fees paid for repairs and maintenance services			
– Fellow subsidiaries	(iii)	24,506,592	21,002,610
Fees paid for other supporting services			
– Fellow subsidiaries	(iii)	29,955,880	18,287,973
Rental expense			
– Fellow subsidiaries	(iii)	11,475,109	11,417,222
Staff accommodation rental expenses			
– Fellow subsidiaries	(iii)	402,024	312,477
Estate administrative expense			
– Fellow subsidiaries	(iii)	1,421,437	1,426,449
Interest expense			
– Fellow subsidiaries	(iii)	55,238	101,323

iv) Guaranteed debt

		For the year ended 31st December	
	Note	2005	2004
Guaranteed debt received:			
– Fellow subsidiaries	(iii)	74,000,000	214,000,000

v) Others

		For the year ended 31st December	
	Note	2005	2004
Balances with:			
– Holding company		385,724,300	–
– Ultimate holding company		30,000,000	–
– Fellow subsidiaries		31,317,385	–
– Associated companies		260,469,077	–



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VII RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

8 Related party transactions (continued)

(a) The following is a summary of the significant related party transactions carried out in the normal course of the Group's business: (continued)

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

In May 2005, the Company acquired 25% equity interest of Wuxi Hongda Textile Machinery & Special Parts Company Limited ("Wuxi Hongda") from the holding company at a consideration of RMB11,293,561 which has been paid by HK dollars at exchange rate on the acquisition date.

- (ii) In January 2004, the Company acquired 75% equity interest of Kunshan Jingwei Textile Machinery Manufacturing Company ("Kunshan") from the holding company at a consideration of RMB 3,190,974. Another subsidiary of the Company, also acquired the remaining 25% equity interest of Kunshan from Hong Kong Jingwei Textile Company Limited at a consideration of RMB1,063,658 in January 2004.

The consideration of the acquisition was based on the net asset of Kunshan of RMB4,254,632 as at 31st December 2003 times the proportion of acquired equity interests. The acquisition was completed in January 2004. Accordingly, the Company owned 100% equity interest in Kunshan.

- (iii) The transactions were carried out with reference to the "Composite Service Agreement" signed on 18th August 2004 between the Company and the holding company.

(b) Pricing policy

The general price policy for ongoing related party transactions:

The term of these transactions with related parties follows the Composite Service Agreements entered into by the Group and its related parties on 18th August 2004. The general pricing standards for continuing related party transactions are: Ongoing related party transactions will be conducted on normal commercial terms and conditions as agreed through fair negotiations. Pursuant to the composite services agreement, prices payable or receivable by the Group will be based on the following:

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

The Independent Non-Executive Directors have reviewed the related party transactions undertaken by the group and confirmed that:

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

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VIII CONTINGENT LIABILITIES

	Company	
	2005 Amount	2004 Amount
Discount commercial bills	289,709,150	212,000,000
Guarantees for bank loans of subsidiaries	80,000,000	82,800,000
Guarantees for bank loans of third parties	405,000,000	240,000,000
Guarantees for bank loans of a jointly controlled entity	20,000,000	—
	<u>794,709,150</u>	<u>534,800,000</u>

	Group	
	31st December 2005 Amount	31st December 2004 Amount
Discount commercial bills	289,709,150	212,000,000
Guarantees for bank loans of third parties	405,000,000	240,000,000
Guarantees for bank loans of a jointly controlled entity	10,000,000	—
	<u>704,709,150</u>	<u>452,000,000</u>

IX CAPITAL AND LEASE COMMITMENTS

As at 31st December 2005 and 31st December 2004, the following capital commitments and leasing commitments, principally for construction and equipment purchases, were outstanding:

Capital commitments

	31st December 2005 Amount	31st December 2004 Amount
Contracted but not provided for others	<u>44,142,849</u>	<u>11,364,096</u>

Lease commitments

	31st December 2005 Amount	31st December 2004 Amount
Lease in respect of land		
Within 1 year	1,717,900	2,045,103
1-2 years	1,717,900	2,045,103
2-3 years	1,717,900	2,045,103
3 years and above	3,435,800	5,153,700
	<u>8,589,500</u>	<u>11,289,009</u>

	31st December 2005 Amount	31st December 2004 Amount
Lease in respect of building		
Within 1 year	11,508,616	13,758,919
1-2 years	1,098,751	13,758,919
2-3 years	—	13,758,919
	<u>12,607,367</u>	<u>41,276,757</u>

X SUBSEQUENT EVENT

On 27th March 2006, Beijing Hualian Department Store Company Limited (“Hualian”) applied for a bank loan amounting to RMB180,000,000 with one year term. The Company provides guaranty for this loan. Meanwhile, the Company entered into a counter guarantee agreement with Beijing Hualian Group Investment Holdings Company Limited, the shareholder of Hualian, for above mentioned guarantee.

XI DEBT RESTRUCTURING

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



Notes to the Financial Statements
For the year ended 31st December 2005

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XII NET PROFIT AFTER DEDUCTING EXTRAORDINARY ITEMS

	2005
Net Profit	136,241,656
Add (Less): Extraordinary items	
– Loss on disposal of long-term investment and fixed assets	(692,929)
– Government subsidies	(4,023,972)
– Income of short-term investment	(342,073)
– Non-operating income after deducting the asset impairments	(853,156)
– Non-operating expense after deducting the asset impairments	3,165,941
– Reversal of the impairments recognised in previous years	(14,767,640)
Income tax impact of extraordinary items	411,928
Net profit after deducting the extraordinary items	<u>119,139,755</u>

XIII COMPARATIVE FIGURES

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