# Chapter XIV Accounts Prepared in Accordance with Hong Kong Financial Reporting Standards

## Consolidated Balance Sheet

(Prepared in Accordance with HKFRS)

*AS AT 31ST DECEMBER 2005*

| | Note | As at 31st December 2005 RMB'000 | As at 31st December 2004 Restated RMB'000 |
|---|---|---|---|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 7 | 1,111,207 | 1,045,805 |
| Land use rights | 6 | 150,552 | 145,526 |
| Intangible assets | 8 | 13,933 | 7,185 |
| Investments in associated companies | 10 | 118,097 | 107,173 |
| Available-for-sale financial assets | 12 | 36,744 | – |
| Investment securities | 13(a) | – | 272,493 |
| Deferred tax assets | 21 | 33,726 | 24,303 |
| | | 1,464,259 | 1,602,485 |
| Current assets | | | |
| Inventories | 14 | 1,771,977 | 1,299,968 |
| Trade and bills receivables | 15 | 1,397,444 | 729,821 |
| Prepayment to suppliers | | 169,216 | 198,308 |
| Deposits, other receivables and prepayment | | 229,811 | 88,729 |
| Amounts due from fellow subsidiaries, associated companies and joint controlled entities | 16 | 289,786 | 212,541 |
| Short-term investments | 13(b) | – | 8,526 |
| Bank balances and cash | 17 | 807,179 | 995,649 |
| | | 4,665,413 | 3,533,542 |
| Total assets | | 6,129,672 | 5,136,027 |
| EQUITY | | | |
| Capital and reserves attributable to the Company's equity holders | | | |
| Share capital | 18 | 603,800 | 603,800 |
| Other reserves | 19 | 1,695,684 | 1,553,345 |
| Retained earnings | | | |
| – Proposed final dividend | 19 | 30,190 | 30,190 |
| – Others | 19 | 363,922 | 383,558 |
| | | 2,693,596 | 2,570,893 |
| Minority interest | | 175,473 | 146,917 |
| Total equity | | 2,869,069 | 2,717,810 |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Borrowings | 20 | – | 40,000 |
| Deferred income tax liabilities | 21 | 25,949 | 1,219 |
| | | 25,949 | 41,219 |
| Current liabilities | | | |
| Trade and bills payables | 22 | 1,493,138 | 729,623 |
| Taxation payable | 23 | 52,537 | 33,661 |
| Borrowings | 20 | 709,739 | 581,552 |
| Advances from customers | | 524,658 | 619,506 |
| Amount due to holding company | 16 | 23,965 | 10,252 |
| Amount due to fellow subsidiaries | 16 | 152,416 | 107,178 |
| Other payables and accruals | | 278,201 | 295,226 |
| | | 3,234,654 | 2,376,998 |
| Total liabilities | | 3,260,603 | 2,418,217 |
| Total equity and liabilities | | 6,129,672 | 5,136,027 |
| Net current assets | | 1,430,759 | 1,156,544 |
| Total assets less current liabilities | | 2,895,018 | 2,759,029 |

The notes on pages 97 to 138 are an integral part of these consolidated financial statements.

**Ye Maoxin**
*Director*

**Yao Yuming**
*Director*

# Balance Sheet

(Prepared in accordance with HKFRS)

*AS AT 31ST DECEMBER 2005*

| | Note | As at 31st December 2005 RMB'000 | As at 31st December 2004 Restated RMB'000 |
|---|---|---|---|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 7 | 458,261 | 469,219 |
| Land use rights | 6 | 78,845 | 80,686 |
| Intangible assets | 8 | 9,030 | 978 |
| Investments in subsidiaries | 9 | 939,266 | 691,444 |
| Investments in associated companies | 10 | 114,500 | 102,000 |
| Available-for-sale financial assets | 12 | 22,354 | – |
| Investment securities | 13(a) | – | 260,287 |
| Deferred tax assets | 21 | 16,535 | 12,772 |
| | | 1,638,791 | 1,617,386 |
| Current assets | | | |
| Inventories | 14 | 605,823 | 679,877 |
| Trade and bills receivables | 15 | 738,464 | 280,364 |
| Prepayment to suppliers | | 32,574 | 69,600 |
| Deposits, other receivables and prepayment | | 217,105 | 73,109 |
| Amount due from ultimate holding company | 16 | – | 5,568 |
| Amounts due from fellow subsidiaries, associated companies and joint ventures | 16 | 181,226 | 111,649 |
| Bank balances and cash | 17 | 540,062 | 756,949 |
| | | 2,315,254 | 1,977,116 |
| Total assets | | 3,954,045 | 3,594,502 |
| EQUITY | | | |
| Capital and reserves attributable to the Company's equity holders | | | |
| Share capital | 18 | 603,800 | 603,800 |
| Other reserves | 19 | 1,576,902 | 1,449,654 |
| Retained earnings | | | |
| – Proposed final dividend | 19 | 30,190 | 30,190 |
| – Others | 19 | 87,163 | 166,551 |
| | | 2,298,055 | 2,250,195 |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Borrowings | 20 | – | 20,000 |
| Current liabilities | | | |
| Trade and bills payables | 22 | 553,607 | 296,557 |
| Taxation payables | 23 | 32,966 | 21,561 |
| Borrowings | 20 | 617,508 | 500,913 |
| Advances from customers | | 349,073 | 438,412 |
| Amount due to holding company | 16 | 4,491 | – |
| Amount due to fellow subsidiaries | 16 | 52,063 | 12,743 |
| Other payables and accruals | | 46,282 | 54,121 |
| | | 1,655,990 | 1,324,307 |
| Total liabilities | | 1,655,990 | 1,344,307 |
| Total equity and liabilities | | 3,954,045 | 3,594,502 |
| Net current assets | | 659,264 | 652,809 |
| Total assets less current liabilities | | 2,298,055 | 2,270,195 |

The notes on pages 97 to 138 are an integral part of these consolidated financial statements.

**Ye Maoxin**
*Director*

**Yao Yuming**
*Director*

# Consolidated Profit And Loss Account

(Prepared in accordance with HKFRS)

*FOR THE YEAR ENDED 31ST DECEMBER 2005*

| | | Year ended 31st December | |
|---|---|---|---|
| | | **2005** | **2004** |
| | | | Restated |
| | Note | RMB'000 | RMB'000 |
| Sales | 5 | 4,241,912 | 3,611,043 |
| Cost of sales | | (3,552,573) | (3,000,572) |
| Gross profit | | 689,339 | 610,471 |
| Other gains – net | 24 | 75,343 | 116,169 |
| Distribution expenses | | (106,540) | (119,379) |
| Administrative expenses | | (464,851) | (399,289) |
| Operating profit | 25 | 193,291 | 207,972 |
| Finance cost | 27 | (15,245) | (36,382) |
| Share of profits less losses of associated companies | 10 | 613 | (841) |
| Profit before taxation | | 178,659 | 170,749 |
| Income tax expenses | 28 | (17,141) | (10,405) |
| Profit for the year | | 161,518 | 160,344 |
| Attributable to: | | | |
| Equity holders of the Company | 29 | 153,028 | 151,321 |
| Minority interests | | 8,490 | 9,023 |
| | | 161,518 | 160,344 |
| Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share) | | | |
| – Basic and diluted | 30 | 0.25 | 0.25 |
| Dividends | 31 | 30,190 | 30,190 |

The notes on pages 97 to 138 are an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity

(Prepared in accordance with HKFRS)

*FOR THE YEAR ENDED 31ST DECEMBER 2005*

| | | Attributable to equity holders of the Company | | | Minority Interest | |
|---|---|---|---|---|---|---|
| | Note | **Share capital** RMB'000 | **Other reserves** RMB'000 | **Retained earnings** RMB'000 | RMB'000 | **Total** RMB'000 |
| Balance at 1st January 2004, as previously reported as equity | | 603,800 | 1,501,859 | 357,391 | – | 2,463,050 |
| Balance at 1st January 2004, as previously separately reported as minority interest | | – | – | – | 142,826 | 142,826 |
| **Balance at 1st January 2004**, as restated | | 603,800 | 1,501,859 | 357,391 | 142,826 | 2,605,876 |
| Net income recognised directly in equity – Exchange difference arising on translation of the accounts of a foreign subsidiary | | – | (4) | – | – | (4) |
| Profit for the year, | | – | – | 151,321 | 9,023 | 160,344 |
| Transfer from retained earnings | | – | 51,490 | (51,490) | – | – |
| Acquisition of minority interest | | – | – | – | (2,811) | (2,811) |
| Dividend relating to 2003 | 31 | – | – | (43,474) | (2,121) | (45,595) |
| **Balance at 31st December 2004** | | 603,800 | 1,553,345 | 413,748 | 146,917 | 2,717,810 |
| **Balance at 1st January 2005**, as above | | 603,800 | 1,553,345 | 413,748 | 146,917 | 2,717,810 |
| Net income recognised directly in equity – Exchange differences arising on translation of the accounts of a foreign subsidiary | | – | (135) | – | – | (135) |
| Profit for the year | | – | – | 153,028 | 8,490 | 161,518 |
| Transfer from retained earnings | | – | 142,474 | (142,474) | – | – |
| Dividend relating to 2004 | 31 | – | – | (30,190) | (1,347) | (31,537) |
| Capital contribution from minority interest | | – | – | – | 151 | 151 |
| Minority interest – Business combination | | – | – | – | 21,262 | 21,262 |
| **Balance at 31st December 2005** | | 603,800 | 1,695,684 | 394,112 | 175,473 | 2,869,069 |

The notes on pages 97 to 138 are an integral part of these consolidated financial statements.

# Consolidated Cash Flow Statement

(Prepared in Accordance with HKFRS)

*FOR THE YEAR ENDED 31ST DECEMBER 2005*

| | Note | Year ended 31st December 2005 RMB'000 | 2004 Restated RMB'000 |
|---|---|---|---|
| Operating activities | | | |
| Net cash inflow generated from operations | 36(a) | 154,278 | 32,830 |
| Interest received | | 16,001 | 17,383 |
| Interest paid | | (17,533) | (36,382) |
| PRC income tax paid | | (21,881) | (13,462) |
| Net cash inflow from operating activities | | 130,865 | 369 |
| Investing activities | | | |
| Establishment of associated companies | | (11,711) | (30,697) |
| Investment income received | | 8,474 | 29,261 |
| Purchase of intangible assets | | (9,193) | (1,969) |
| Purchase of short-term investments and investment securities | | – | (16,150) |
| Purchase of subsidiaries, net of cash acquired | 33/36(d) | (43,364) | 1,277 |
| Purchase of property, plant and equipment | | (186,704) | (201,003) |
| Purchase of land use rights | | (8,303) | (12,248) |
| Purchase of available-for-sale financial assets | | (8,050) | – |
| Proceeds on sale of short-term investments and investment securities | | 79,392 | 209,556 |
| Proceeds on sale of associated companies | | 1,400 | 6,698 |
| Proceeds on disposal of property, plant and equipment | | 10,011 | 5,557 |
| Decrease/(increase) in time deposits with maturity more than three months | | 4,816 | (10,816) |
| Increase in pledged bank balances | | (2,842) | (1,814) |
| Net cash outflow from investing activities | | (166,074) | (22,348) |
| Net cash outflow before financing activities | | (35,209) | (21,979) |
| Financing activities | | | |
| Dividends paid | | (30,190) | (43,474) |
| Dividends paid to minority shareholders | | (1,347) | (2,121) |
| Acquisition of minority interest | | – | (2,811) |
| Capital contribution from minority shareholders | | 151 | – |
| New bank loans | | 1,078,534 | 749,715 |
| Repayment of bank loans | | (1,198,300) | (539,513) |
| Net cash (outflow)/inflow from financing activities | 36(b) | (151,152) | 161,796 |
| (Decrease)/increase in cash and cash equivalents | | (186,361) | 139,817 |
| Cash and cash equivalents at 1st January | | 983,019 | 843,206 |
| Effect of foreign exchange rate changes | | (135) | (4) |
| Cash and cash equivalents at 31st December | 36(c) | 796,523 | 983,019 |

The notes on pages 97 to 138 are an integral part of these consolidated financial statements.

# Notes to the Accounts

(Prepared in Accordance with HKFRS)

## 1 GENERAL INFORMATION

Jingwei Textile Machinery Company Limited (the Company) and its subsidiaries (together the Group) manufacture and sell textile machinery. The Group has manufacturing plants and sells mainly in places within China. The registered address of the Company is 8 Yongchangzhong Road, Beijing Economic & Technological Development Zone, Beijing, the PRC. During the year, the Group acquired control of Beijing Chen Yu Tai He Property Development Co., Ltd, a property development company operating in Beijing, PRC.

These consolidated financial statements are presented in thousands of units of Renminbi (RMB'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 18th April 2006.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

The accounts have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). They have been prepared under the historical cost convention, as modified by the revaluation of available-for-sales financial assets, and financial assets and liabilities at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

The effect on adoption of new/revised HKFRS

In 2005, the Group adopted the new/revised standards of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

| | |
|---|---|
| HKAS 1 | Presentation of Financial Statements |
| HKAS 2 | Inventories |
| HKAS 7 | Cash Flow Statements |
| HKAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors |
| HKAS 10 | Events after the Balance Sheet Date |
| HKAS 16 | Property, Plant and Equipment |
| HKAS 17 | Leases |
| HKAS 21 | The Effects of Changes in Foreign Exchange Rates |
| HKAS 23 | Borrowing Costs |
| HKAS 24 | Related Party Disclosures |
| HKAS 27 | Consolidated and Separate Financial Statements |
| HKAS 28 | Investments in Associates |
| HKAS 31 | Investments in Joint Ventures |
| HKAS 32 | Financial Instruments: Disclosures and Presentation |
| HKAS 33 | Earnings per Share |
| HKAS 36 | Impairment of Assets |
| HKAS 37 | Provisions, Contingent Liabilities and Contingent Assets |
| HKAS 38 | Intangible Assets |
| HKAS 39 | Financial Instruments: Recognition and Measurement |
| HKAS 39 Amendment | Transition and Initial Recognition of Financial Assets and Financial Liabilities |
| HK (IFRIC) Int 15 | Operating Leases – Incentives |
| HKFRS 3 | Business Combinations |

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28, 31, 33, 36, 37, and HK (IFRIC) Int 15 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interest, share of profit less loss of associates and other disclosures.

– HKASs 2, 7, 8, 10, 16, 23, 27, 28, 31, 33, 36, 37 and HK (IFRIC) Int 15 had no material effect on the Group's policies.

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

# Notes to the Accounts
(Prepared in Accordance with HKFRS)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.1 Basis of preparation (continued)

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the land use rights are expensed in the profit and loss account on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the profit and loss account. In prior years, the leasehold land was accounted for at cost less accumulated depreciation and accumulated impairment losses.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets.

HKFRS 3 has been applied to the Group for acquisition effected on or after 1st January 2005.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

– HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investments in securities" to investments in securities. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1st January 2005.

– HKFRS 3 – effective from 1st January 2005.

There was no impact on opening retained earning at 1st January 2004 and 1st January 2005 from the adoption of the revised HKAS 39 and HKFRS 3.

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1st January 2006 or later periods but which the Group has not early adopted, are as follows:

(i) HKAS 19 (Amendment), Actuarial Gains and Losses, Group Plans and Disclosures (effective from 1st January 2006).

(ii) HKAS 39 (Amendment), Cash Flow Hedge Accounting for Forecast Intragroup Transactions (effective from 1st January 2006).

(iii) HKAS 39 (Amendment), The Fair Value Option (effective from 1st January 2006).

(iv) HKAS 39 and HKFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1st January 2006).

(v) HKFRS 7, Financial Instruments: Disclosures, and a complementary amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1st January 2007).

(vi) HKFRS-Int 4, Determining whether an Arrangement contains a Lease (effective from 1st January 2006).

The adoption of such standards or interpretations will not result in substantial changes to the Group's accounting policies.

# Notes to the Accounts

(Prepared in Accordance with HKFRS)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.2 Consolidation

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

#### (a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss account (see Note 2.6).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

#### (b) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the profit and loss account. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

#### (c) Associated companies

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (see Note 2.6).

The Group's share of its associated companies' post-acquisition profits or losses is recognised in the profit and loss account, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

# Notes to the Accounts

(Prepared in Accordance with HKFRS)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.2 Consolidation (continued)

#### (c) Associated companies (continued)

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

#### (d) Jointly controlled entities

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that it is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

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

### 2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

### 2.4 Foreign currency translation

#### (a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and presentation currency.

#### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are, included in the fair value reserve in equity.

#### (c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

# Notes to the Accounts

(Prepared in Accordance with HKFRS)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.4 Foreign currency translation (continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### 2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the profit and loss account during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Buildings | 9 to 50 years |
| Machinery and equipment | 7 to 22 years |
| Motor vehicles | 9 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing the proceeds received with the carrying amount. These are included in the profit and loss account. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

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

### 2.6 Intangible assets

#### (a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill on acquisitions of subsidiaries, jointly controlled entities is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

#### (b) Patents and trademark

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

# Notes to the Accounts

(Prepared in Accordance with HKFRS)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.6 Intangible assets (continued)

#### (c) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of five years.

#### (d) Research and development costs

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

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

### 2.7 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### 2.8 Financial Assets

From 1st January 2004 to 31st December 2004:

The Group classified its investments in securities, other than subsidiaries, associates and jointly controlled entities, as investment securities and short-term investments.

#### (a) Investment securities

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

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

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

#### (b) Short-term investment

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

# Notes to the Accounts

(Prepared in Accordance with HKFRS)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.8 Financial Assets (continued)

From 1st January 2005 onwards:

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

**(a) Financial assets at fair value through profit or loss**

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

**(b) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as "trade and other receivable" in the balance sheet (Note 2.10).

**(c) Available-for-sale financial assets**

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the profit and loss account. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value.

Gains and losses arising, from changes in the fair value of the "financial assets at fair value through profit or loss" category including interest and dividend income, are presented in the income statement within "other gains – net", in the period in which they arise.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the profit and loss account as "gains and losses from investment securities". Interest on available-for-sale securities calculated using the effective interest method is recognised in the profit and loss account. Dividends on available-for-sale equity instruments are recognised in the profit and loss account when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

# Notes to the Accounts

(Prepared in Accordance with HKFRS)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.8 Financial Assets (continued)

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the profit and loss account – is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account. Impairment testing of trade and other receivables is described in Note 2.10.

### 2.9 Inventories

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

Components and consumables are stated at cost less any provision for obsolescence. Property under development held for sales are also classified under inventory are stated at cost.

### 2.10 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

### 2.11 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

### 2.12 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### 2.13 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

# Notes to the Accounts

(Prepared in Accordance with HKFRS)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.14 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associated companies and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

### 2.15 Borrowing costs

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

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

### 2.16 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged in the profit and loss account on a straight-line basis over the period of the lease.

The upfront prepayments made for land use rights are expensed in the profit and loss account on a straight-line basis over the period of the right or where there is impairment, the impairment is expensed in the profit and loss account.

### 2.17 Employee benefits

#### (a) Employee leave entitlements

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

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

#### (b) Bonus plans

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

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

#### (c) Retirement benefit costs

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

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

# Notes to the Accounts

(Prepared in Accordance with HKFRS)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.18 Provision

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

### 2.19 Revenue recognition

Revenue comprises the fair value of the sale of goods and services, net of value-added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

**(a) Sales of goods**

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

**(b) Interest income**

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

**(c) Investment income**

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

### 2.20 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

### 2.21 Comparatives

The Group previously disclosed interest income within 'interest expenses, net". Management believes that their inclusion in 'other gains-net' is a fairer representation of the Group's activities.

# Notes to the Accounts

(Prepared in Accordance with HKFRS)

## 3 FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

**(a) Market risk**

*(i) Foreign exchange risk*

The Group mainly operates in the PRC with most of the transactions settled in RMB and did not have significant exposure to foreign exchange risk during the period. At 31st December 2005 foreign currency (mainly Hong Kong dollars) cash and bank balances were RMB36,393,000 in aggregate. The conversion of Renminbi into foreign currencies is subject to the rules and regulation of the foreign exchange control promulgated by the PRC government.

*(ii) Price risk*

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet either as available-for-sale financial assets or as financial assets at fair value through profit or loss. The Group is not exposed to commodity price risk.

**(b) Credit risk**

The Group has no significant concentrations of credit risk. The carrying amount of the trade receivables included in the balance sheets represents the Group's maximum exposure to credit risk in relation to its financial assets. The Group has policy in place to ensure that sales of products are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the directors are of the opinion that adequate provision for uncollectible trade and other receivables has been made in the profit and loss accounts.

**(c) Liquidity risk**

The Group ensure that it maintains sufficient cash and committed credit facilities, which are available to meet its liquidity requirements.

**(d) Cash flow and fair value interest rate risk**

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow risk. There is no fixed rate long-term borrowing in the Group.

### 3.2 Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less impairment provision of trade and other receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

# Notes to the Accounts

(Prepared in Accordance with HKFRS)

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

**(i) Estimated impairment of land use right, property, plant and equipment**

The Group tests whether land use right, property, plant and equipment has suffered any impairment, in accordance with the accounting policy stated in Note 2.7. Reference is made to value-in-use calculations for the purpose of assessing any potential impairment.

**(ii) Income taxes**

The Group is subject to income taxes in PRC. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

## 5 REVENUE, TURNOVER AND SEGMENT INFORMATION

Sales represents the value of goods sold, net of value added tax ("VAT"). VAT was assessed on the Group's sales at the statutory rate of 17% less deductible input VAT (2004: 17%).

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

| | 2005<br>RMB'000 | 2004<br>RMB'000 |
|---|---|---|
| Revenues | | |
| Sale of goods | 4,241,912 | 3,611,043 |

**Primary reporting format – business segments**

No analysis on business segments for the year ended 31st December 2005 and 31st December 2004 is presented as the Group engaged only in the manufacture and sale of textile machinery during the years.

**Secondary reporting format – geographical segments**

| | Turnover | | Segment results | | Total assets | | Capital expenditure | |
|---|---|---|---|---|---|---|---|---|
| | 2005<br>RMB'000 | 2004<br>RMB'000 | 2005<br>RMB'000 | Restated<br>2004<br>RMB'000 | 2005<br>RMB'000 | 2004<br>RMB'000 | 2005<br>RMB'000 | 2004<br>RMB'000 |
| China | 3,918,074 | 3,234,668 | 181,301 | 171,685 | 5,929,197 | 4,957,389 | 189,095 | 182,937 |
| Other countries | 323,838 | 376,375 | (3,322) | 7,026 | 82,378 | 71,465 | – | – |
| | 4,241,912 | 3,611,043 | 177,979 | 178,711 | 6,011,575 | 5,028,854 | 189,095 | 182,937 |
| Investment income | | | 15,312 | 29,261 | | | | |
| Operating profit | | | 193,291 | 207,972 | | | | |
| Investments in associated companies | | | | | 118,097 | 107,173 | | |
| Total assets | | | | | 6,129,672 | 5,136,027 | | |

# Notes to the Accounts
(Prepared in Accordance with HKFRS)

## 6. LAND USE RIGHTS

The interests in land use rights represent prepaid operating lease payments and their net book value are analysed as follows:

| **Group** | **2005** RMB'000 | **2004** RMB'000 |
|---|---|---|
| At 1st January | 145,526 | 136,458 |
| Additions | 8,303 | 12,248 |
| Amortisation of prepaid operating lease payment (Note 25) | (3,277) | (3,180) |
| At 31st December | 150,552 | 145,526 |
| **Company** | | |
| At 1st January | 80,686 | 82,527 |
| Amortisation of prepaid operating lease payment | (1,841) | (1,841) |
| At 31st December | 78,845 | 80,686 |

The land use rights of the group and company are held on medium term leases with unexpired terms of between 10 to 50 years. There are no pledged land use rights for bank loans.

## 7 PROPERTY, PLANT AND EQUIPMENT

**Group**

| | **Buildings** RMB'000 | **Machinery and equipment** RMB'000 | **Motor vehicles** RMB'000 | **Construction in progress** (note a) RMB'000 | **Total** RMB'000 |
|---|---|---|---|---|---|
| **At 1st January 2004** | | | | | |
| Cost | 476,969 | 1,252,142 | 70,955 | 95,799 | 1,895,865 |
| Accumulated depreciation | (157,321) | (732,748) | (23,904) | – | (913,973) |
| Net book amount | 319,648 | 519,394 | 47,051 | 95,799 | 981,892 |
| **Year ended 31st December 2004** | | | | | |
| Opening net book amount | 319,648 | 519,394 | 47,051 | 95,799 | 981,892 |
| Acquisition of subsidiary | 1,026 | 369 | 642 | – | 2,037 |
| Additions | 12,220 | 56,027 | 8,248 | 90,269 | 166,764 |
| Transfer upon completion | 33,551 | 81,882 | 2,640 | (118,073) | – |
| Depreciation | (19,135) | (75,542) | (4,778) | – | (99,455) |
| Disposals | (60) | (4,823) | (550) | – | (5,433) |
| Closing net book amount | 347,250 | 577,307 | 53,253 | 67,995 | 1,045,805 |
| **At 31st December 2004** | | | | | |
| Cost | 527,446 | 1,370,890 | 80,831 | 67,995 | 2,047,162 |
| Accumulated depreciation | (180,196) | (793,583) | (27,578) | – | (1,001,357) |
| Net book amount | 347,250 | 577,307 | 53,253 | 67,995 | 1,045,805 |
| **Year ended 31st December 2005** | | | | | |
| Opening net book amount | 347,250 | 577,307 | 53,253 | 67,995 | 1,045,805 |
| Acquisition of subsidiary (Note 33) | – | – | 2,424 | – | 2,424 |
| Additions | 2,906 | 42,142 | 9,339 | 117,211 | 171,598 |
| Transfer upon completion | 47,059 | 75,969 | – | (123,028) | – |
| Depreciation | (14,113) | (79,275) | (5,915) | – | (99,303) |
| Disposals | (2,698) | (4,079) | (2,540) | – | (9,317) |
| Closing net book amount | 380,404 | 612,064 | 56,561 | 62,178 | 1,111,207 |
| **At 31st December 2005** | | | | | |
| Cost | 572,726 | 1,459,814 | 88,637 | 62,178 | 2,183,355 |
| Accumulated depreciation | (192,322) | (847,750) | (32,076) | – | (1,072,148) |
| Net book amount | 380,404 | 612,064 | 56,561 | 62,178 | 1,111,207 |

# Notes to the Accounts
(Prepared in Accordance with HKFRS)

## 7 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

**Company**

| | Buildings | Machinery and equipment | Motor vehicles | Construction in progress (note a) | Total |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **At 1st January 2004** | | | | | |
| Cost | 224,913 | 617,740 | 23,508 | 43,178 | 909,339 |
| Accumulated depreciation | (75,930) | (381,214) | (7,992) | – | (465,136) |
| Net book amount | 148,983 | 236,526 | 15,516 | 43,178 | 444,203 |
| **Year ended 31st December 2004** | | | | | |
| Opening net book amount | 148,983 | 236,526 | 15,516 | 43,178 | 444,203 |
| Additions | 696 | 20,958 | 1,931 | 44,379 | 67,964 |
| Transfer upon completion | 26,852 | 34,969 | 2,123 | (63,944) | – |
| Depreciation | (5,775) | (35,422) | (665) | – | (41,862) |
| Disposals | (123) | (1,061) | 98 | – | (1,086) |
| Closing net book amount | 170,633 | 255,970 | 19,003 | 23,613 | 469,219 |
| **At 31st December 2004** | | | | | |
| Cost | 252,286 | 663,866 | 27,562 | 23,613 | 967,327 |
| Accumulated depreciation | (81,653) | (407,896) | (8,559) | – | (498,108) |
| Net book amount | 170,633 | 255,970 | 19,003 | 23,613 | 469,219 |
| **Year ended 31st December 2005** | | | | | |
| Opening net book amount | 170,633 | 255,970 | 19,003 | 23,613 | 469,219 |
| Additions | 1,518 | 5,199 | 2,224 | 27,999 | 36,940 |
| Transfer upon completion | 1,833 | 33,211 | – | (35,044) | – |
| Depreciation | (6,325) | (35,736) | (819) | – | (42,880) |
| Disposals (note 36) | (534) | (2,688) | (1,796) | – | (5,018) |
| Closing net book amount | 167,125 | 255,956 | 18,612 | 16,568 | 458,261 |
| **At 31st December 2005** | | | | | |
| Cost | 255,102 | 683,869 | 27,874 | 16,568 | 983,413 |
| Accumulated depreciation | (87,977) | (427,913) | (9,262) | – | (525,152) |
| Net book amount | 167,125 | 255,956 | 18,612 | 16,568 | 458,261 |

Note:

(a) At 31st December 2005, construction in progress comprises expenditure incurred, including interest expenses capitalised, on buildings, machinery and equipment and motor vehicles of the Group and the Company which have not yet been commensed as at the balance sheet date.

## Notes to the Accounts
(Prepared in Accordance with HKFRS)

### 8 INTANGIBLE ASSETS

| Group | Machinery trademark RMB'000 | Software RMB'000 | Total RMB'000 |
|---|---|---|---|
| **At 1st January 2004** | | | |
| Cost | 3,061 | 7,515 | 10,576 |
| Accumulated amortisation and impairment | (2,735) | (1,137) | (3,872) |
| Net book amount | 326 | 6,378 | 6,704 |
| **Year ended 31st December 2004** | | | |
| Opening net book amount | 326 | 6,378 | 6,704 |
| Additions | – | 1,969 | 1,969 |
| Amortisation expense (Note 25) | (201) | (1,287) | (1,488) |
| Closing net book amount | 125 | 7,060 | 7,185 |
| **At 31st December 2004** | | | |
| Cost | 3,061 | 9,484 | 12,545 |
| Accumulated amortisation and impairment | (2,936) | (2,424) | (5,360) |
| Net book amount | 125 | 7,060 | 7,185 |
| **Year ended 31st December 2005** | | | |
| Opening net book amount | 125 | 7,060 | 7,185 |
| Additions | 7,434 | 1,759 | 9,193 |
| Amortisation expense (Note 25) | (683) | (1,762) | (2,445) |
| Closing net book amount | 6,876 | 7,057 | 13,933 |
| **At 31st December 2005** | | | |
| Cost | 10,495 | 11,243 | 21,738 |
| Accumulated amortisation and impairment | (3,619) | (4,186) | (7,805) |
| Net book amount | 6,876 | 7,057 | 13,933 |

| Company | Patent and trademark RMB'000 | Software RMB'000 | Total RMB'000 |
|---|---|---|---|
| **At 1st January 2004** | | | |
| Cost | 2,000 | 700 | 2,700 |
| Accumulated amortisation and impairment | (1,682) | (207) | (1,889) |
| Net book amount | 318 | 493 | 811 |
| **Year ended 31st December 2004** | | | |
| Opening net book amount | 318 | 493 | 811 |
| Additions | – | 569 | 569 |
| Amortisation expense | (200) | (202) | (402) |
| Closing net book amount | 118 | 860 | 978 |
| **At 31st December 2004** | | | |
| Cost | 2,000 | 1,269 | 3,269 |
| Accumulated amortisation and impairment | (1,882) | (409) | (2,291) |
| Net book amount | 118 | 860 | 978 |
| **Year ended 31st December 2005** | | | |
| Opening net book amount | 118 | 860 | 978 |
| Additions | 7,434 | 1,759 | 9,193 |
| Amortisation expense | (683) | (458) | (1,141) |
| Closing net book amount | 6,869 | 2,161 | 9,030 |
| **At 31st December 2005** | | | |
| Cost | 9,434 | 3,028 | 12,462 |
| Accumulated amortisation and impairment | (2,565) | (867) | (3,432) |
| Net book amount | 6,869 | 2,161 | 9,030 |

# Notes to the Accounts
(Prepared in Accordance with HKFRS)

## 9 INVESTMENTS IN SUBSIDIARIES

| | Company 2005 | 2004 |
|---|---|---|
| | RMB'000 | RMB'000 |
| Unlisted investments, at cost | 706,375 | 614,375 |
| Amounts due from subsidiaries | 232,891 | 77,069 |
| | 939,266 | 691,444 |

Amounts due from subsidiaries are unsecured and bear interest at market rate.

Set out below are particulars of the subsidiaries at 31st December 2005.

| Name of company | Date of establishment | Registered capital | Percentage of equity interest held by the Group | Company | Principal activities |
|---|---|---|---|---|---|
| | | RMB | % | % | |
| Jingwei Textile Machinery Yuci Material Company Limited | 9th July 1996 | 5,000,000 | 100 | 99.2 | Trading of furnace materials, metals, textile machinery component and charcoal |
| Taiyuan Jingwei Electrical Company Limited | 18th March 1997 | 5,000,000 | 100 | 98 | Manufacturing and selling of transformers and electrical components |
| Ningbo Daxie and Develop Zone Wu Fang Hongda Limited | 22nd September 1999 | 2,400,000 | 100 | 98 | Sale of textile machinery and related components |
| Qingdao Hongda Textile Machinery Company Limited | 16th August 1999 | 114,000,000 | 98 | 98 | Manufacturing, selling, repairing and leasing of textile machinery and related components |
| Tianjin Hongda Textile Machinery Company Limited | 17th August 1999 | 78,500,000 | 98 | 98 | Provision of technical consultancy services, sales of textile, photocopying, agriculture processing machinery and related components |
| Zhengzhou Hongda New Textile Machinery Company Limited | 11th August 1999 | 74,500,000 | 98 | 98 | Developing and manufacturing of textile machinery and related components |
| Shenyang Hongda Textile Machinery Company Limited | 16th August 1999 | 71,000,000 | 98 | 98 | Developing, manufacturing and processing of textile machinery and related components and provision of technological consultancy services |

# Notes to the Accounts

(Prepared in Accordance with HKFRS)

## 9 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

| Name of company | Date of establishment | Registered capital RMB | Percentage of equity interest held by the Group % | Percentage of equity interest held by the Company % | Principal activities |
|---|---|---|---|---|---|
| Changde Textile Machinery Company Limited | 5th January 2002 | 42,349,900 | 95 | 70 | Manufacturing and trading of textile machinery and other machinery, powder metallurgy (regulated by special regulations) |
| Beijing Jingwei Textile New Technology Company Limited | 2nd March 2000 | 100,000,000 | 98.4 | 98.4 | Technical developing and manufacturing of textile machinery and computer software and hardware, sale of textile, industrial specialised machinery, agricultural machinery, instruments and panel and automobile components. |
| Shanghai Weixin Electrical and Machinery Company Limited | 30th June 2000 | 16,000,000 | 100 | 90 | Textile machinery, automobile component and general machinery's developing and manufacturing |
| Beijing Jingpeng Investment Management Company Limited | 30th July 2001 | 100,000,000 | 100 | 96 | 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 |
| Shanghai Chuangan Trade Company Limited | 29th September 2001 | 2,000,000 | 90 | 90 | Trading of textile, electronic products and chemical products (other than dangerous products) , metal construction materials, wood, cement, mining-related sub-products. |
| Shanghai Jingwei Dongxing blowing-carding Machinery Company Limited | 5th September 2001 | 50,000,000 | 83.874 | 73.874 | Manufacturing and selling of blowing-carding machinery and related components |
| Beijing Ximen Information Technology Company Limited | 7th June 2001 | 6,600,000 | 63.08 | – | R&D and sales management softwares |

# Notes to the Accounts

(Prepared in Accordance with HKFRS)

## 9 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

| Name of company | Date of establishment | Registered capital RMB | Percentage of equity interest held by the Group % | Percentage of equity interest held by the Company % | Principal activities |
|---|---|---|---|---|---|
| Wuxi Jingwei Textile Scientific Research Company Limited | 14th May 2003 | 49,530,000 | 55 | 55 | Manufacturing and selling of textile products; research and development of technology related to textile machinery and equipments |
| Beijing Hong da Fangji Enterprise's Management Consulting Company Limited | 24th September 2001 | 3,800,000 | 100 | – | Providing management consultation and corporate image services, technology of search, transfer, training and consultation services, computer design, organisation of outflow activities and exhibitions |
| Kunshan Jingwei Machinery Manufacturing Company | 20th July 1991 | 3,208,200 | 100 | 75 | Manufacturing and installation of textile machines and providing after sales services, sales of own made products |
| Tianjing Jingwei New Type Hongda Textile Machinery Company Limited (note a) | 16th August 2005 | 16,000,000 | 100 | 75 | Developing and processing textile machinery and related components, providing technical consultation |
| Shenyang Hongda Huaming Textile Machinery Company Limited (note a) | 13th July 2005 | 40,000,000 | 98.5 | – | Developing and processing textile machinery and related components, providing technical consultation |
| Beijing Chen Yuk Tai He Property Development Co., Ltd. (note b) | 6th March 2003 | 44,000,000 | 70 | – | Property development |
| Tianjin Hongda Textile Machinery Component Trading Company Limited (note a) | 24th September 2004 | 500,000 | 90 | – | Trading of textile machinery and related components, raw materials and chemical products (other than dangerous products), providing technical consultation |
| Hong Kong Huaming Company Limited (note c) | 31st December 2000 | 4,966,416 | 100 | 100 | Imports and exports, general trading and consulting services |

# Notes to the Accounts

(Prepared in Accordance with HKFRS)

## 9 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

| Name of company | Date of establishment | Registered capital | Percentage of equity interest held by the Group | | Principal activities |
|---|---|---|---|---|---|
| | | | Group | Company | |
| | | RMB | % | % | |
| Shanxi Jingwei Heli Machinery Manufacturing Company (note d) | 26th February 2003 | 100,000,000 | 30 | 30 | Designing, manufacturing, installing, selling, importing and exporting of various electromechanical products, mining products, self-manufactured products and products used by the company its own for production and scientific research |

Notes:

(a) These subsidiaries were established in 2005 and operate in the PRC.

(b) The subsidiary, Beijing Jingpeng Investment Management Company ("Beijing Jingpeng Company") entered into a Transfer of Equity Interest Agreement with Hainan Daermei Industry Co., Ltd. Company in October 2005. According to the terms of the agreement, Beijing Jingpeng Company agreed to acquire 70% equity interest in Beijing Chen Yuk Tai He Property Development Co., Ltd. ("Beijing Chen Yuk Company") from Hainan Daermei Industry Co., Ltd. at a consideration of RMB44,000,000. The effect on Group's financial position and financial results by the acquisition is described in Note 33.

(c) Except for Hong Kong Huaming Company Limited which was incorporated in Hong Kong with limited liabilities, all other subsidiaries are limited liability companies established and operating in the PRC.

(d) The Group is able to control the composition of the board of directors of the company. Accordingly, the company is regarded as a subsidiary of the Group.

## Notes to the Accounts

(Prepared in Accordance with HKFRS)

### 10 INVESTMENTS IN ASSOCIATED COMPANIES

| | Group | |
|---|---|---|
| | **2005** | **2004** |
| | RMB'000 | RMB'000 |
| Unlisted investments, at cost | 116,911 | 106,597 |
| Share of post-acquisition profits | 1,186 | 576 |
| | 118,097 | 107,173 |

| | **2005** | **2004** |
|---|---|---|
| | RMB'000 | RMB'000 |
| Beginning of the year | 107,173 | 83,317 |
| Share of associated companies results | | |
| – profit/(loss) before taxation | 1,336 | (589) |
| –income tax expenses | (723) | (252) |
| | 613 | (841) |
| Investment during the year | 11,711 | 30,697 |
| Disposals during the year | (1,400) | (6,000) |
| End of the year | 118,097 | 107,173 |

| | Group | |
|---|---|---|
| | **2005** | **2004** |
| | RMB'000 | RMB'000 |
| **Investments in associated companies** | | |
| Assets | 234,992 | 220,357 |
| Liabilities | (116,895) | (113,184) |
| **Net assets** | 118,097 | 107,173 |
| Revenue | 259,127 | 217,717 |
| Net profit/(loss) | 613 | (841) |

| | Company | |
|---|---|---|
| | **2005** | **2004** |
| | RMB'000 | RMB'000 |
| Unlisted investments, at cost | 114,500 | 102,000 |

# Notes to the Accounts
(Prepared in Accordance with HKFRS)

## 10 INVESTMENTS IN ASSOCIATED COMPANIES (CONTINUED)

The following is a list of associated companies, all of which were established in the PRC, as at 31st December 2005.

| Name of company | Date of establishment | Registered capital RMB | Attributable equity interest % | Principal activities |
|---|---|---|---|---|
| Qingdao Jinyi Pressing and Casting Company Limited | 24th March 2000 | 3,850,000 | 27 | Pressing and casting of non-ferrous metal. Design, manufacturing and sales of model |
| Shenzhen Bolue Technology Investment Company Limited | 11th April 2001 | 85,500,000 | 40.94 | Investing, setting up and management of new enterprises and investment consultation |
| Hongda Research Company Limited | 8th May 2001 | 50,000,000 | 40 | Sale and development of environmental protective machine, textile machinery, office equipment, electronics and provision of technical support |
| Qingdao Jinshan City Company Limited | 14th March 2002 | 1,000,000 | 20 | Provision of accommodation, restaurant, hair and beauty care services, wholesale and retailing of drinks, wine, cigarettes and food |
| Qingdao Qingfeng Technology Company Limited | 9th May 2002 | 2,910,000 | 35.80 | Development of carding and textile machinery, research on textile technique; design of mould; development of electronic devices, computer software, etc |
| Qingdao Lanlifeng Laser Technology Company Limited | 9th August 2002 | 3,200,000 | 31.25 | Manufacturing and trading of laser machine and equipment, digital control machinery; maintenance and related repair services |
| Shenyang Jingxing Textile Machinery Company Limited | 5th June 2002 | 3,200,000 | 31.25 | Manufacturing of textile machinery, spare parts and related components |
| Zhengzhou Hongda Non-woven Fabric Company Limited | 10th June 2003 | 40,000,000 | 42.5 | Manufacturing and sales of various non-woven fabrics; consultation and training services of relevant techniques. Research and development of new products, techniques, equipments and materials |

# Notes to the Accounts

(Prepared in Accordance with HKFRS)

## 10 INVESTMENTS IN ASSOCIATED COMPANIES (CONTINUED)

| Name of company | Date of establishment | Registered capital RMB | Attributable equity interest % | Principal activities |
|---|---|---|---|---|
| China Textile Machinery and Technology Import and Export Corporation | 16th December 2004 | 120,000,000 | 25 | Provision of management consultation and corporate image services |
| Wuxi Jingwei Textile Scientific Research Centre Company Limited (note (a)) | 31st December 2005 | 1,000,000 | 23 | Manufacturing and selling of textile products; trading of electronic products, textile machinery and related components, raw materials; machinery and property rental |
| Wuxi Hongda Textile Machinery Company Limited (note (b)) | 13th March 2005 | 20,000,000 | 25 | Manufacturing of textile machinery and related components, general machinery and component, advanced textile machinery |

Notes:

(a) The associated company was established in 2005 and operates in the PRC.

(b) The associated company was acquired in 2005 and operates in the PRC (Note 35(a)(i)).

# Notes to the Accounts
(Prepared in Accordance with HKFRS)

## 11 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES– GROUP

The Group established two jointly controlled entitles in PRC in 2005.

| Name | Registered capital and country of incorporation | Date of establishment | Attributable equity interest | Principal activities |
|---|---|---|---|---|
| Anhui Huamao Jingwei Xin Xing Textile Company Limited | RMB50,000,000, PRC | 8th June 2005 | 50% | 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 |
| Shanghai Weixin Electrical and Machinery Co., Limited | Euro 500,000, PRC | 14th May 2005 | 50% | Textile machinery, automobile component, mould and general machinery's development manufacturing and trading |

# Notes to the Accounts

(Prepared in Accordance with HKFRS)

## 11 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES– GROUP (CONTINUED)

The following amounts represent the Group's share of the assets and liabilities, and 50% sales and results of the joint ventures and are included in the consolidated balance sheet and profit and loss account:

| | **2005** RMB'000 |
|---|---|
| **Assets:** | |
| Non-current assets | 63,966 |
| Current assets | 7,542 |
| | 71,508 |
| **Liabilities:** | |
| Long-term liabilities | 25,424 |
| Current liabilities | 18,411 |
| | 43,835 |
| **Net assets** | 27,673 |
| Income | 508 |
| Expenses | (458) |
| Profit after income tax | 50 |

As at year end, the jointly controlled entities have the following capital commitments

| | **2005** RMB'000 |
|---|---|
| Property, plant and equipment | |
| – authorised but not contracted for | 36,701 |

There are no contingent liabilities relating to the Group's interest in the joint venture, and no contingent liabilities of the venture itself.

## 12 AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | **Group** **2005** RMB'000 | **Company** **2005** RMB'000 |
|---|---|---|
| At 1st January | 272,493 | 260,287 |
| Additions | 8,050 | – |
| Disposals | (238,799) | (237,933) |
| Provision for impairment (note 25) | (5,000) | – |
| At 31st December | 36,744 | 22,354 |

There were impairment provisions of RMB5,000,000 on available-for-sale financial assets in 2005. All available-for-sale financial assets are non-current unlisted equity securities.

# Notes to the Accounts

(Prepared in Accordance with HKFRS)

## 13 INVESTMENT IN SECURITIES

### (a) Investment securities

| | Group 2004 RMB'000 | Company 2004 RMB'000 |
|---|---|---|
| Unlisted equity securities | 262,799 | 260,287 |
| Unlisted government debentures and others, at cost | 9,694 | |
| Total | 272,493 | 260,287 |

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

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

### (b) Short-term investments

| | Group 2004 RMB'000 | Company 2004 RMB'000 |
|---|---|---|
| Open investment fund, at fair value – unlisted | 8,526 | |

## 14 INVENTORIES

| | Group | | Company | |
|---|---|---|---|---|
| | 2005 RMB'000 | 2004 RMB'000 | 2005 RMB'000 | 2004 RMB'000 |
| Raw materials | 294,574 | 267,307 | 83,422 | 104,581 |
| Work in progress | 381,079 | 356,203 | 184,699 | 183,391 |
| Finished goods | 610,948 | 707,224 | 349,306 | 401,964 |
| Property under development held for sales | 520,788 | | – | – |
| | 1,807,389 | 1,330,734 | 617,427 | 689,936 |
| Less: Provision | (35,412) | (30,766) | (11,604) | (10,059) |
| | 1,771,977 | 1,299,968 | 605,823 | 679,877 |

The cost of inventories recognised as expense and included in cost of goods sold amounted to RMB3,552,573,000 (2004: RMB3,000,572,000).

# Notes to the Accounts

(Prepared in Accordance with HKFRS)

## 15 TRADE AND BILLS RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Trade and bill receivables | 1,593,330 | 883,913 | 797,406 | 316,927 |
| Less: Provision | (195,886) | (154,092) | (58,942) | (36,563) |
| | 1,397,444 | 729,821 | 738,464 | 280,364 |

At 31st December 2005, the ageing analysis of the gross trade and bills receivables were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Less than 1 year | 1,335,997 | 647,747 | 722,997 | 243,895 |
| 1-2 years | 56,358 | 81,172 | 19,524 | 36,422 |
| 2-3 years | 39,001 | 39,117 | 6,203 | 10,691 |
| Over 3 years | 161,974 | 115,877 | 48,682 | 25,919 |
| Total | 1,593,330 | 883,913 | 797,406 | 316,927 |

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

## 16 AMOUNTS DUE FROM/TO HOLDING COMPANY, FELLOW SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURE

The amounts with the holding companies are unsecured, interest free and have no fixed terms of repayment.

The amounts with fellow subsidiaries, associated companies and jointly controlled entities are unsecured, interest free and have no fixed term of repayment.

## 17 BANK BALANCES AND CASH

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

The effective interest rates on short-term bank deposits vary from 2.07% to 2.25% (2004: 1.89% to 2.25%); these deposits have an average maturity of 160 days (2004: 81 days).

## 18 SHARE CAPITAL

| | Registered, issued, and fully paid | |
|---|---|---|
| | No. of shares | RMB'000 |
| Registered, issued and fully paid | | |
| Domestic shares of RMB1.00 each | 220,000,000 | 220,000 |
| H shares of RMB1.00 each | 180,800,000 | 180,800 |
| A shares of RMB1.00 each | 203,000,000 | 203,000 |
| At 31st December 2004 and 2005 | 603,800,000 | 603,800 |

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

# Notes to the Accounts

(Prepared in Accordance with HKFRS)

## 19 RESERVES

**Group**

| | Capital reserve RMB'000 | Statutory surplus reserve (note a) RMB'000 | Statutory public welfare fund (note b) RMB'000 | Discretionary surplus reserve (note c) RMB'000 | Exchange difference RMB'000 | Retained profit RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| At 1st January 2004 | 1,249,865 | 112,093 | 112,093 | 27,764 | 44 | 357,391 | 1,859,250 |
| Transfer from profit and loss account (note a and b) | – | 25,745 | 25,745 | – | – | (51,490) | – |
| Exchange difference | – | – | – | – | (4) | – | (4) |
| Dividends | – | – | – | – | – | (43,474) | (43,474) |
| Profit for the year | – | – | – | – | – | 151,321 | 151,321 |
| At 31st December 2004 | 1,249,865 | 137,838 | 137,838 | 27,764 | 40 | 413,748 | 1,967,093 |
| Representing: | | | | | | | |
| Reserves | 1,249,865 | 137,838 | 137,838 | 27,764 | 40 | 383,558 | 1,936,903 |
| 2004 final dividends proposed | – | – | – | – | – | 30,190 | 30,190 |
| As at 31st December 2004 | 1,249,865 | 137,838 | 137,838 | 27,764 | 40 | 413,748 | 1,967,093 |
| Company and subsidiaries | 1,249,865 | 137,838 | 137,838 | 27,764 | 40 | 413,172 | 1,966,517 |
| Associated companies | – | – | – | – | – | 576 | 576 |
| At 31st December 2004 | 1,249,865 | 137,838 | 137,838 | 27,764 | 40 | 413,748 | 1,967,093 |

# Notes to the Accounts
(Prepared in Accordance with HKFRS)

## 19 RESERVES (CONTINUED)

**Group**

| | Capital reserve RMB'000 | Statutory surplus reserve (note a) RMB'000 | Statutory public welfare fund (note b) RMB'000 | Discretionary surplus reserve (note c) RMB'000 | Exchange difference RMB'000 | Retained profit RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| At 1st January 2005 | 1,249,865 | 137,838 | 137,838 | 27,764 | 40 | 413,748 | 1,967,093 |
| Transfer from profit and loss account (note a and b) | – | 21,237 | 21,237 | 100,000 | – | (142,474) | – |
| Exchange difference | – | – | – | – | (135) | – | (135) |
| Dividend paid | – | – | – | – | – | (30,190) | (30,190) |
| Profit for the year | – | – | – | – | – | 153,028 | 153,028 |
| At 31st December 2005 | 1,249,865 | 159,075 | 159,075 | 127,764 | (95) | 394,112 | 2,089,796 |
| Representing: | | | | | | | |
| Reserves | 1,249,865 | 159,075 | 159,075 | 127,764 | (95) | 363,922 | 2,059,606 |
| 2005 final dividends proposed | – | – | – | – | – | 30,190 | 30,190 |
| As at 31st December 2005 | 1,249,865 | 159,075 | 159,075 | 127,764 | (95) | 394,112 | 2,089,796 |
| Company and subsidiaries | 1,249,865 | 159,075 | 159,075 | 127,764 | (95) | 392,876 | 2,088,560 |
| Associated companies | – | – | – | – | – | 1,186 | 1,186 |
| Jointly controlled entities | – | – | – | – | – | 50 | 50 |
| At 31st December 2005 | 1,249,865 | 159,075 | 159,075 | 127,764 | (95) | 394,112 | 2,089,796 |

**Company**

| | Capital reserve RMB'000 | Statutory surplus reserve (note a) RMB'000 | Statutory public welfare fund (note b) RMB'000 | Discretionary surplus reserve (note c) RMB'000 | Retained profit RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| At 1st January 2004, as previously reported | 1,239,298 | 76,058 | 76,058 | 27,764 | 205,199 | 1,624,377 |
| Transfer from profit and loss account (note a and b) | – | 15,238 | 15,238 | – | (30,476) | – |
| Dividend paid | – | – | – | – | (43,474) | (43,474) |
| Profit for the year | – | – | – | – | 65,492 | 65,492 |
| At 31st December 2004 | 1,239,298 | 91,296 | 91,296 | 27,764 | 196,741 | 1,646,395 |
| Representing: | | | | | | |
| Reserves | 1,239,298 | 91,296 | 91,296 | 27,764 | 166,551 | 1,616,205 |
| 2004 final dividend proposed | – | – | – | – | 30,190 | 30,190 |
| As at 31st December 2004 | 1,239,298 | 91,296 | 91,296 | 27,764 | 196,741 | 1,646,395 |

# Notes to the Accounts

(Prepared in Accordance with HKFRS)

## 19 RESERVES (CONTINUED)

| | Capital reserve RMB'000 | Statutory surplus reserve (note a) RMB'000 | Statutory public welfare fund (note b) RMB'000 | Discretionary surplus reserve (note c) RMB'000 | Retained profit RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| At 1st January 2005 | 1,239,298 | 91,296 | 91,296 | 27,764 | 196,741 | 1,646,395 |
| Transfer from profit and loss account (note a and b) | – | 13,624 | 13,624 | 100,000 | (127,248) | – |
| Dividend paid | – | – | – | – | (30,190) | (30,190) |
| Profit for the year | – | – | – | – | 78,050 | 78,050 |
| At 31st December 2005 | 1,239,298 | 104,920 | 104,920 | 127,764 | 117,353 | 1,694,255 |
| Representing: | | | | | | |
| Reserves | 1,239,298 | 104,920 | 104,920 | 127,764 | 87,163 | 1,669,065 |
| 2005 final dividend proposed | – | – | – | – | 30,190 | 30,190 |
| As at 31st December 2005 | 1,239,298 | 104,920 | 104,920 | 127,764 | 117,353 | 1,694,255 |

Notes:

(a) According to the Articles of Association of respective companies comprising the Group, 10% of profit after taxation reported under PRC GAAP is required to be transferred to statutory surplus reserve until the statutory surplus reserve reaches 50% of the registered capital of the respective companies.

(b) According to the Articles of Association of respective companies comprising the Group, 10% of profit after taxation reported under PRC GAAP is required to be transferred to the statutory public welfare fund.

The statutory public welfare fund can only be used for provision of collective benefits and facilities to the Group's employees in the PRC and is non-distributable. When such kind of expenses are incurred, an equivalent amount is transferred from statutory public welfare fund to the discretionary surplus reserve and is accounted for either as an asset or as an expense on an accrual basis.

(c) According to the Company's and its subsidiaries' Articles of Association, the Board of Directors, after obtaining approval from the shareholder, 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 increased or to increase share capital. Upon approval from shareholders, the Company appropriated RMB100,000,000 from profit after taxation in 2004 to the discretionary surplus reserve fund (2003: Nil). The Company intended to appropriate RMB50,000,000 to the discretionary surplus reserve fund in 2005, which is subject to shareholders' approval. (2004: RMB100,000,000)

(d) After the transfer of the above reserves, profit available for distribution to shareholders is the lower of the profit after taxation prepared in accordance with the PRC Accounting Standards and System or prepared in accordance with Hong Kong Financial Reporting Standards. At 31st December 2005, the distributable reserve of the Company amounted to RMB117.353,000 (RMB: 196,741,000).

## 20 BORROWINGS

| | Group 2005 RMB'000 | Group 2004 RMB'000 | Company 2005 RMB'000 | Company 2004 RMB'000 |
|---|---|---|---|---|
| **Non-current** | | | | |
| Long-term bank loans, unsecured | – | 40,000 | – | 20,000 |
| **Current** | | | | |
| Current portion of long-term bank loans, unsecured | | | | |
| – RMB | 507,984 | 374,639 | 415,303 | 294,000 |
| – USD | 207,755 | 206,913 | 201,755 | 206,913 |
| | 709,939 | 581,552 | 617,058 | 500,913 |
| Total borrowings | 709,739 | 621,552 | 617,058 | 520,913 |

# Notes to the Accounts

(Prepared in Accordance with HKFRS)

## 20 BORROWINGS (CONTINUED)

The maturity of borrowings at 31st December 2005 is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Within one year | 709,739 | 581,552 | 617,058 | 500,913 |
| In the second year | – | 20,000 | – | – |
| In the third to fifth year | – | 20,000 | – | 20,000 |
| Wholly repayable within 5 years | 709,739 | 621,552 | 617,058 | 520,913 |

The effective interest rates of borrowings at 31st December 2005 are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | % | % | % | % |
| Long-term bank loans, unsecured | 3.46 – 6.14 | 3.46 – 5.31 | 3.46 – 5.75 | 3.46 – 5.31 |

The bank borrowings have contractual repricing periods of 6 months thus the carrying amounts of short-term borrowings approximate their fair values.

## 21 DEFERRED TAXATION

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 15-33% (2004: 15-33%).

The movement on the deferred tax assets/(liabilities) account is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1st January | 23,084 | 20,027 | 12,772 | 10,977 |
| Deferred taxation credited to profit and loss account (Note 28) | 10,251 | 3,057 | 3,763 | 1,795 |
| Acquisition of subsidiary (Note 33) | (25,558) | – | – | – |
| At 31st December | 7,777 | 23,084 | 16,535 | 12,772 |

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

**Group**

| | Provisions | | Impairment of assets | | Total | |
|---|---|---|---|---|---|---|
| **Deferred tax asset** | **2005** | **2004** | **2005** | **2004** | **2005** | **2004** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1st January | 12,536 | 9,002 | 11,767 | 11,795 | 24,303 | 20,797 |
| Credited/(charged) to profit and loss account | 8,816 | 3,534 | 607 | (28) | 9,423 | 3,506 |
| At 31st December | 21,352 | 12,536 | 12,374 | 11,767 | 33,726 | 24,303 |

# Notes to the Accounts

(Prepared in Accordance with HKFRS)

## 21 DEFERRED TAXATION (CONTINUED)

**Group**

| Deferred income tax liabilities | Fair value adjustment on acquisition 2005 RMB'000 | 2004 RMB'000 | Useful life adjustment 2005 RMB'000 | 2004 RMB'000 | Others 2005 RMB'000 | 2004 RMB'000 | Total 2005 RMB'000 | 2004 RMB'000 |
|---|---|---|---|---|---|---|---|---|
| At 1st January | – | – | (1,201) | – | (18) | (770) | (1,219) | (770) |
| Credited/(charged) to profit and loss account | – | – | 810 | (1,201) | 18 | 752 | 828 | (449) |
| Acquisition of a subsidiary (note 33) | (25,558) | – | – | – | – | – | (25,558) | – |
| At 31st December | (25,558) | – | (391) | (1,201) | – | (18) | (25,949) | (1,219) |

**Company**

| Deferred tax asset | Provisions 2005 RMB'000 | 2004 RMB'000 | Impairment of assets 2005 RMB'000 | 2004 RMB'000 | Total 2005 RMB'000 | 2004 RMB'000 |
|---|---|---|---|---|---|---|
| At 1st January | 2,215 | 726 | 10,557 | 10,586 | 12,772 | 11,312 |
| Credited/(charged) to profit and loss account | 3,849 | 1,489 | (86) | (29) | 3,763 | 1,460 |
| At 31st December | 6,064 | 2,215 | 10,471 | 10,557 | 16,535 | 12,772 |

| Deferred tax liabilities | Others 2005 RMB'000 | 2004 RMB'000 | Total 2005 RMB'000 | 2004 RMB'000 |
|---|---|---|---|---|
| At 1st January | – | (335) | – | (335) |
| Credited to profit and loss account | – | 335 | – | 335 |
| At 31st December | – | – | – | |

| | Group 2005 RMB'000 | 2004 RMB'000 | Company 2005 RMB'000 | 2004 RMB'000 |
|---|---|---|---|---|
| Deferred tax assets | 33,726 | 24,303 | 16,535 | 12,772 |
| Deferred tax liabilities | (25,949) | (1,219) | – | – |
| | 7,777 | 23,084 | 16,535 | 12,772 |
| The amounts shown in the balance sheet include the following: | | | | |
| Deferred tax assets to be recovered after more than 12 months | 33,726 | 24,303 | 16,535 | 12,772 |
| Deferred tax liabilities to be settled after more than 12 months | (25,949) | (1,219) | – | – |

# Notes to the Accounts
(Prepared in Accordance with HKFRS)

## 22 TRADE AND BILLS PAYABLES

At 31st December 2005, the ageing analysis of the trade and bills payables were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Less than 1 year | 1,404,181 | 692,949 | 508,040 | 291,423 |
| 1-2 years | 57,373 | 16,350 | 41,808 | 3,150 |
| 2-3 years | 5,803 | 4,095 | 1,549 | 530 |
| Over 3 years | 25,781 | 16,229 | 2,210 | 1,454 |
| Total | 1,493,138 | 729,623 | 553,607 | 296,557 |

## 23 TAXATION PAYABLE

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Income tax payable | 12,638 | 5,304 | 7,238 | 1,195 |
| Other taxes payable | 39,899 | 28,357 | 25,728 | 20,366 |
| Net taxation payable | 52,537 | 33,661 | 32,966 | 21,561 |

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

## 24 OTHER GAINS – NET

| | **2005** | **2004** |
|---|---|---|
| | RMB'000 | RMB'000 |
| Interest income from bank and a fellow subsidiary | 16,001 | 17,583 |
| Investment income | 15,312 | 29,261 |
| Realised and unrealised gain on short-term investments | 342 | 204 |
| Net gain on disposal of property, plant and equipment | 693 | 124 |
| Negative goodwill on acquisition (note 33) | 5,612 | – |
| Waiver of account payables | 534 | – |
| Sale of raw materials and others | 36,849 | 69,197 |
| | 75,343 | 116,369 |

# Notes to the Accounts

(Prepared in Accordance with HKFRS)

## 25 OPERATING PROFIT

| | 2005<br>RMB'000 | 2004<br>RMB'000 |
|---|---|---|
| Operating profit is stated after crediting and charging the following: | | |
| Crediting: | | |
| Reversal of provision for inventories obsolescence | 209 | 4,345 |
| Reversal of provision for doubtful debts | 14,559 | 5,117 |
| Charging: | | |
| Amortisation of intangible assets (note 8) | 2,445 | 1,488 |
| Auditor's remuneration | 4,900 | 3,100 |
| Cost of inventories sold | 3,552,573 | 3,000,572 |
| Depreciation (note 7) | 99,303 | 99,374 |
| Amortisation of land use rights (note 6) | 3,277 | 3,180 |
| Provision for available-for-sale financial assets (note 12) | 5,000 | – |
| Net exchange loss | – | 149 |
| Operating lease expenses – land and buildings | 12,079 | 9,531 |
| Provision for doubtful debts | 56,049 | 21,435 |
| Provision for inventories obsolescence | 10,529 | 4,299 |
| Repair and maintenance expenses | 42,678 | 43,433 |
| Research and development costs | 51,975 | 30,147 |
| Staff costs, include directors and supervisors' emoluments (Note 26) | 429,713 | 408,014 |

The cost of inventories sold for 2005 included a cost adjustment for understatement of cost of RMB3,065,000 resulted from prior year errors in costing.

## 26 STAFF COSTS

| | 2005<br>RMB'000 | 2004<br>RMB'000 |
|---|---|---|
| Wages, salaries and other benefits | 379,718 | 369,761 |
| Pension cost – defined contribution plan | 49,995 | 38,253 |
| | 429,713 | 408,014 |

**(a) Pensions – defined contribution plans**

The retirement benefit costs charged to the profit and loss account represent contributions payable by the Group to the retirement schemes totalling RMB49,995,000 (2004: RMB38,253,000), representing 27% (2004: 24%) on the aggregate amount of total salaries that participate in the retirement schemes.

At 31st December 2005, contributions totalling RMB8,239,000 (2004: RMB9,692,000) were payable to the retirement schemes and were included in other payables and accruals. There were no forfeited contributions utilised during the year or available at 31st December 2005 to reduce future contributions (2004: Nil).

# Notes to the Accounts
(Prepared in Accordance with HKFRS)

## 26 STAFF COSTS (CONTINUED)

### (b) Directors' and senior management's emoluments

The remuneration of every Director for the year ended 31st December 2005 is set out below:

| **Name of Director** | **Fees** | **Salary** | **Discretionary bonuses** | **Employer's contribution to pension scheme** | **Total** |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Ye Maoxin | – | 73,560 | 241,375 | 6,804 | 321,739 |
| Yao Yuming | – | 69,120 | 241,375 | 6,480 | 316,975 |
| Zhang Jianguo | – | 51,000 | 282,000 | 5,280 | 338,280 |
| Wang Zengjeng | 30,000 | – | – | – | 30,000 |
| Kon Hiu King, Kenneth | 30,000 | – | – | – | 30,000 |
| Gao Yong | 30,000 | – | – | – | 30,000 |
| Chen Zhong | 30,000 | – | – | – | 30,000 |
| Yu Shiquan | 30,000 | – | – | – | 30,000 |
| Peng Zeqing (i) | – | 63,120 | 222,625 | 5,760 | 291,505 |
| Dong Min (ii) | – | 54,000 | 131,300 | 4,680 | 189,980 |
| Lian Jianhua | – | 47,880 | 80,890 | 3,960 | 132,730 |
| Bao Weiguo | – | 31,921 | 53,760 | 3,072 | 88,753 |

Notes:

(i) Peng Zeqing, Vice-Chairman, Supervisory Committee, was appointed on 9th June 2005.

(ii) Dong Min, Supervisor, was resigned on 9th June 2005.

All directors did not waive their right to receive emoluments (2004: nil).

### (c) FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year include five directors (2004: five), whose emoluments are reflected in the analysis presented above.

The emoluments of the five highest paid individuals were all within the band of Nil to RMB1,050,000 (2004: Nil to RMB1,060,000), equivalent to Nil to HK$1,000,000 (2004: Nil to HK$1,000,000).

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

## 27 FINANCE COSTS

| | **2005** | **2004** |
|---|---|---|
| | RMB'000 | RMB'000 |
| Interest expenses | | |
| – Bank loans repayable within five years | 18,266 | 36,382 |
| – Other loans repayable within five years | 1,026 | – |
| Net exchange gain | (4,047) | – |
| | 15,245 | 36,382 |

# Notes to the Accounts

(Prepared in Accordance with HKFRS)

## 28 INCOME TAX EXPENSES

Hong Kong profits tax has not been provided as the Group had no taxable profits in Hong Kong for the year (2004: Nil). The Company and its subsidiaries are subject to PRC income tax on their taxable profits.

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

| | **2005** RMB'000 | **2004** RMB'000 |
|---|---|---|
| Company and subsidiaries | | |
| – PRC taxation | 27,392 | 13,462 |
| Deferred taxation (Note 21) | (10,251) | (3,057) |
| | 17,141 | 10,405 |

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

| | **2005** RMB'000 | **2004** RMB'000 |
|---|---|---|
| Profit before taxation | 178,659 | 170,749 |
| Calculated at a taxation rate of 33% (2004: 33%) | 58,957 | 56,347 |
| Income not subject to taxation | (5,306) | (5,709) |
| Expenses not deductible for taxation purposes | 2,755 | 322 |
| Effect of different tax rates | (39,265) | (40,555) |
| Taxation charge | 17,141 | 10,405 |

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

## 29 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS

The profit attributable to equity holders is dealt with in the financial statements of the Company to the extent of RMB78,050,000 (2004: RMB65,492,000).

## 30 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to equity holders of RMB153,028,000 (2004: RMB151,321,000) and the weighted average number of 603,800,000 (2004: 603,800,000) shares in issue during the year.

Diluted earnings per share is equal to the basic earnings per share since the Company has no dilutive potential shares as at 31st December 2005 and 2004.

# Notes to the Accounts

(Prepared in Accordance with HKFRS)

## 31 DIVIDENDS

| | 2005 RMB'000 | 2004 RMB'000 |
|---|---|---|
| Proposed final dividend of RMB0.05 (2004: RMB0.05) | | |
| – per promoter legal person share | 11,000 | 11,000 |
| – per A share | 10,150 | 10,150 |
| – per H share | 9,040 | 9,040 |
| | 30,190 | 30,190 |

At the Board meeting hold on 18th April 2006, the directors proposed final dividend of RMB0.05 per share. Such dividend is not reflected as dividend payable in the accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2006.

## 32 COMMITMENTS

### (a) Capital commitments

| | Group | | Company | |
|---|---|---|---|---|
| | 2005 RMB'000 | 2004 RMB'000 | 2005 RMB'000 | 2004 RMB'000 |
| Authorised but not contracted for | | | | |
| – construction and purchase of equipment | – | 14,227 | – | 14,227 |
| Contracted but not provided for | | | | |
| – construction and purchase of equipment | 44,143 | 11,364 | 4,953 | 11,364 |
| | 44,143 | 25,591 | 4,953 | 25,591 |

### (b) Lease commitments

At 31st December 2005, the Group and the Company had future aggregate minimum lease payments under non-cancellable operating leases as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2005 RMB'000 | 2004 RMB'000 | 2005 RMB'000 | 2004 RMB'000 |
| Land and buildings | | | | |
| Not later than one year | 14,048 | 15,804 | 822 | 2,466 |
| Later than one year and not later than five years | 7,970 | 35,698 | – | 2,466 |
| Later than five years | – | 1,063 | – | – |
| | 22,018 | 52,565 | 822 | 4,932 |

## 33 BUSINESS COMBINATIONS

On 1st November 2005, the Group acquired 70% of the share capital of Beijing Chen Yuk Tai He Property Development Co. Ltd, a property developer operating in PRC. As the property project is under development, the acquisition did not affect the sales of the group.

Details of net assets acquired and negative goodwill are as follows:

| | 2005 RMB'000 |
|---|---|
| Total purchase consideration | 44,000 |
| Fair value of net assets acquired – shown as below | 49,612 |
| Excess of fair value of net assets acquired over consideration (Note 24) | (5,612) |

# Notes to the Accounts

(Prepared in Accordance with HKFRS)

## 33 BUSINESS COMBINATIONS (CONTINUED)

The assets and liabilities arising from the acquisition are as follows:

| | **Fair value** RMB'000 | **Acquiree's carrying amount** RMB'000 |
|---|---|---|
| Cash and cash equivalents | 636 | 636 |
| Property, plant and equipment (Note 7) | 2,424 | 2,424 |
| Inventories | 138,023 | 60,574 |
| Receivables | 6,263 | 6,263 |
| Payables | (50,914) | (50,914) |
| Deferred tax liabilities (Note 21) | (25,558) | – |
| Net assets | 70,874 | 18,983 |
| Minority interests (30%) | (21,262) | |
| Net assets acquired | 49,612 | |

| | |
|---|---|
| Purchase consideration settled in cash | 44,000 |
| Cash and cash equivalents in subsidiary acquired | (636) |
| Cash outflow on acquisition | 43,364 |

## 34 CONTINGENT LIABILITIES

| | Group | |
|---|---|---|
| | **2005** RMB'000 | **2004** RMB'000 |
| Guarantees for bank loans of third party | 405,000 | 240,000 |
| Guarantees for bank loans of a jointly controlled entity | 10,000 | – |
| Discount of commercial bills | – | 212,000 |
| | 415,000 | 452,000 |

| | Company | |
|---|---|---|
| | **2005** RMB'000 | **2004** RMB'000 |
| Guarantees for bank loans and overdraft of subsidiaries | – | 82,800 |
| Guarantees bank loans for third parties | 405,000 | – |
| Guarantee for bank loans for a jointly controlled entity | 20,000 | – |
| | 425,000 | 82,800 |

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

# Notes to the Accounts

(Prepared in Accordance with HKFRS)

## 35 RELATED PARTIES TRANSACTIONS

The Group is controlled by China Textile Machinery (Group) Company Limited which owns 36.44% of the Company's shares. The remaining 63.56% of the shares are widely held. The holding company of the Group is China Textile Machinery Group. China Textile Machinery Group is the controlled subsidiary of China Hengtian Group Company (the "Ultimate holding company"). The ultimate holding company and the holding company also holds investments in various subsidiaries ("Fellow Subsidiaries"). These parties sell goods and provide relevant services and leases to the Company and vice versa. Fellow subsidiaries, similar to the Company are also under the control of the holding company or ultimate holding company, and therefore constitute related parties of the Company.

The ultimate holding company itself is a state-owned enterprise controlled by the PRC government. In accordance with HKAS 24, "Related Party Disclosures", state-owned enterprises and their subsidiaries, ("Other state-owned (entities) other than the ultimate holding company, directly or indirectly controlled by the PRC government are also defined as related parties of the Group.

For purpose of related party transaction disclosure, the Group has identified the immediate ownership structure of its customers and suppliers as to whether they are state-owned enterprises. Many state-owned enterprises have multi-layered corporate structure and the ownership structures change over time as a result of transfers and privatisation programmes. Due to the pervasiveness of the Group's retail transactions with the entities' employees on corporate business, their key management personnel and close family members, and other related parties, there is no feasible way to track such transactions and ensure the completeness of certain disclosures. Nevertheless, management believes that meaningful information relative to related party transactions has been disclosed.

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

### i) Investments

| | | For the year ended 31st December | |
|---|---|---|---|
| | | **2005** | **2004** |
| | Note | RMB'000 | RMB'000 |
| Disposal of investments | | | |
| – To holding company | (i) | – | 24,887 |
| Purchase of other investments | | | |
| – To holding company | (i) | 11,294 | 24,887 |
| Acquisitions of subsidiaries | | | |
| – To fellow subsidiaries | (ii) | – | 4,255 |

### ii) Sales of goods and services

| | | For the year ended 31st December | |
|---|---|---|---|
| | | **2005** | **2004** |
| | Note | RMB'000 | RMB'000 |
| Sales of finished goods | | | |
| – Fellow subsidiaries | (iii) | 36,835 | 25,693 |
| – Associated companies | | 171,935 | 186,705 |
| – Jointly controlled entities | | 38,940 | – |
| Sale of raw materials and components | | | |
| – Fellow subsidiaries | (iii) | 262,828 | 278,088 |
| – Associated companies | | 4,316 | – |
| Receive of processing fee | | | |
| – Associated companies | | 132 | 225 |
| Provision of other supporting services expense | | | |
| – Fellow subsidiaries | (iii) | 6,029 | 7,093 |
| Rental income | | | |
| – Fellow subsidiaries | (iii) | 7,198 | 6,619 |
| Interest income | | | |

# Notes to the Accounts
(Prepared in Accordance with HKFRS)

## 35 RELATED PARTIES TRANSACTIONS (CONTINUED)

### iii) Purchases of goods and services

| | Note | For the year ended 31st December 2005 RMB'000 | 2004 RMB'000 |
|---|---|---|---|
| Purchases of finished goods: | | | |
| – Fellow subsidiaries | (iii) | 502,956 | 326,414 |
| Purchases of raw material and components: | | | |
| – Fellow subsidiaries | (iii) | 177,008 | 105,445 |
| – Associated companies | | 17,207 | 8,309 |
| Purchase of tools model | | | |
| – Fellow subsidiaries | (iii) | 16,517 | 5,973 |
| Purchase of castings | | | |
| – Fellow subsidiaries | (iii) | 111,430 | 95,803 |
| – Associated companies | | 17,790 | 7,802 |
| Purchase of package | | | |
| – Fellow subsidiaries | (iii) | – | 25,537 |
| Purchase of energy | | | |
| – Fellow subsidiaries | (iii) | 13,245 | 13,594 |
| Processing fees paid | | | |
| – Fellow subsidiaries | (iii) | 104,573 | 93,896 |
| Fees paid for transportation services | | | |
| – Fellow subsidiaries | (iii) | 10,149 | 8,426 |
| Fees paid for repairs and maintenance services | | | |
| – Fellow subsidiaries | (iii) | 24,507 | 21,003 |
| Fees paid for other supporting services | | | |
| – Fellow subsidiaries | (iii) | 29,956 | 18,288 |
| Rental expense | | | |
| – Fellow subsidiaries | (iii) | 11,475 | 11,417 |
| Staff accommodation rental expenses | | | |
| – Fellow subsidiaries | (iii) | 402 | 312 |
| Estate administrative expense | | | |
| – Fellow subsidiaries | (iii) | 1,421 | 1,426 |
| Interest expense | | | |
| – Fellow subsidiaries | (iii) | 55 | 101 |
| Received debt | | | |

### iv) Guaranteed debt

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

### v) Others

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

# Notes to the Accounts

(Prepared in Accordance with HKFRS)

**vi) Relatered party transactions with other State-owned entities**

| | | For the year ended 31st December | |
|---|---|---|---|
| | | **2005** | **2004** |
| | Note | RMB'000 | RMB'000 |
| Sales of finished goods | | 424,444 | 395,939 |
| Sale of raw materials and components | | 125,967 | 120,233 |
| Provision of other supporting services expense | | – | 17 |
| Interest income | | 1,494 | 1,081 |
| Purchases of finished goods: | | 106,762 | 16,281 |
| Purchases of raw material and components: | | 133,850 | 334,781 |
| Purchase of tools model | | 80 | 584 |
| Purchase of energy | | 56,868 | 50,854 |
| Processing fees paid | | 4,001 | 1,736 |
| Fees paid for transportation services | (iii) | – | 20 |
| Fees paid for repairs and maintenance services | | 3,248 | 140 |
| Interest expense | | 7,434 | 8,167 |
| Received debt | | 164,000 | 214,000 |

**vii) Key management compensation**

| | For the twelve months ended 31st December | |
|---|---|---|
| | **2005** | **2004** |
| | RMB'000 | RMB'000 |
| Salaries and other short-term employee benefits | 8,329 | 5,763 |
| Post-employment benefits | 105 | 103 |
| | 8,434 | 5,866 |

(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.

The Company's subsidiary Hong Kong Huaming Company Limited acquired 25% equity interest of Wuxi Hongda Texparts Company Limited from China Textile Machinery (Group) Company Limited at a consideration of RMB11,294,000 in May 2005. The acquisition is in HK$. (Investment amount is calculated based on RMB basis 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 ultimate holding company at a consideration of RMB3,190,974. Another subsidiary of the Company, also acquired the remaining 25% equity interest of Kunshan from Hong Kong Jingwei Textile Company Limited in January 2004.

The consideration of the acquisition was based on the audited net asset value of Kunshan, 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% interest in Kunshan.

(iii) The transactions between the Group and its fellow subsidiaries were carried out with reference to the "Service Agreement" signed on 18th August 2004.

# Notes to the Accounts

(Prepared in Accordance with HKFRS)

## 36 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Reconciliation of operating profit to net cash inflow from operating activities

| | 2005<br>RMB'000 | 2004<br>RMB'000 |
|---|---|---|
| Operating profit | 193,291 | 207,972 |
| Depreciation | 99,303 | 102,635 |
| (Gain)/loss on disposal of property, plant and equipment | (694) | (124) |
| Amortisation of intangible assets | 2,445 | 1,488 |
| Amortisation of land use right | 3,277 | – |
| Realised and unrealised gain on short-term investments | – | (204) |
| Provision of available-for-sale financial assets | 5,000 | – |
| Investment income | (15,664) | (29,261) |
| Interest income | (16,001) | (17,383) |
| Operating profit before working capital changes | 270,957 | 265,123 |
| (Increase)/decrease in inventories | (333,986) | 300,451 |
| (Increase)/decrease in trade and bills receivables, deposits other receivables and prepayments | (386,229) | 42,772 |
| Decrease in amount due from ultimate holding company | – | 19,101 |
| (Increase)/decrease in amounts due from fellow subsidiaries | (77,245) | 71,278 |
| Negative goodwill | (5,612) | – |
| Increase/(decrease) in trade and bills payables, other payables and accruals and advances from customers | 614,077 | (593,495) |
| Increase in amount due to Jingwei Group Company | 13,713 | – |
| Increase/(decrease) in amounts due to fellow subsidiaries | 45,238 | (92,411) |
| Increase in other taxation payable | 13,365 | 20,011 |
| Net cash inflow from operating activities | 154,278 | 32,830 |

In the cash flow statement, proceeds from the disposal of property, plant and equipment comprise:

| | 2005<br>RMB'000 | 2004<br>RMB'000 |
|---|---|---|
| Net book amount (Note 7) | 9,317 | 5,433 |
| Profit on sale of property, plant and equipment | 694 | 124 |
| Proceeds from sale of property, plant and equipment | 10,011 | 5,557 |

### (b) Analysis of financing activities

| | 2005<br>RMB'000 | 2004<br>RMB'000 | 2005<br>RMB'000 | 2004<br>RMB'000 |
|---|---|---|---|---|
| At 1st January | 146,917 | 142,826 | 833,552 | 411,350 |
| Acquisition of subsidiaries | 21,262 | – | – | – |
| Capital from minority interest | 151 | – | – | – |
| Share investment in fellow subsidiaries which changed to unlisted companies | – | (2,811) | – | – |
| Profit attributable to minority interest | 8,490 | 9,023 | – | – |
| Dividends to minority interest | (1,347) | (2,121) | – | – |
| Net exchange gain | – | – | (4,047) | – |
| Net cash (inflow)/outflow from financing activities | – | – | (119,766) | 210,202 |
| At 31st December | 175,473 | 146,917 | 709,739 | 621,552 |

# Notes to the Accounts

(Prepared in Accordance with HKFRS)

## 36 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

### (c) Analysis of the balances of cash and cash equivalents

| | **2005** RMB'000 | **2004** RMB'000 |
|---|---|---|
| Bank balances and cash | 807,179 | 995,649 |
| Bank balances and cash – pledged | (4,656) | (1,814) |
| Time deposits with maturity more than three months | (6,000) | (10,816) |
| | 796,523 | 983,019 |

### (d) Acquisition of subsidiaries

| | **2004** RMB'000 |
|---|---|
| Net assets acquired | |
| Property, plant and equipment (note 7) | 2,285 |
| Inventories | 3,164 |
| Trade and other receivables | 5,581 |
| Bank balances and cash | 5,532 |
| Trade and other payables | (12,512) |
| Other taxes payable | 205 |
| Total purchase consideration satisfied by cash | 4,255 |

Analysis of the net cash outflow in respect of the purchase of subsidiaries:

| | **2004** RMB'000 |
|---|---|
| Cash consideration | (4,255) |
| Bank balances and cash in hand acquired | 5,532 |
| Net cash outflow in respect of the purchase of subsidiaries | 1,277 |

## 37 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 an counter guarantee agreement with Beijing Hualian Group Investment Holdings Company Limited, the shareholder of Hualian ,for above mentioned guarantee.

## 38 ULTIMATE HOLDING COMPANY

The directors regard China Hengtian Group Company Limited, a stated-owned enterprise established in the PRC, the Company's ultimate holding company.