

Chapter XII Financial Statements Prepared in Accordance with the PRC Accounting Standards and System

Balance Sheet

As At 31st December 2006

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

ASSETS	NOTE	GROUP 31ST DECEMBER 2006	GROUP 31ST DECEMBER 2005	COMPANY 31ST DECEMBER 2006	COMPANY 31ST DECEMBER 2005
Current assets					
Cash at bank and in hand	V 1	905,280,655	807,178,788	567,263,965	540,061,991
Short-term investment	V 2	136,885,556	—	135,004,635	—
Notes receivable	V 3	455,682,925	567,213,540	126,162,413	208,225,303
Dividends receivable		—	—	16,910,147	28,482,501
Interest receivable		—	—	—	—
Accounts receivable	V 4, VII	417,954,983	375,451,589	264,989,904	218,859,138
Other receivables	V 4, VII	32,199,224	230,189,936	181,052,318	489,177,695
Advances to suppliers	V 5	236,605,005	300,792,922	71,356,820	134,185,142
Subsidies receivable		—	—	—	—
Inventories	V 6	1,325,808,336	1,694,529,363	506,489,233	605,823,344
Prepaid expenses	V 7	3,418,569	2,119,057	172,205	321,405
Long-term debt investments maturing within one year		—	—	—	—
Other current assets		—	—	—	—
Total current assets		<u>3,513,835,253</u>	<u>3,977,475,195</u>	<u>1,869,401,640</u>	<u>2,225,136,519</u>
Long-term investments					
Long-term equity investments	V 8, VI 2	168,966,332	185,586,818	1,513,808,788	1,220,313,889
Long-term debt investments		—	—	—	—
Total long-term investments		<u>168,966,332</u>	<u>185,586,818</u>	<u>1,513,808,788</u>	<u>1,220,313,889</u>
Including Consolidation difference		<u>5,803,545</u>	<u>30,745,179</u>	—	—
Fixed assets					
Fixed assets – cost		2,547,036,973	2,127,403,274	1,006,959,664	966,845,087
Less: Accumulated depreciation		<u>(1,260,926,081)</u>	<u>(1,034,216,430)</u>	<u>(520,317,269)</u>	<u>(493,418,629)</u>
Fixed assets – net	V 9	1,286,110,892	1,093,186,844	486,642,395	473,426,458
Less: Provision for impairment of fixed assets	V 9	<u>(38,335,935)</u>	<u>(43,419,662)</u>	<u>(30,453,393)</u>	<u>(31,733,693)</u>
Fixed assets – net book value		1,247,774,957	1,049,767,182	456,189,002	441,692,765
Leasehold improvements		—	—	—	—
Construction materials	V 10	9,766,666	14,105,020	2,101,231	4,740,767
Construction in progress	V 11	106,056,651	48,072,766	13,361,369	12,159,396
Fixed assets pending disposal		—	—	—	—
Total fixed assets		<u>1,363,598,274</u>	<u>1,111,944,968</u>	<u>471,651,602</u>	<u>458,592,928</u>
Intangible assets and other assets					
Intangible assets	V 12	262,520,437	167,049,913	100,829,896	87,875,266
Long-term prepaid expenses		—	—	—	—
Other long-term assets		—	—	77,682,683	77,466,244
Total intangible assets and other assets		<u>262,520,437</u>	<u>167,049,913</u>	<u>178,512,579</u>	<u>165,341,510</u>
Deferred taxes					
Deferred tax debits		—	—	—	—
TOTAL ASSETS		<u><u>5,308,920,296</u></u>	<u><u>5,442,056,894</u></u>	<u><u>4,033,374,609</u></u>	<u><u>4,069,384,846</u></u>

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

Legal representative:
Ye Maoxin

Person in charge of accounting function:
Yao Yuming

**Person in charge of accounting
department:** Mao Faqing

Balance Sheet (continued) **As At 31st December 2006**

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

LIABILITIES AND SHAREHOLDERS' EQUITY	NOTE	GROUP 31ST DECEMBER 2006	GROUP 31ST DECEMBER 2005	COMPANY 31ST DECEMBER 2006	COMPANY 31ST DECEMBER 2005
Current liabilities					
Short-term loans	V 13	239,624,000	338,705,000	176,174,000	308,755,000
Notes payable	V 14	354,762,038	342,397,082	158,541,791	193,449,027
Accounts payable	V15	658,615,135	954,177,980	343,157,489	369,293,903
Advances from customers	V 16	435,428,583	542,116,797	270,351,719	390,218,930
Accrued payroll		13,595,378	4,608,872	7,000,000	1,833,300
Welfare benefits payable		46,556,966	36,638,542	—	1,024,898
Interest payable		—	—	—	—
Dividends payable		19,176,628	—	11,001,736	—
Taxes payable	V 17	23,762,196	52,536,666	26,789,886	32,965,746
Other levies payable	V 18	1,620,540	1,722,501	548,087	548,221
Other payables	V 19	293,734,962	311,914,427	62,158,471	105,358,311
Accrued expenses	V 20	19,064,501	19,355,310	5,874,127	7,866,266
Provisions		—	—	—	—
Current portion of long-term liabilities	V 21	—	20,000,000	—	—
Deferred revenue		—	—	—	—
Other current liabilities		—	—	—	—
Total current liabilities		<u>2,105,940,927</u>	<u>2,624,173,177</u>	<u>1,061,597,306</u>	<u>1,411,313,602</u>
Long-term liabilities					
Long-term loans	V 21	200,000,000	—	150,000,000	—
Debentures payable		—	—	—	—
Long-term payables		—	—	—	—
Grants payable		—	—	—	—
Other long-term payables		—	—	—	—
Total long-term liabilities		<u>200,000,000</u>	<u>—</u>	<u>150,000,000</u>	<u>—</u>
Deferred taxes					
Deferred tax credits		—	—	—	—
Total liabilities		<u>2,305,940,927</u>	<u>2,624,173,177</u>	<u>1,211,597,306</u>	<u>1,411,313,602</u>
Minority interest		<u>183,317,433</u>	<u>159,906,066</u>	<u>—</u>	<u>—</u>
Shareholders' equity					
Share capital	V 22	603,800,000	603,800,000	603,800,000	603,800,000
Capital surplus	V 23	1,272,515,653	1,262,250,342	1,272,515,653	1,262,250,342
Surplus reserve	V 24	532,083,768	445,913,186	405,968,883	337,605,809
Including: Statutory public welfare fund		—	159,075,069	—	104,921,381
Undistributed profits	V 25	413,377,883	346,107,716	539,492,767	454,415,093
including: proposed final dividend		48,304,000	30,190,000	48,304,000	30,190,000
Foreign currency translation differences		(2,115,368)	(93,593)	—	—
Total Shareholders' equity		<u>2,819,661,936</u>	<u>2,657,977,651</u>	<u>2,821,777,303</u>	<u>2,658,071,244</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>5,308,920,296</u>	<u>5,442,056,894</u>	<u>4,033,374,609</u>	<u>4,069,384,846</u>

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

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department: Mao Faqing



Income Statement

For The Year Ended 31st December 2006

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

ITEMS	NOTE	GROUP Year ended 31st December 2006	GROUP Year ended 31st December 2005	COMPANY Year ended 31st December 2006	COMPANY Year ended 31st December 2005
Revenues from main operations	V 26, VI 3	4,609,321,626	4,241,911,846	3,073,735,710	2,985,037,263
Less: Cost of main operations	V 26, VI 4	(3,812,332,043)	(3,540,356,008)	(2,814,736,915)	(2,735,798,263)
Tax and levies on main operations	V 27	(12,192,791)	(12,217,489)	(3,862,404)	(3,100,232)
Profit from main operations		784,796,792	689,338,349	255,136,391	246,138,768
Add: Profit from other operations	V 28	57,320,543	34,915,299	19,739,879	11,832,498
Less: Selling and distribution expenses		(141,842,660)	(106,540,382)	(73,313,558)	(59,079,875)
General and administrative expenses		(491,668,618)	(457,623,117)	(192,797,534)	(188,195,171)
Financial (expenses)/income – net	V 29	(7,683,727)	(1,811,403)	8,259,270	11,661,007
Operating profit		200,922,330	158,278,746	17,024,448	22,357,227
Add: Investment income	V 30, VI 5	17,403,839	10,988,689	172,942,309	122,396,026
Subsidy income		3,118,034	4,023,972	–	–
Non-operating income		4,259,069	3,595,963	741,506	1,328,686
Less: Non-operating expenses		(1,896,710)	(4,765,190)	(1,446,591)	(2,341,939)
Total profit		223,806,562	172,122,180	189,261,672	143,740,000
Less: Income taxes		(22,921,535)	(27,391,296)	(5,630,923)	(7,498,344)
Gain of minority shareholders		(17,254,278)	(8,489,228)	–	–
Net profit		<u>183,630,749</u>	<u>136,241,656</u>	<u>183,630,749</u>	<u>136,241,656</u>

Supplementary information: ITEMS	GROUP Year ended 31st December 2006	GROUP Year ended 31st December 2005	COMPANY Year ended 31st December 2006	COMPANY Year ended 31st December 2005
1. Gain/(Loss) on disposal of business units or investments	2,717,829	–	–	–
2. Loss arising from natural disasters	–	–	–	–
3. Increase/(decrease) in total profit as a result of changes in accounting policies	–	–	–	–
4. Increase/(decrease) in total profit as a result of changes in accounting estimates	–	–	–	–
5. Losses from debt restructuring	–	–	–	–
6. Other	–	–	–	–

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

Legal representative:
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department: Mao Faqing

Profit Appropriation Statement For The Year Ended 31st December 2006

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

ITEMS	NOTE	GROUP 2006	GROUP 2005	COMPANY 2006	COMPANY 2005
Net profit		183,630,749	136,241,656	183,630,749	136,241,656
Add: Undistributed profit at beginning of year	V 25	346,107,716	382,528,813	454,415,093	475,611,769
Other transfers		—	—	—	—
Distributable profit		529,738,465	518,770,469	638,045,842	611,853,425
Less: Transfer to statutory surplus reserve	V 24	(36,170,582)	(21,236,377)	(18,363,075)	(13,624,166)
Transfer to statutory public welfare fund	V 24	—	(21,236,376)	—	(13,624,166)
Transfer to employee bonus and welfare fund		—	—	—	—
Profit available for distribution to shareholders		493,567,883	476,297,716	619,682,767	584,605,093
Less: Dividend for preferred stock		—	—	—	—
Transfer to discretionary surplus fund	V 24	(50,000,000)	(100,000,000)	(50,000,000)	(100,000,000)
Dividend payable for common stock		(30,190,000)	(30,190,000)	(30,190,000)	(30,190,000)
Dividend for common stock transferred to shares		—	—	—	—
Undistributed profit at end of year	V 25	<u>413,377,883</u>	<u>346,107,716</u>	<u>539,492,767</u>	<u>454,415,093</u>

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

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Cash Flow Statement For The Year Ended 31st December 2006

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

ITEMS	GROUP	COMPANY
1. Cash flows from operating activities		
Cash received from sale of goods or rendering of services	7,113,584,544	4,224,379,451
Refund of taxes and levies	—	—
Cash received relating to other operating activities	47,708,008	89,251,498
Sub-total of cash inflows	7,161,292,552	4,313,630,949
Cash paid for goods and services	(5,884,876,099)	(3,752,293,489)
Cash paid to and on behalf of employees	(515,043,730)	(197,201,912)
Payments of taxes and levies	(334,562,105)	(118,964,221)
Cash paid relating to other operating activities	(295,489,128)	(158,606,841)
Sub-total of cash outflows	(7,029,971,062)	(4,227,066,463)
Net cash flows from operating activities	131,321,490	86,564,486
2. Cash flows from investing activities		
Cash received from disposal of investments, other than subsidiaries	444,251,460	432,540,755
Cash received from disposal of subsidiaries (Note V 31)	12,957,186	—
Cash received from returns on investments	15,086,138	46,862,741
Net cash received from disposal of fixed assets	15,094,078	7,053,634
Cash received relating to other investing activities (Note V 32)	449,818,866	432,616,206
Sub-total of cash inflows	937,457,821	919,073,336
Cash paid to acquire fixed assets, intangible assets and other long-term assets	(266,194,737)	(75,233,198)
Cash paid to acquire investments, other than subsidiaries	(584,003,835)	(567,545,390)
Cash paid to acquire subsidiaries (Note V 31)	912,036	(146,185,164)
Cash paid relating to other investing activities (Note V 32)	(246,915,038)	(183,773,307)
Sub-total of cash outflows	(1,096,201,574)	(972,737,059)
Net cash flows from investing activities	(158,743,753)	(53,663,723)
3. Cash flows from financing activities		
Cash received from capital contributions	—	—
Including: Cash received from issuing shares to minority shareholders by subsidiaries	—	—
Cash received from borrowings	776,000,642	430,000,000
Cash received relating to other financing activities	—	—
Sub-total of cash inflows	776,000,642	430,000,000
Cash repayments of amounts borrowed	(595,320,892)	(407,351,000)
Cash payments for interest expenses and distribution of dividends or profits	(56,368,678)	(27,260,622)
Including: cash payments to minority shareholders for distribution of dividends or profits	(11,967,804)	—
Cash payments relating to other financing activities	—	—
Including: cash payments to minority shareholders for distribution of capital	—	—
Sub-total of cash outflows	(651,689,570)	(434,611,622)
Net cash flows from financing activities	124,311,072	(4,611,622)
4. Effect of foreign exchange rate changes on cash and cash equivalents	(2,021,775)	—
5. Net increase in cash and cash equivalents (Note V 1)	94,867,034	28,289,141

Cash Flow Statement (continued) **For The Year Ended 31st December 2006**

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

Supplementary information	GROUP	COMPANY
1. Reconciliation of Net Profit to Cash Flows from Operating Activities		
Net Profit	183,630,749	183,630,749
Adjust for: Share of profit by minority shareholders	17,254,278	–
Provision for asset impairment	5,489,317	14,381,314
Depreciation of fixed assets	109,221,464	41,360,027
Amortisation of intangible assets	9,956,393	5,346,844
Amortisation of long-term prepaid expenses	484,262	–
Decrease (Increase) in prepaid expenses	(1,285,837)	149,200
Increase (Decrease) in accrued expenses	437,942	1,376,061
Losses (Gains) on disposal of fixed assets	(1,220,969)	672,554
Losses (Gains) on scrapping of fixed assets	–	–
Financial expenses (income)	25,503,279	(525,842)
Investment income	(17,403,839)	(172,942,309)
Deferred tax credit (debit)	–	–
Decrease (Increase) in inventories	168,550,242	95,268,333
Decrease (Increase) in operating receivables	(50,450,242)	149,205,614
Increase (Decrease) in operating payables	(318,845,549)	(231,358,059)
Others	–	–
Net cash flows from operating activities	131,321,490	86,564,486
2. Investing and financing activities that do not involve cash receipts and payments		
Conversion of debt into capital	–	–
Reclassification of current portion of convertible bonds to current liabilities	–	–
Fixed assets capitalized under finance leases	–	–
3. Net increase in cash and cash equivalents		
Cash at end of year	897,389,501	563,694,811
Less: Cash at beginning of year	(802,522,467)	(535,405,670)
Add: Cash equivalents at end of year	–	–
Less: Cash equivalents at beginning of year	–	–
Net increase in cash and cash equivalents (Note V 1)	94,867,034	28,289,141

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

Legal representative:
Ye Maixin

Person in charge of accounting function:
Yao Yuming

Person in charge of accounting
department: Mao Faqing



Notes to the Financial Statements For the year ended 31st December 2006

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

I COMPANY BACKGROUND

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

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

In August 2006, the Company carried out a shareholding restructuring: the Company’s non-tradable shareholder China Textile Machinery (Group) Limited (“CTM Group”) transferred and paid to holders of the Company’s tradable A shares on the basis of 1.2 A shares and RMB 2.5 in cash for every 10 A shares held by such shareholders. The Company originally had 203,000,000 tradable A shares issued, hence a total sum of 24,360,000 shares and RMB 50,750,000 were paid. Financial ratios such as total assets, total liabilities, total share holder’s equity, total shared capital and net profit are not affected by the shareholding restructuring. Subsequent to the shareholding restructuring, the non-tradable shares became tradable A shares. (Note V 22)

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

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

(a) Basis of preparation

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

(b) Accounting period

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

(c) Recording currency

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

(d) Basis of accounting and measurement bases

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

(e) Foreign currency translation

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

Notes to the Financial Statements

For the year ended 31st December 2006

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

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

(f) Translation of financial statements denominated in foreign currency

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

(g) Cash and cash equivalents

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

(h) Short-term investments

Short-term investments, comprising debentures, bonds, fund investments and entrusted loans, are those investments that the Company does not have the intention to hold for more than one year and are readily convertible into known amounts of cash. It is recorded as cost less declared dividends and due interests receivables at the time of purchase. Interest of entrusted loans is recognised by period. Except for the amount recorded as receivables, cash dividends and interests received on short-term investments other than entrusted loans are recognized as a reduction of the investment cost.

Entrusted loans are carried at the lower of the principal and recoverable amount as at the balance sheet date. Provision for impairment and investment loss are recognised at the evidence that the principal of entrusted loan is greater than the recoverable amount.

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

(i) Receivables and provision for bad debts

Receivables refer to accounts receivable and other receivables. Provisions are made against potential bad debts identified by management. Receivable is presented at actual amounts net of provision for bad debts.

(1) Accounts receivable

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

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

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



Notes to the Financial Statements For the year ended 31st December 2006

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

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

(i) Receivables and provision for bad debts (continued)

(2) Other receivable

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

(3) Recognition criteria of bad debts loss

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

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

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

(j) Inventories

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

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

In relation to the real estate development activities, the public utility relates to projects approved by the government, such as road etc. The amounts incurred for the related public utility are separately recorded in the development cost according to the cost centres; the cost related to the development of the land is also recorded in the development cost; the land that hasn't been developed is recorded in the intangible assets.

Provisions for declines in the value of inventories are determined on an item-by-item basis when the carrying value of the inventories is higher than their net realizable value. In some circumstances where items of inventories have similar purposes or end uses and relate to the same product line produced and marketed in the same geographical area, and cannot be practicably evaluated separately from other items in that product line, provision for decline in value of inventories may be determined on an aggregate basis for that group of similar or related items of inventories. For large quantity and low value items of inventories, provision is made based on classes of inventories. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale.

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

The Group adopts perpetual inventory system.

(k) Long-term equity investments

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

(1) Equity investment

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

Notes to the Financial Statements

For the year ended 31st December 2006

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

(k) Long-term equity investments (continued)

(1) Equity investment (continued)

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

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

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

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

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

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

(l) Fixed assets and depreciation

Fixed assets include buildings, machinery and equipment used in production, held for rental to others, or held for management purposes, which have useful lives of more than one year. Effective 1st January 2001, when construction takes place upon the Company's land and the construction is for the Company's own use, the carrying value of the land use rights is capitalized as part of the building costs within fixed assets.

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

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

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

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



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

(l) Fixed assets and depreciation (continued)

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

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

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

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

(m) Construction in progress

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

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

(n) Intangible assets and amortisation

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

Land use rights purchased or obtained through payment of land transfers fees are initially recorded at cost and classified as intangible assets. Land use rights are amortised on a straight-line basis over 50 years. Effective 1st January 2001, if construction takes place on the Company's land held for own use, the carrying value of the related land use rights is transferred to the construction in progress account.

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

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

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

Notes to the Financial Statements For the year ended 31st December 2006

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

(o) Borrowing costs

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

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

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

(p) Employee social security benefits

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

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

(q) Profit distribution

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

(r) Revenue recognition

(i) Sales of goods

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

(ii) Other revenues are recognised on the following bases

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

Subsidy income is recognized when received.

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

(s) Operating Lease

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

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

Notes to the Financial Statements For the year ended 31st December 2006

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

(t) Income tax

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

(u) Basis of preparation of consolidated financial statement

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

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

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

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

III. TAXATION

The major taxes of the Group are listed as follows:

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

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

Pursuant to the approval document Jingkegaozi No. 0611024A00392 issued by Beijing Municipal Bureau of Science and Technology, Beijing Jingwei Textile Machinery New Technology Company Limited (“Beijing New Technology”) enjoys the benefits of the preferential tax policy for new technology enterprises and enjoys a preferential income tax rate of 15% from 2006 to 2007.

Pursuant to the approval document No. 0592101A0033 issued by Liaoning Science and Technology Administration on 6th January 2006, Shenyang Hongda Textile Machinery Company Limited enjoys the benefits of the preferential income tax rate of 15% for new technology enterprises in 2006 and 2007 (2005: 15%).

Shenyang Hongda Huaming Textile Machinery Co. Ltd. qualifies as a foreign investment production enterprise established in a Science and Technology Development zone, and is entitled to two years exemption from income taxes from 2006 to 2007, followed by three years of a 50% tax reduction from 2008 to 2010 commencing from 2006. In 2006, the company is exempt from income tax.

Notes to the Financial Statements For the year ended 31st December 2006

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

Pursuant to the approval document No. 0512001A0502 issued by Tianjin New Technology Industry Zone, Tianjin Hongda Textile Machinery Company Limited enjoys the preferential income tax rate of 15% for new technology enterprises in 2005 and 2006.

Tianjin Jingwei New Type Textile Machinery Company Limited qualifies as a foreign investment production enterprise, and is entitled to two years exemption from income taxes followed by three years of a 50% tax reduction commencing from the first cumulative profit-making year net of losses carried forward. In 2006, the company is exempt from income tax.

Pursuant to the approval document No. 0537112A0165 issued by Qingdao Science and Technology Committee on 30th December 2005, Qingdao Hongda Textile Machinery Company Limited enjoys the preferential income tax rate of 15% for new technology enterprises in 2006 and 2007 (2005: 15%).

Pursuant to the approval document No. 9614001A0434 issued by Taiyuan Municipal Bureau of Science and Technology on 28th December 2006, Taiyuan Jingwei Textile Electrical Company Limited enjoys the preferential tax rate of 15% for new technology enterprises in 2006 and 2007 (2005: 15%).

Wuxi Hongda Textile Machinery And Special Parts Company Limited (“Wuxi Zhuanjian”) qualifies as a foreign investment production enterprise, and is entitled to two years exemption from income taxes followed by three years of a 50% tax reduction starting from 2005. In 2006, the company is exempt from income tax.

Shanghai Chuangan Trade Company Limited is established in Shanghai Pudong New Zone, and enjoys the preferential income tax rate of 15%.

Pursuant to the approval document No. 0531044A5015 issued by Shanghai Municipal Bureau of Science and Technology on 30th June 2005, Shanghai Jingwei Dongxing Blomming-Carding Machinery Company Limited (“Shanghai Dongxing”) enjoys the preferential income tax rate of 15% for high technology enterprises in 2006 and 2007 (2005: 15%).

Changde Textile Machinery Company Limited (“Changde Textile”) qualifies as a foreign investment production enterprise, and is entitled to two years exemption from income taxes followed by three years of a 50% tax reduction starting from 2004. In 2006, the company enjoys the preferential income tax rate of 15%.

Shanghai WSP Mould and Injection Plastic Limited, a subsidiary of the Company, qualifies as a foreign investment production enterprise, which is entitled to two years exemption from income taxes followed by three years of a 50% tax reduction, which is from 2005 to 2010. Furthermore Shanghai WSP is located in Shanghai Pudong New Zone, where the income tax rate is 15%. In 2006, the company is exempt from income tax.

Beijing Ximen Information Technology Company Limited, a subsidiary of the Company, qualifies as self-development software research company, and is entitled to three years exemption from income taxes from 2001 to 2003, followed by three years of a 50% tax reduction from 2004 to 2006. Furthermore the company is located in Beijing Zhongguancun Science Park, and is qualified as a New and High Technology Company, which can enjoy the preferential income tax rate of 15%. In 2006, the company's income tax rate is 7.5%.

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

Hong Kong Huaming Company Limited (“Hongkong Huaming”), a subsidiary of the Company, is registered in Hong Kong which is subjected to 17.5% income tax rate.

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



Notes to the Financial Statements For the year ended 31st December 2006

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IV. SUBSIDIARIES

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

Acquisition of subsidiaries

Wuxi Zhuanjian is a newly consolidated subsidiary in 2006. In 2005, Hongkong Huaming, a 100% subsidiary of the Company purchased 25% equity share of Wuxi Zhuanjian at a consideration of RMB 11,293,770. In February 2006, the Company additionally purchased 10% equity share of Wuxi Zhuanjian at a consideration of RMB 4,800,000, and was authorised by an individual Board Member to execute right to vote. As a result of this authorisation, the Company holds four fifths of the voting rights of the board, thus can control the board. As a result Wuxi Zhuanjian is consolidated in 2006.

Xianyang Wei'er Machinery Company Limited (“Xianyang Wei'er”) is a newly consolidated subsidiary in 2006. In July 2006, the Company purchased 96.68% equity share of Xianyang Wei'er at a consideration of RMB 1,880,000. In October 2006, the Company further injected RMB 60,000,000 into Xianyang Wei'er, thus Xianyang Wei'er's share capital increased to RMB 75,079,000, and the equity share owned by the Company changed to 99.93%. Therefore Xianyang Wei'er is consolidated in 2006.

Wuxi Textile Technology Testing Company Limited (Wuxi Testing) is a newly consolidated subsidiary in 2006. Beijing Jingpeng Investment Management Company, a subsidiary of the Company (“Beijing Jingpeng Company”), holds 42% equity share of Wuxi Testing, and was authorised by two individual Board Members, who hold 58% equity share of Wuxi Testing, to execute rights to vote. As the results of this authorisation, Beijing Jingpeng Company holds all the voting rights of the board, thus can control the board. Therefore, Wuxi Testing is consolidated in 2006.

Yichang Jingwei Textile Machinery Company Limited (“Yichang Jingwei”) is a newly consolidated subsidiary in 2006. The Company and Hongkong Huaming set up Yichang Jingwei in December 2006, therefore Yichang Jingwei was consolidated in 2006.

Please refer to Note V31 for the influence of the acquisition of Wuxi Zhuanjian, Xianyang Wei'er and Wuxi Testing on the financial report 2006.

Disposal of subsidiaries

Beijing Jingpeng Company disposed of 40% equity share of Beijing Chen Yu Tai He Property Development Co., Ltd. (“Beijing Chen Yu”). After the disposal, Beijing Jingpeng holds 30% equity share of Beijing Chen Yu, and Beijing Chen Yu is no longer under control of the Company, therefore not consolidated as at 31st December 2006.

Liquidation of subsidiaries

Ningbo Daxie Machinery and Develop Zone Wu Fang Hongda Company Limited (“Ningbo Daxie”) ceased operations and cancelled company registration in May 2006. Therefore Ningbo Daxie is not consolidated as at 31st December 2006.

Notes to the Financial Statements

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V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CASH

	31st December 2006	31st December 2005
Cash in hand	1,023,935	1,283,249
Cash at bank	893,525,277	794,942,243
Other cash balances:		
– Other deposits	109,641	296,975
– Credit card deposits	247,092	–
– Time deposits over three months	1,905,000	6,000,000
– Deposit of bank draft	7,891,154	4,656,321
– Cash at Securities Companies	578,556	–
	<u>905,280,655</u>	<u>807,178,788</u>

Cash and bank balances at 31st December 2006 include foreign currencies as follows:

Type of foreign currencies	Foreign Currencies	Exchange rate	Rmb equivalent
USD	465,916	7.8087	3,638,198
HKD	63,158,214	1.0047	63,455,058
EUR	37,111	10.2665	381,000
CHF	897,580	6.4103	5,753,757
GBP	1,050	15.3232	16,089
			<u>73,244,102</u>

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

	31st December 2006
Cash at bank and in hand as at 31st December 2006	905,280,655
Less: Cash in bank cannot be withdrawn as needed	<u>(7,891,154)</u>
Cash and cash equivalents as at 31 December 2006	897,389,501
Less: Cash and cash equivalents as at 31st December 2005	<u>(802,522,467)</u>
Net increase of cash and cash equivalents	<u>94,867,034</u>

2. SHORT TERM INVESTMENTS

	31st December 2006	31st December 2005
Investment in stocks (a)	8,885,556	–
Entrusted loan (b)	128,000,000	–
Less: Provision for short term investments	–	–
Total	<u>136,885,556</u>	<u>–</u>



Notes to the Financial Statements For the year ended 31st December 2006

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V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. SHORT TERM INVESTMENTS (CONTINUED)

(a) Investment in stock

As at 31 December 2006, the stocks are publicly issued but not yet listed, therefore no market price at Shanghai Stock Exchange or Shenzhen Stock Exchange is available.

(b) Entrusted loan

	31st December 2006		Trustee
Entrusted loan—principal	28,000,000	(i)	Beijing International Trust & Investment Co. Ltd
	<u>100,000,000</u>	(ii)	China Minsheng Banking Corp. Ltd.
Subtotal	128,000,000		
Add: entrusted loan – interest	–		
Less: entrusted loan – provision	<u>–</u>		
Total	<u><u>128,000,000</u></u>		

As at 31st December 2006, the net book value of entrusted loans held by the Company is RMB 128,000,000.

- (i) RMB 28,000,000 entrusted loan as at 31st December 2006 is granted to Beijing Chen Yu, an associate of the Company, at an interest rate of 6.12%.
- (ii) During the year, the Company granted four tranches of entrusted loans of RMB 100,000,000 each to Huayuan Shengming Industrial Co., Ltd. (“Huayuan Shengming”), the details of which have been set out below:

	Grant date	Due Date	Repayment date	Annual interest rate	Interest earned
1	26th January 2006	26th April 2006	31st March 2006	7%	1,177,927
2	3rd April 2006	7th June 2006	30th June 2006	7%	1,645,886
3	3rd July 2006	29th September 2006	30th September 2006	6%	1,406,776
4	8th October 2006	27th December 2006	27th March 2007	6%	–

As at 31st December, Huayuan Shengming has settled all principals and interest totalling RMB4,230,589 of the first three tranches of entrusted loans as listed above. But since Huayuan Shengming was in financial difficulties, they did not repay the 4th entrusted loan listed above. On 27th March 2007, the Company received RMB100,000,000 from Huayuan Shengming as a settlement of the outstanding principal. As at the report date, the interest for the entrusted loan has not been received (Note x(a)).

3. NOTES RECEIVABLE

	31st December 2006	31st December 2005
Bank draft	455,412,925	567,213,540
Commercial bills	<u>270,000</u>	<u>–</u>
	<u><u>455,682,925</u></u>	<u><u>567,213,540</u></u>

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

	31st December 2006	31st December 2005
– Due from fellow subsidiaries	<u><u>–</u></u>	<u><u>22,797,000</u></u>

Notes to the Financial Statements

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V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

(1) Accounts receivable

	31st December 2006	31st December 2005
Accounts Receivable	615,368,046	571,337,888
Less: Specific Provision	(10,244,116)	(4,254,790)
General Provision	(187,168,947)	(191,631,509)
	<u>417,954,983</u>	<u>375,451,589</u>

Detail information of accounts receivable and bad debt provision listed by ageing is as follows:

	31st December 2006			31st December 2005		
	Amount	%	Bad debt provision	Amount	%	Bad debt provision
Ageing:						
Within 1 year	363,368,261	59	–	300,219,854	53	–
Within 1 to 2 years	43,630,659	7	(11,560,687)	57,669,321	10	(11,374,407)
Within 2 to 3 years	33,837,731	6	(15,354,001)	45,187,579	8	(22,537,750)
Over 3 years	174,531,395	28	(170,498,375)	168,261,134	29	(161,974,142)
	<u>615,368,046</u>	<u>100</u>	<u>(197,413,063)</u>	<u>571,337,888</u>	<u>100</u>	<u>(195,886,299)</u>

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

	31st December 2006	31st December 2005
–Due from the holding company	1,025,794	3,610,711
–Due from fellow subsidiaries	115,727,000	86,782,216
–Due from associated companies	69,480,722	37,903,519
–Due from jointly controlled entities	33,695,013	8,228,012
	<u>219,928,529</u>	<u>136,524,458</u>

The five largest individual balances of accounts receivable at the year end amount to RMB 176,255,210 and this accounts for 29% of the total accounts receivable (2005: 136,243,780, 24%).

Due to cease of operations of Urumqi Jingwei Xijin Company Limited, a fellow subsidiary of the Group, and its low financial capabilities to meet its obligations, the Group made RMB 5,799,280 bad debt provision for the balance due from Urumqi Jingwei Xijin Company Limited as at 31st December 2006.

Due to the restructure of Liaoyuan Textile Group and low financial capabilities to meet its obligations, the Group made RMB 2,560,000 bad debt provision for the balance due from Liaoyuan Textile Group as at 31st December 2006.

Due to the dispute between the Group and Anhui Huafang Group regarding the quality of some products, the Group made RMB 1,469,068 bad debt provision for the balance due from Anhui Huafang Group.

Due to bankruptcy of some customers, the Group wrote off accounts receivable balance amounting to RMB8,772,250 in 2006, against which a 100% provision had been accrued in prior years.



Notes to the Financial Statements For the year ended 31st December 2006

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V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES (CONTINUED)

(2) Other receivables

	31st December 2006	31st December 2005
Due from Beijing Ruifeng Hengtai Coal sales Company	7,024,534	16,024,534
Due from Beijing Hualian for the equity Transfer	—	175,153,014
Petty Cash	12,368,018	10,604,011
Deposit	6,008,974	4,917,860
Qi Li Development Company	3,952,000	—
Others	15,698,192	41,803,197
Less: Specific provisions	(12,852,494)	(18,312,680)
	<u>32,199,224</u>	<u>230,189,936</u>

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

	31st December 2006			31st December 2005		
	Amount	%	Bad debt provision	Amount	%	Bad debt provision
Ageing:						
Within 1 year	23,040,781	51	—	181,949,736	73	—
Within 1 to 2 years	3,048,951	7	(23,208)	19,182,295	8	(7,584,818)
Within 2 to 3 years	10,271,687	23	(7,000,000)	33,155,988	13	(725,078)
Over 3 years	8,690,299	19	(5,829,286)	14,214,597	6	(10,002,784)
	<u>45,051,718</u>	<u>100</u>	<u>(12,852,494)</u>	<u>248,502,616</u>	<u>100</u>	<u>(18,312,680)</u>

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

	31st December 2006	31st December 2005
—Due from associated companies	<u>—</u>	<u>2,497,614</u>

The five largest individual balance of other receivables at the year end amount to RMB18,557,653 and this accounts for 41% of the total other receivables (2005: RMB 201,206,346, 81%).

Due to Beijing Ruifeng Hengtai Coal sales Company's low financial capabilities to meet its obligations, the Group made RMB 7,000,000 bad debt provision for the balance due as at 31st December 2006.

Due to Changde Trust and Investment Company's low financial capabilities to meet its obligations, the Group made RMB 1,355,428 bad debt provision for the balance due as at 31st December 2006.

Notes to the Financial Statements

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V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. ADVANCES TO SUPPLIERS

	31st December 2006		31st December 2005	
	Amount	%	Amount	%
Ageing:				
Within 1 year	233,931,002	99	275,670,809	92
Within 1 to 2 years	767,030	—	9,185,896	3
Within 2 to 3 years	377,820	—	11,489,794	4
Over 3 years	1,529,153	1	4,446,423	1
	<u>236,605,005</u>	<u>100</u>	<u>300,792,922</u>	<u>100</u>

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

	31st December 2006	31st December 2005
— Fellow subsidiaries	94,469,812	131,577,029
— Associated companies	<u>1,570,887</u>	<u>—</u>
	<u>96,040,699</u>	<u>131,577,029</u>

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

6. INVENTORIES

	31st December 2005		31st December 2006	
Goods in transit	7,964,585		2,209,373	
Raw materials	286,609,678		358,036,274	
Development Cost (i)	443,339,700		—	
Work in progress	381,079,021		367,633,451	
Finished goods	<u>610,948,340</u>		<u>642,209,249</u>	
	<u>1,729,941,324</u>		<u>1,370,088,347</u>	
Provision-				
		Addition of new subsidiaries	Additions	Decreases
Raw materials	(11,466,734)	—	(1,351,605)	2,886,846
Work in progress	(4,375,541)	(2,200,343)	(9,024,545)	2,965,388
Finished goods	<u>(19,569,686)</u>	<u>(2,619,945)</u>	<u>(4,388,583)</u>	<u>4,864,737</u>
	<u>(35,411,961)</u>	<u>(4,820,288)</u>	<u>(14,764,733)</u>	<u>10,716,971</u>
	<u>1,694,529,363</u>			<u>1,325,808,336</u>

In 2006, the inventory recognized as cost and expense by the group is RMB 4,702,344,429 (2005: RMB 4,275,566,594).

- (i) Development costs are for the payment of the land numbered 3-2, located in inner side of Fuxing Meng, South of the Naoshi Kou, together with compensation for the development of the land, as well as other pre-development costs. It was paid by Beijing Chen Yu, a former subsidiary of the Company (Note IV).



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V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. PREPAID EXPENSES

	31/12/2005	Addition	Amortisation	31/12/2006	Reason for year end balance
VAT input pending deduction	1,750,987	14,447,968	(14,927,826)	1,271,129	Amortisation not completed
Heating fee	18,356	2,563,387	(815,108)	1,766,635	Amortisation not completed
Others	349,714	12,281,592	(12,250,501)	380,805	Amortisation not completed
	<u>2,119,057</u>	<u>29,292,947</u>	<u>(27,993,435)</u>	<u>3,418,569</u>	

8. LONG TERM EQUITY INVESTMENT

		31st December 2005	Addition	Disposal	31st December 2006
Investment in associated companies	(1)	118,097,399	19,619,139	(14,164,810)	123,551,728
Other equity investment	(2)	43,067,495	2,866,819	—	45,934,314
Consolidation difference	(3)	30,745,179	5,472,715	(30,414,349)	5,803,545
Long-term equity investment		<u>191,910,073</u>	<u>27,958,673</u>	<u>(44,579,159)</u>	<u>175,289,587</u>
Provision for long term equity investment (i)		<u>(6,323,255)</u>	<u>—</u>	<u>—</u>	<u>(6,323,255)</u>
		<u>185,586,818</u>	<u>27,958,673</u>	<u>(44,579,159)</u>	<u>168,966,332</u>

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

- (i) Qingdao Hongda Textile Machinery Company Limited (“Qingdao Hongda”) made full provision for the long term investment in Qingdao Qingfeng Foundry Company (“Qingfeng Foundry”), which amounts to RMB 5,000,000. Since disputes on the progress and the quality of the project raised during the launching and construction of Qingdao Foundry, and no solutions can be reached by both parties through negotiations, the agreement entered between the Qingdao Hongda and Qingfeng Foundry thus can not be implemented. Considering this risk, the management made full impairment provision for this long term investment.

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V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. LONG TERM EQUITY INVESTMENT (CONTINUED)

(1) Associated companies

Name of investee	Investment period	Equity Interest Held (%)		Investment Cost		Accumulated Equity Movement			Balance	
		31st	31st	31st	31st	31st		31st	31st	31st
		December	December	December	December	December	Movement	December	December	December
		2005	2006	2005	2006	2005	in equity	2006	2005	2006
Hongda Research Company Limited	2001 to 2101	40.00	40.00	20,000,000	20,000,000	3,314,948	752,168	4,067,116	23,314,948	24,067,116
Shenzhen Jinghuachi Science and Technology Investment Company Limited (originally Shenzhen Bolue Technology Investment Company)	2001 to 2031	40.94	40.94	35,000,000	35,000,000	1,806,723	(1,333,932)	272,791	36,806,723	35,272,791
Zhengzhou Hongda Non-woven Fabric Textile Machinery Company Limited	2003 to 2007	28.33	23.74	17,000,000	17,000,000	(5,422,977)	(544,205)	(5,967,182)	11,577,023	11,032,818
Qingdao Jinyi Pressing and Casting Company Limited	2000 to 2010	27.00	27.00	997,000	997,000	60,000	–	60,000	1,057,000	1,057,000
Qingdao Jinshan City Company Limited	2002 to permanent	20.00	20.00	200,000	200,000	–	–	–	200,000	200,000
Qingdao Lanlifeng Company Limited	2002 to 2012	31.25	31.25	1,000,000	1,000,000	–	–	–	1,000,000	1,000,000
Shenyang Jingxing Textile Machinery Company Limited	2002 to 2022	31.25	31.25	1,000,000	1,000,000	(15,461)	3,289	(12,172)	984,539	987,828
China Textile Machinery and Technology Import and Export Corporation	2004 to permanent	25.00	25.00	30,000,000	30,000,000	1,446,485	1,026,062	2,472,547	31,446,485	32,472,547
Wuxi Jingwei Textile Technology and Testing Company Limited	2005 to 2015	42.00	–	420,000	–	–	–	–	420,000	–
Wuxi Hongda Textile Machinery & Special Parts Company Limited	2005 to 2035	25.00	–	11,293,770	–	(3,089)	3,089	–	11,290,681	–
Beijing Chen Yu Tai He Property Development Co., Ltd.	2005 to 2023	–	30.00	–	17,461,628	–	–	–	–	17,461,628
				<u>116,910,770</u>	<u>122,658,628</u>	<u>1,186,629</u>	<u>(293,529)</u>	<u>893,100</u>	<u>118,097,399</u>	<u>123,551,728</u>

(2) Other Equity Investment

Name of investee	Investment Period	Investment Cost	Equity Interest Held (%)
Hongda Investment Company Limited	2004-2029	24,866,602	9.38%
Qingdao Textile Machinery Company Limited	2005 to permanent	8,000,000	10.00%
Qingdao Qingfeng Foundry Company	2003-2008	5,000,000	25.00%
Others		<u>8,067,712</u>	
Total		<u>45,934,314</u>	

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V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. LONG TERM EQUITY INVESTMENT (CONTINUED)

(3) Consolidation difference

	Original cost	Amortisation Period	Accumulated Amortisation	31st December 2005	Addition	Transfer Out	Amortisation	31st December 2006
Impartible investment difference for 4 Hongda subsidiaries(i)	(6,213,559)	10 years	4,427,735	(2,407,180)	-	-	621,356	(1,785,824)
Shanxi Jingwei Heli Machinery Manufacturing Company Limited(ii)	3,918,020	10 years	(1,356,829)	2,952,993	-	-	(391,802)	2,561,191
Beijing Chen Yu Tai He Property Development Company Limited(iii)	-	10 years	-	30,199,366	-	(27,896,025)	(2,303,341)	-
Wuxi Jingwei Textile Technology and Testing Company Limited (iv)	685,414	10 years	-	-	685,414	-	-	685,414
Xianyang Wei'er(v)	4,411,306	10 years	(410,071)	-	4,411,306	-	(410,071)	4,001,235
Wuxi Zhuanjian (vi)	375,995	10 years	(34,466)	-	375,995	-	(34,466)	341,529
	<u>3,177,176</u>		<u>2,626,369</u>	<u>30,745,179</u>	<u>5,472,715</u>	<u>(27,896,025)</u>	<u>(2,518,324)</u>	<u>5,803,545</u>

- (i) In the course of asset exchange with the holding company in 1999 for Tianjin Hongda Textile Machinery Company Limited, Shenyang Hongda Textile Machinery Company Limited, Zhengzhou Hongda New Textile Machinery Company Limited, and Qingdao Hongda Textile Machinery Company Limited ("4 Hongda subsidiaries"), there was a negative difference between the cost of the long-term investment and the net assets of the acquired subsidiary at the date of purchase.
- (ii) The difference refers to the positive difference between the cost of the long-term investment in Shanxi Jingwei Heli Machinery Manufacturing Company Limited and the shared net assets at the date of purchase in 2003 and 2004.
- (iii) Beijing Jingpeng Company disposed of 40% equity share of Beijing Chen Yu in November 2006. After the disposal, the Company holds 30% equity share of Beijing Chen Yu indirectly, thus Beijing Chen Yu is not consolidated thereafter.
- (iv) The Company originally held 55% equity share of Wuxi Jingwei. In April 2006, the company acquired an additional 11.55% equity share at RMB 6,911,700. The difference refers to the positive difference between the cost of the long-term investment and the shared net assets of the acquired subsidiary at the date of purchase.
- (v) In July 2006 the Company acquired 96.68% equity share of Xianyang Wei'er from Dongsheng Investment Company. In October 2006, the company further injected RMB 60,000,000 into Xianyang Wei'er. The difference refers to the positive difference between the cost of the long-term investment and the net asset of the acquired subsidiary at the date of purchase, and that between injected capital and the shared net assets.
- (vi) In February 2006 the Company acquired 10% equity share of Wuxi Zhuanjian at RMB 48,000,000. The difference refers to the positive difference between the cost of the long-term investment and the shared net assets of the acquired subsidiary at the date of purchase.

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V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. FIXED ASSETS AND ACCUMULATED DEPRECIATION

	Land and Building	Machinery and equipment	Motor vehicles	Total
Cost				
At 31st December 2005	577,724,497	1,460,512,457	89,166,320	2,127,403,274
Purchases from third Parties	10,371,309	69,177,408	11,807,305	91,356,022
Newly acquired subsidiaries (Note V31)	93,683,845	156,989,150	4,534,368	255,207,363
Disposed subsidiaries (Note V31)	—	—	(2,802,637)	(2,802,637)
Transfer from CIP	45,157,114	81,065,688	1,878,490	128,101,292
Disposals	(9,596,031)	(31,438,205)	(3,442,006)	(44,476,242)
Other decreases	(4,396,429)	(3,348,670)	(7,000)	(7,752,099)
At 31st December 2006	712,944,305	1,732,957,828	101,134,840	2,547,036,973
Accumulated depreciation				
At 31st December 2005	195,089,170	806,533,218	32,594,042	1,034,216,430
Charge for the year	21,879,494	78,373,774	8,968,197	109,221,465
Newly acquired subsidiaries (Note V31)	32,354,347	119,781,394	2,354,519	154,490,260
Disposed subsidiaries (Note V31)	—	—	(903,723)	(903,723)
Disposals	(5,070,748)	(22,449,502)	(1,740,071)	(29,260,321)
Other decreases	(3,665,967)	(3,165,413)	(6,650)	(6,838,030)
At 31st December 2006	240,586,296	979,073,471	41,266,314	1,260,926,081
Fixed Assets Impairment Provision				
At 31st December 2005	1,494,350	41,914,520	10,792	43,419,662
Decreases	(165,340)	(4,907,595)	(10,792)	(5,083,727)
At 31st December 2006	1,329,010	37,006,925	—	38,335,935
Net book value				
At 31st December 2006	<u>471,028,999</u>	<u>716,877,432</u>	<u>59,868,526</u>	<u>1,247,774,957</u>
At 31st December 2005	<u>381,140,977</u>	<u>612,064,719</u>	<u>56,561,486</u>	<u>1,049,767,182</u>

As at 31st December 2006, there was no pledged fixed assets used for pledged loan. (2005: Nil).

As at 31st December 2006, the net value of fixed assets for operating lease is RMB 48,673,402, and the original cost of these fixed assets is RMB 115,067,559. (2005: Net value 49,022,140; Original cost 103,886,669).

As at 31st December 2006, the idle land and building, machinery and equipment are amounting to a net value of RMB 8,964,204 (Original cost RMB 26,862,821) (2005: Net value 1,537,776; Original Cost RMB 30,755,512).

As at 31st December 2006, The net value of fully depreciated land and building, machinery and equipment which are still in use is RMB 16,074,562, and the original cost of these fixed assets is RMB 283,129,434. (2005: Net value RMB 16,093,572; Original Cost RMB 321,871,444).

As at 31st December 2006, there was no discarded fixed assets or those that the Company intends to dispose (2005: Nil).

10. CONSTRUCTION MATERIALS

	31st December 2006	31st December 2005
Special equipment	—	1,932,352
Prepayment for equipment	9,766,666	12,172,668
	<u>9,766,666</u>	<u>14,105,020</u>



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V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. CONSTRUCTION IN PROGRESS

	Budget	31/12/2005	Newly acquired subsidiaries	Addition	Transfer to fixed assets	31/12/2006	Source of capital	Percentage proceeded (%)
Science and Technology center	22,000,000	1,289,687	–	7,046,396	(8,336,083)	–	Self financing	100
Enlargement Project	20,000,000	2,811,935	–	4,973,011	(6,593,700)	1,191,246	Self financing	39
Improvement of Yuci workshop	1,500,000	1,324,153	–	161,522	(1,485,675)	–	Self financing	100
Yuci plant improvement	2,890,000	1,443,524	–	–	(1,343,524)	100,000	Self financing	50
Workshop of Shenyang Hongda Huaming	55,000,000	5,890,476	–	48,621,893	(45,250,437)	9,261,932	Self financing	99
Buildings and machinery-Anhui Huamao	119,000,000	19,263,661	–	84,369,682	(40,332,251)	63,301,092	Self financing	87
Equipment of Yuci Plant	20,000,000	148,596	–	15,557,917	(8,197,350)	7,509,163	Self financing	79
Assembly work-shop of Changde	11,668,881	–	–	8,580,451	–	8,580,451	Self financing	74
Equipment of Shenyang Hongda	12,768,030	–	–	9,231,935	(3,288,258)	5,943,677	Self financing	72
Hunnan workshop of Shenyang Hongda	5,500,000	595,886	–	2,973,154	–	3,569,040	Self financing	65
ERP project of Xianyang Wei'er Workshop and accessories of Xianyang Wei'er	1,500,000	–	1,531,055	–	(1,531,055)	–	Self financing	100
Others	2,500,000	–	2,336,988	157,162	(2,306,191)	187,959	Self financing	6
		<u>15,304,848</u>	<u>73,887</u>	<u>470,124</u>	<u>(9,436,768)</u>	<u>6,412,091</u>		
Total		<u>48,072,766</u>	<u>3,941,930</u>	<u>182,143,247</u>	<u>(128,101,292)</u>	<u>106,056,651</u>		
Include: Total of Capitalized borrowing cost		<u>–</u>	<u>423,050</u>	<u>490,441</u>	<u>(423,050)</u>	<u>490,441</u>		

Notes:

- (1) Others include projects less than 1,000,000.
- (2) Construction in progress includes RMB 490,441 capitalised interest expense.

12. INTANGIBLE ASSETS

Item	Cost	31st December 2005	Newly acquired subsidiaries	Addition for the year	Amortisation for the year	31st December 2006	Accumulated Amortisation	Remaining amortisation years	Acquisition method
Land use rights (i)	268,809,476	153,116,841	53,005,544	39,352,101	(5,212,789)	240,261,697	(28,547,779)	40.33 to 49.2 years	Purchase
Trademark and patents	21,407,238	6,876,097	–	11,979,919	(2,749,662)	16,106,354	(5,300,884)	6.5 to 8.3 years	Purchase
Software	12,127,092	7,056,975	–	1,089,353	(1,993,942)	6,152,386	(5,974,706)	0.7 to 3.41 years	Purchase
Total	<u>302,343,806</u>	<u>167,049,913</u>	<u>53,005,544</u>	<u>52,421,373</u>	<u>(9,956,393)</u>	<u>262,520,437</u>	<u>(39,823,369)</u>		

- (i) RMB 22,800,060 of the land use right was purchased by Tianjin Hongda Textile Machinery Company Limited, a subsidiary of the Company, in December 2006. As at the report date, the issuance of certificate land use right is in progress.

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V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. SHORT TERM LOANS

Categories	Currency	31st December 2006	31st December 2005
Guaranteed	RMB	47,500,000	84,000,000
Unsecured	RMB	35,950,000	52,950,000
	USD	156,174,000	201,755,000
		<u>239,624,000</u>	<u>338,705,000</u>

The guarantors and the guaranteed amount are as follows:

Guarantor	Loans guaranteed
Wuxi Maotouying Limited Company	10,000,000
Beijing Hualian Commercial Trading and Development Company	18,750,000
Anhui Huamao Group Company	18,750,000
	<u>47,500,000</u>

As at 31st December 2006, the total amount of overdue loans were RMB 5,000,000 (2005: RMB 5,000,000), which is working capital loan from China Textile Association with interest rate 5.31% (2005: 5.31%) per annum. The amount is not repaid as China Textile Association is still undergoing a restructuring exercise.

The range of the interest rate of short term loans in 2006 was from 5.31% to 6.36% per annum (2005: 3.46% to 6.14%).

14. NOTES PAYABLE

	31st December 2006	31st December 2005
Trade acceptance	46,047,332	13,567,989
Bank acceptance	308,714,706	328,829,093
	<u>354,762,038</u>	<u>342,397,082</u>

There is no balance of notes payable due to related parties at 31st December 2006.

15. ACCOUNTS PAYABLE

Accounts payable mainly represents the payable for purchase of materials.

Included in accounts payable are payable to the related companies as follows:

	31st December 2006	31st December 2005
Due to the holding company	6,301,380	6,320,023
Due to fellow subsidiaries	63,203,613	55,587,343
Due to associated companies	539,621	1,417,124
Due to jointly controlled entities	500,503	3,180,000
	<u>70,545,117</u>	<u>66,504,490</u>

As at 31st December 2006, included in accounts payable with ageing over three years is an amount of RMB22,919,892 (2005: RMB 29,739,764), mainly payable for raw materials. Since the suppliers have not provided the invoices, the amount remains unsettled.



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V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. ADVANCES FROM CUSTOMERS

Included in advances from customers are related companies as follows:

	31st December 2006	31st December 2005
Due to holding company	11,863,710	9,831,700
Due to fellow subsidiaries	1,851,192	7,626,695
	<u>13,714,902</u>	<u>17,458,395</u>

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

As at 31st December 2006, included in advance from customer with ageing over one year is an amount of RMB 70,519,827 (2005:RMB 85,387,616), mainly representing the advance of sales. Since the production cycle and fixing period is long, this amount remains unsettled.

17. TAXES PAYABLE

	31st December 2006	31st December 2005
Value added tax	17,936,305	35,395,769
Business tax payable	185,774	237,206
City construction tax payable	1,269,051	1,017,742
Income tax payable	2,764,143	10,812,077
Land usage tax	384,203	2,455,529
Others	1,222,720	2,618,343
	<u>23,762,196</u>	<u>52,536,666</u>

18. OTHER LEVIES PAYABLE

	31st December 2006	31st December 2005
Education fee levy	713,285	732,685
Others	907,255	989,816
	<u>1,620,540</u>	<u>1,722,501</u>

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V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19. OTHER PAYABLES

	31st December 2006	31st December 2005
China Textile Machinery (Group) Company Limited	17,875,599	11,423,516
Jingwei Machinery (Group) Company Limited	36,291,521	46,324,598
China Energy Investment Group (HongKong) Company Limited	—	55,401,496
Changde Textile Machinery Factory	21,263,697	9,401,343
Social insurance	53,153,954	46,003,417
Anhui Huamao (Group) Company Limited	10,000,000	—
Xianyang Textile Machinery Factory	14,168,930	—
Beijing Chen Yu Tai He Property Development Co., Ltd.	10,119,405	—
Others	130,861,856	143,360,057
	<u>293,734,962</u>	<u>311,914,427</u>

Included in the other payables are payable to the related companies as follows:

	31st December 2006	31st December 2005
Due to the holding company	17,875,599	11,423,516
Due to fellow subsidiaries	75,303,666	84,604,702
Due to associated companies	10,151,674	—
Due to jointly controlled entities	55,000	—
	<u>103,385,939</u>	<u>96,028,218</u>

As at 31st December 2006, included in other payable with ageing over three years is an amount of RMB 54,624,543 (2005: RMB 25,493,563), mainly due to third parties, which remains unsettled.

20. ACCRUED EXPENSES

	31st December 2006	31st December 2005
Interest expense	4,253,909	6,012,660
Others	14,810,592	13,342,650
	<u>19,064,501</u>	<u>19,355,310</u>

The RMB4,253,909 interest is accrued for the year 2006, according to the loan contracts. The accrued interest will be paid in the year 2007.



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V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21. LONG TERM LOANS

	31st December 2006	31st December 2005
Guaranteed	200,000,000	20,000,000
Less: Current portion of long term loans	—	(20,000,000)
	<u>200,000,000</u>	<u>—</u>

As at 31st December 2006, the guarantors and the guaranteed amounts are as follows:

Name of banks	Amount	Maturity date	Annual Rate	Guarantor	Terms
				China Textile Machinery (Group) Company Limited	
CITIC Bank	50,000,000	28/02/2009	5.67%	China Textile Machinery (Group) Company Limited	Guarantee
CITIC Bank	150,000,000	28/02/2009	5.67%	China Textile Machinery (Group) Company Limited	Guarantee

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

The interest rate for the long-term loan is 5.67% as at 31st December 2006 (2005: 5.49%).

22. SHARE CAPITAL

Face value: RMB 1 per share	31st December 2005	Rights issue	Bonus issue	Shares transfer from reserve Placing	Shareholdings from reserve funds restructuring (a)	Other (b)	Subtotal	31st December 2006
Shares not permitted to be traded								
Shares held by promoter	220,000,000	—	—	—	(220,000,000)	—	—	—
Including:								
Shares owned by domestic legal persons	220,000,000	—	—	—	(220,000,000)	—	—	—
Shares owned by foreign legal persons	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—
Shares not permitted to be traded subtotal	<u>220,000,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(220,000,000)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Tradable shares subject to restrictions	—	—	—	—	—	—	—	—
Including:								
Shares owned by domestic legal persons	—	—	—	—	195,640,000	8,615,248	—	204,255,248
Shares owned by domestic individuals	—	—	—	—	—	—	—	—
Tradable shares subject to no restrictions								
Shares traded in RMB domestically	203,000,000	—	—	—	24,360,000	(8,615,248)	—	218,744,752
Shares traded in foreign currencies domestically	—	—	—	—	—	—	—	—
Shares traded in Hongkong	180,800,000	—	—	—	—	—	—	180,800,000
Others	—	—	—	—	—	—	—	—
Tradable shares subtotal	<u>383,800,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>220,000,000</u>	<u>—</u>	<u>—</u>	<u>603,800,000</u>
Total	<u>603,800,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>603,800,000</u>

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V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22. SHARE CAPITAL (CONTINUED)

(a) In August 2006, the Company carried out a shareholding restructuring: the Company's non-tradable CTMC transferred and paid to holders of the Company's tradable A shares whose name were on the register of members of the Company by close of business of the Shenzhen Stock Exchange on 8th August 2006 on the basis of 1.2 A shares and RMB 2.5 in cash for every 10 A shares held by such shareholders. The Company originally had 203,000,000 tradable A shares issued, hence a total sum of 24,360,000 shares and RMB 50,750,000 were paid. Financial ratios such as total assets, total liabilities, total share holder's equity, total shared capital and net profit are not affected by the shareholding restructuring. Subsequent to the shareholding restructuring, the non-tradable shares became tradable A shares.

(b) Other

As stated in the company's shareholdings restructuring, the holding company, CTMC, purchased 8,615,248 shares of the company. As at 31st December 2006, CTMC held 204,255,248 shares of the Company, which accounted for 33.83% of the total shares.

23. CAPITAL SURPLUS

	31st December 2005	Addition	Deduction	31st December 2006
Share premium	1,247,954,114	—	—	1,247,954,114
Equity Investment Provision (a)	10,096,228	10,265,311	—	20,361,539
Surplus on revaluation of assets	4,200,000	—	—	4,200,000
Total	<u>1,262,250,342</u>	<u>10,265,311</u>	<u>—</u>	<u>1,272,515,653</u>

(a) Addition in Equity Investment provision in 2006 includes: 1) RMB 2,136,048 is the negative difference between the cost of the long-term investment in Wuxi Testing and the shared net assets; 2) RMB 3,206,313 is the negative difference between the cost of long-term investment in Shanghai Dongxing and the shared net assets; 3) The local tax bureau waived RMB 1,381,679 VAT payable in relation to long-aged accounts receivables of Changde Textile in 2006, of which the Group benefit RMB 1,312,678 of the shared income; 4) Wuxi Zhuanjian obtained RMB 10,315,063 return for the land purchase, of which the Group benefit of RMB 3,610,272 from the shared income.

24. SURPLUS RESERVE

	Statutory surplus fund	Discretionary surplus fund	Statutory public welfare	Total
Balance at 31st December 2005	159,075,070	127,763,047	159,075,069	445,913,186
Addition	36,170,582	50,000,000	—	86,170,582
Transfer in/(out)	159,075,069	—	(159,075,069)	—
Balance at 31st December 2006	<u>354,320,721</u>	<u>177,763,047</u>	<u>—</u>	<u>532,083,768</u>

(a) According to "Company Law of the People's Republic of China" and the Company's and its subsidiaries' Articles of Association, as well as the resolutions of the Board of Directors, each of the Company and its subsidiaries are required to transfer 10% of their profits after taxation to their Statutory Surplus Reserve Funds until the reserve reaches 50% of its registered capital. Upon approval from the authorities, the Statutory Surplus Reserve Fund can be used to offset accumulated losses or to increase share capital. When utilized to increase share capital, the remaining balance of the Statutory Surplus Reserve Fund cannot fall below 25% of the share capital. The Company and its subsidiaries appropriated RMB 36,170,582 to the Statutory Surplus Reserve Fund which represents 10% of the net profit in 2006 (2005: RMB 21,236,377).



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V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24. SURPLUS RESERVE (CONTINUED)

- (b) According to the “Company Law of the People’s Republic of China” which took effect on 01/01/2006, the company did not provide public welfare fund in 2006. According to the “Memo of Relevant Financial Treatment to the new Company Law ” issued by the Ministry of Finance, the company transferred the credit balance at 31/12/2006 of public welfare fund to surplus fund.
- (c) According to the Company’s and the subsidiaries’ Articles of Association, the Board of Directors, after obtaining approval from the shareholders, has the discretion to provide for Discretionary Surplus Reserve Fund. Upon approval from the authorities, the discretionary surplus reserve can be used to make up any losses incurred or to increase share capital. Approved by the meeting of share holders at 29 th June 2006, the Company appropriated RMB 50,000,000 to the discretionary surplus reserve fund for the year 2005. The Company intends to appropriate RMB 50,000,000 for the year 2006 which is subject to approval of share holders.

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

25. UNDISTRIBUTED PROFITS

	2006	2005
Undistributed profit at the beginning of the year	346,107,716	382,528,813
Add: Profit for the year	183,630,749	136,241,656
Less: Transfer to statutory surplus reserve	(36,170,582)	(21,236,377)
Transfer to statutory public welfare fund	—	(21,236,376)
Transfer to discretionary surplus reserve fund	(50,000,000)	(100,000,000)
Dividend for common stock		
-Cash dividends approved by general meeting of shareholders	(30,190,000)	(30,190,000)
Balance at 31st December	<u>413,377,883</u>	<u>346,107,716</u>

Pursuant to the Board of directors’ meeting held on 18th April 2007, the Company proposed to distribute a final cash dividend of RMB 0.8 (Pre-tax) for every ten shares held by shareholders for year 2006, based on the total shares of 603,800,000, totalling RMB 48,304,000.

26. REVENUES FROM MAIN OPERATIONS AND COST OF GOODS SOLD

Primary reporting format – business segment

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

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

Secondary reporting format – geographical segment

Location	2006		2005	
	Sales Revenue	Cost of Goods Sold	Sales Revenue	Cost of Goods Sold
Mainland China	4,175,873,521	3,423,554,059	3,918,073,650	3,243,810,356
Africa	40,839,356	40,181,334	34,237,591	28,858,618
Asia	366,611,935	327,132,301	275,251,092	257,911,306
Others	25,996,814	21,464,349	14,349,513	9,775,728
Total	<u>4,609,321,626</u>	<u>3,812,332,043</u>	<u>4,241,911,846</u>	<u>3,540,356,008</u>

The top five clients’ sales amount to RMB 797,074,856, or 17% of the Group’s total sales (2005: RMB 1,014,892,296, 25%).

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V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

27 SALES TAX

	2006	2005
Business tax	26,270	40,496
City construction tax	9,122,884	8,383,142
Education levy	2,751,631	3,395,187
Price control fund	292,006	398,664
Total	<u>12,192,791</u>	<u>12,217,489</u>

28 PROFITS FROM OTHER OPERATIONS

	2006	2005
Income from other operations		
Operating lease income	10,027,477	11,375,811
Sales of materials and others	935,181,741	762,321,277
Other	29,200,030	21,949,167
Subtotal	<u>974,409,248</u>	<u>795,646,255</u>
Cost of other operations		
Operating lease cost	(8,528,688)	(8,435,862)
Cost of materials and others	(890,012,386)	(735,210,586)
Other	(18,547,631)	(17,084,508)
Subtotal	<u>(917,088,705)</u>	<u>(760,730,956)</u>
Total	<u>57,320,543</u>	<u>34,915,299</u>

29 FINANCIAL EXPENSES

	2006	2005
Interest expense	30,733,279	19,291,908
Less: Interest income	(24,959,690)	(16,001,225)
Exchange gain, net	(5,443,624)	(4,046,578)
Others	7,353,762	2,567,298
	<u>7,683,727</u>	<u>1,811,403</u>

30 INCOME/(LOSS) FROM INVESTMENT

	2006	2005
Share of associated companies' (loss)/income	(296,618)	610,354
Amortisation of investment difference	(2,518,324)	(282,300)
Income from investment in stock	18,420,583	342,073
Income from entrusted loan	4,230,589	
Other investment (loss)/income	(2,432,391)	15,318,562
Provision for long-term investment	—	(5,000,000)
	<u>17,403,839</u>	<u>10,988,689</u>



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V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 CASH FLOW RELATING TO THE ACQUISITION AND DISPOSAL OF THE SUBSIDIARIES

(a) Newly Acquired Subsidiaries

As noted in IV, in January 2006, the company obtained control over Wuxi Testing. In Feb 2006, the Company acquired 10% equity interest of Wuxi Zhuanjian. In July 2006, the Company acquired 96.68% equity interest of Xianyang Wei'er. The assets and liabilities of Wuxi Testing, Wuxi Zhuanjian and Xianyang Wei'er and cash flow related to the acquisitions are presented below:

	Wuxi Testing	Wuxi Zhuanjian	Xianyang Wei'er	Total
Cash	425,526	5,447,884	1,718,626	7,592,036
Current assets except cash	5,575,899	59,978,584	39,514,110	105,068,593
Fixed assets	12,462,852	20,614,198	67,640,053	100,717,103
Non-current assets except fixed assets	124,262	21,398,853	37,373,587	58,896,702
Less: Current liabilities	(12,502,711)	(63,199,460)	(148,392,376)	(224,094,547)
Include: Payables to the Company and former shareholders	—	—	(89,675,270)	(89,675,270)
Less: Non-current liabilities	—	—	—	—
Net assets	6,085,828	44,240,059	(2,146,000)	48,179,887
% acquired equity	—	10%	96.68%	-
Net assets acquired	—	4,424,006	(2,074,752)	2,349,254
Plus: surplus (consolidation difference)	—	375,994	3,954,752	4,330,746
Total acquisition consideration	—	4,800,000	1,880,000	6,680,000
Less: Cash inflow due to acquisition	(425,526)	(5,447,884)	(1,718,626)	(7,592,036)
Net cash outflow/(inflow) in respect of the purchase of subsidiaries	(425,526)	(647,884)	161,374	(912,036)

Condensed income statement from effective date of acquisition to 31st December 2006

	Wuxi Testing	Wuxi Zhuanjian	Xianyang Wei'er	Total
Sales	15,948,957	94,604,622	9,334,984	119,888,563
Cost of Goods Sold	(15,497,812)	(68,464,193)	(8,376,264)	92,338,269
Gross Profit	451,145	26,140,429	958,720	27,550,294
Profit before taxation	(583,983)	12,828,459	420,436	12,664,912
Less: Income tax	(113)	—	(35,990)	(36,103)
Net profit/(loss)	(584,096)	12,828,459	384,446	12,628,809

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V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 CASH FLOW RELATING TO THE ACQUISITION AND DISPOSAL OF THE SUBSIDIARIES (CONTINUED)

(b) Newly Disposed Subsidiaries

As stated in Note 4, Jingpeng disposed 40% equity share of Beijing Chen Yu at a consideration of RMB 26,000,000, and recognised the investment income of RMB 2,717,829. Simplified balance sheet as at disposal date, and simplified profit and loss statement for the period ended at disposal date is as follows:

	As at 1st November 2006
Cash	13,042,814
Current assets except cash	531,854,700
Net book value of fixed assets	1,898,914
Less: current liabilities	(528,442,464)
Net assets	<u>18,353,964</u>
Cash received for disposal consideration	26,000,000
Less: Cash flow due to disposal	(13,402,814)
Net cash inflow in respect of the disposal of subsidiary	<u>12,957,186</u>
	From 1st January 2006 to 1st November 2006
G&A expenses	452,003
Financial expenses	(50,634)
Net Loss	<u>401,369</u>

32 CASH RECEIVED/PAID RELATING TO OTHER INVESTING ACTIVITIES

Cash received/paid relating to other investing activities includes RMB 60,000,000 paid to and received from Chongqing International Trust & Investment Company Limited ("Chongqing Trust & Investment"), and RMB 60,000,000 paid to and received from Shanghai Baorui Properties Company ("Shanghai Baorui").

In July 2006, the Company entered into an agreement with Chongqing Trust & Investment to grant an entrusted loan of RMB 60,000,000 to Shanghai Baorui. The agreement was not implemented subsequently, therefore the Company received Chongqing Trust & Investment's repayment of RMB 60,000,000.

In July 2006, the Company entered into an agreement with Shanghai Baorui to purchase a real estate under development, and paid RMB 60,000,000 deposit. The transfer of title was not completed subsequently and the Company received Shanghai Baorui's repayment of the deposit of RMB 60,000,000 in December 2006. As at 31st December 2006, the Company has not received the interest amounting to RMB 1,826,000. Therefore the Company has not recognised the interest income in 2006.



Notes to the Financial Statements

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VI NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTS RECEIVABLES AND OTHER RECEIVABLES

(1) Accounts receivables

	31st December 2006			31st December 2005		
Accounts receivables	334,547,310			277,801,584		
Less: bad debt provision	(69,557,406)			(58,942,446)		
	<u>264,989,904</u>			<u>218,859,138</u>		
	31st December 2006			31st December 2005		
	Amount	%	Provision	Amount	%	Provision
Ageing:						
Within 1 year	231,649,273	69	—	188,233,126	68	—
1 to 2 years	28,290,254	9	(5,757,298)	20,681,601	7	(4,057,253)
2 to 3 years	12,892,221	4	(5,680,988)	12,425,728	5	(6,202,922)
Over 3 years	61,715,562	18	(58,119,120)	56,461,129	20	(48,682,271)
	<u>334,547,310</u>	<u>100</u>	<u>(69,557,406)</u>	<u>277,801,584</u>	<u>100</u>	<u>(58,942,446)</u>

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

	31st December 2006	31st December 2005
– Due from the holding company	440,000	3,508,667
– Due from fellow subsidiaries	56,454,291	52,699,693
– Due from associated companies	62,818,527	36,355,292
– Due from jointly controlled entities	33,606,682	8,228,012
	<u>153,319,500</u>	<u>100,791,664</u>

The total amount of the five largest individual balances of accounts receivables is RMB 144,688,148 and this accounts for 43% of the total accounts receivables balance (2005: 100,577,102, 36%).

The accounts receivables with ageing over 1 year include the amounts due by subsidiaries and related parties, so there is no bad debt provision made.

Notes to the Financial Statements

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VI NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTS RECEIVABLES AND OTHER RECEIVABLES (CONTINUED)

(2) Other receivables

	31st December 2006	31st December 2005
Other receivables	181,899,067	490,325,877
Less: Specific provision for bad debts	(846,749)	(1,148,182)
Net value	<u>181,052,318</u>	<u>489,177,695</u>

Ageing and specific provision for bad debts of other receivable:

	31st December 2006			31st December 2005		
	Amount	%	Bad debt provision	Amount	%	Bad debt provision
Ageing:						
Within 1 year	127,450,256	70	—	455,253,857	93	—
1-2 years	33,853,323	19	—	22,680,230	5	—
2-3 years	4,332,507	2	—	3,219,396	1	—
Over 3 years	16,262,981	9	(846,749)	9,172,394	1	(1,148,182)
	<u>181,899,067</u>	<u>100</u>	<u>(846,749)</u>	<u>490,325,877</u>	<u>100</u>	<u>(1,148,182)</u>

There is no balance of other receivables due from related parties at 31st December 2006.

The total amount of the five largest individual balance of other receivables is RMB 161,243,867 and this accounts for 89% of the total other receivables balance (2005: RMB 183,698,402, 37%).

2. LONG TERM EQUITY INVESTMENT

		31st December 2005	Addition	Disposal	31st December 2006
Investment in associated companies	(a)	103,145,179	1,778,230	(2,078,137)	102,845,272
Investment in jointly controlled entities	(b)	12,500,000	—	(746,741)	11,753,259
Investment in subsidiaries	(c)	1,079,256,295	302,908,197	(13,624,382)	1,368,540,110
Other equity investment	(d)	24,866,602	—	—	24,866,602
Investment Difference		545,813	5,472,715	(214,983)	5,803,545
Total		<u>1,220,313,889</u>	<u>310,159,142</u>	<u>(16,664,243)</u>	<u>1,513,808,788</u>



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VI NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. LONG TERM EQUITY INVESTMENT (CONTINUED)

(a) Investment in associated companies

Name of investee	Investment period	Equity Interest Held(%)		Investment Cost		Accumulated Equity Movement			Balance	
		31st	31st	31st	31st	31st		31st	31st	31st
		December	December	December	December	December	Changes in equity	December	December	December
		2005	2006	2005	2006	2005		2006	2005	2006
Hongda Research Company Limited	2001 to 2101	40	40	20,000,000	20,000,000	3,314,948	752,168	4,067,116	23,314,948	24,067,116
Shenzhen Jinghuachi Science and Technology Investment Company Limited (Originally Shenzhen Bolue Technology Investment Company)	2001 to 2031	40.94	40.94	35,000,000	35,000,000	1,806,723	(1,533,932)	272,791	36,806,723	35,272,791
Zhengzhou Hongda Non-woven Fabric Textile Machinery Company Limited	2003 to 2007	28.33	23.74	17,000,000	17,000,000	(5,422,977)	(544,205)	(5,967,182)	11,577,023	11,032,818
China Textile Machinery and Technology Import and Export corporation	2004 to permanent	25	25	30,000,000	30,000,000	1,446,485	1,026,062	2,472,547	31,446,485	32,472,547
				<u>102,000,000</u>	<u>102,000,000</u>	<u>1,145,179</u>	<u>(299,907)</u>	<u>845,272</u>	<u>103,145,179</u>	<u>102,845,272</u>

(b) Investment in jointly controlled entities

Name of investee	Investment period	Equity Interest Held(%)		Investment Cost		Accumulated Equity Movement			Balance	
		Direct	Indirect	31st	31st	31st		31st	31st	31st
				December	December	December	Changes in equity	December	December	December
				2005	2006	2005		2006	2005	2006
Anhui Huamao Jingwei Xinxing Textile Company Limited	2005 to 2020	25	25	12,500,000	12,500,000	—	(746,741)	(746,741)	12,500,000	11,753,259
				<u>12,500,000</u>	<u>12,500,000</u>	<u>—</u>	<u>(746,741)</u>	<u>(746,741)</u>	<u>12,500,000</u>	<u>11,753,259</u>

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VI NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. LONG TERM EQUITY INVESTMENT (CONTINUED)

(c) Investment in subsidiaries

Name of investee	Investment period	Equity Interest Held(%)		Investment Cost		Accumulated Equity Movement			Balance	
		31st	31st	31st	31st	31st		31st	31st	
		December	December	December	December	December	Changes in equity	December	December	December
		2005	2006	2005	2006	2005		2006	2005	2006
Beijing Jingpeng Investment Management Company Limited	2001 to 2051	94	94	96,000,000	96,000,000	(2,323,647)	3,650,784	1,327,137	93,676,353	97,327,137
Shanghai Chuangan Trading Company Limited	2001 to 2011	90	90	1,800,000	1,800,000	784,980	27,332	812,312	2,584,980	2,612,312
Hongkong Huaming Company Limited	2000 to 2030	100	100	4,966,416	62,559,880	11,143,561	26,778,524	37,922,085	16,109,977	100,481,965
Beijing Jingwei Textile Machinery New Technology Company Limited	2000 to 2050	98.4	98.4	98,407,084	98,407,084	32,017,291	13,908,917	45,926,208	130,424,375	144,333,292
Tianjin Hongda Textile Machinery Company Limited	1999 to 2009	98	98	71,390,523	71,390,523	66,427,368	1,067,872	67,495,240	137,817,891	138,885,763
Shenyang Hongda Textile Machinery Company Limited	1999 to 2009	98	98	81,742,695	81,742,695	32,574,685	8,271,799	40,846,484	114,317,380	122,589,179
Zhengzhou Hongda New Textile Machinery Company Limited	1999 to 2009	98	98	81,243,200	81,243,200	3,966,951	(8,416,261)	(4,449,310)	85,210,151	76,793,890
Qingdao Hongda Textile Machinery Company Limited	1999 to 2009	98	98	96,863,612	96,863,612	136,616,554	35,150,446	171,767,000	233,480,166	268,630,612
Changde Textile Machinery Company Limited	2002 to 2012	70	70	35,279,928	35,279,928	60,169,090	37,429,703	97,598,793	95,449,018	132,878,721
Jinzhong Jingwei Ring Manufacturing Company Limited	1993 to permanent	98	98	500,000	500,000	759,772	69,983	829,755	1,259,772	1,329,755
Jingwei Textile Machinery Yuci Material Company Limited	1996 to 2006	99.20	99.20	5,000,000	5,000,000	191,981	79,684	271,665	5,191,981	5,271,665
Taiyuan Jingwei Electrical Company Limited	1997 to 2047	98	98	9,412,000	9,412,000	(3,227,605)	(1,288,514)	(4,516,119)	6,184,395	4,895,881
Shanghai Jingwei Dongxing Blowing-Carding Machinery Company Limited	2001 to 2011	73.874	73.874	36,974,000	36,974,000	21,694,014	4,490,934	26,184,948	58,668,014	63,158,948
Ningbo Daxie Machinery and Develop Zone Wu Fang Hongda Company Limited	1999 to 2006	98	-	2,352,000	-	1,493,210	(1,493,210)	-	3,845,210	-
Shanghai Weixin Electrical & Machinery Company Limited	2000 to 2050	90	90	14,400,000	14,400,000	(3,868,613)	1,021,527	(2,847,086)	10,531,387	11,552,914
Wuxi Jingwei Textile Technology and Testing Company Limited	2003 to 2013	55	66.55	27,240,807	33,467,093	2,257,690	890,672	3,148,362	29,498,497	36,615,455
Shanxi Jingwei Heli Machinery Manufacturing Company Limited	2003 to permanent	30	30	36,727,094	36,727,094	2,459,944	5,013,813	7,473,757	39,187,038	44,200,851
Kunshan Jingwei Machinery Manufacturing Company Limited	2004 to permanent	75	75	3,190,974	3,190,974	628,736	(74,397)	554,339	3,819,710	3,745,313
Tianjin Jingwei New Type Textile Machinery Company Limited	2005 to 2015	75	75	12,000,000	12,000,000	-	19,009,088	19,009,088	12,000,000	31,009,088
Yichang Jingwei Textile Machinery Company Limited	2006 to 2018	-	75	-	15,000,000	-	-	-	-	15,000,000
Xianyang Wei'er Machinery Company Limited	2006 to 2019	-	99.334	-	57,468,693	-	381,886	381,886	-	57,850,579
Wuxi Hongda Textile Machinery and Special Parts Company Limited	2006 to 2035	-	10	-	4,424,006	-	4,952,784	4,952,784	-	9,376,790
				715,490,333	853,850,782	363,765,962	150,923,366	514,689,328	1,079,256,295	1,368,540,110



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VI NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. LONG TERM EQUITY INVESTMENT (CONTINUED)

(c) Other Equity Investment

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

As at 31/12/2006, short term and long term investment in all take 58.36% of Net assets.

3. REVENUES FROM MAIN OPERATIONS

	2006	2005
Mainland China	2,759,484,361	2,751,396,067
Africa	21,628,718	5,553,745
Asia	292,622,631	223,438,842
Other	—	4,648,609
	<u>3,073,735,710</u>	<u>2,985,037,263</u>

4. COST OF GOODS SOLD

	2006	2005
Mainland China	2,511,604,303	2,510,784,519
Africa	21,563,832	5,307,465
Asia	281,568,780	215,169,140
Other	—	4,537,139
	<u>2,814,736,915</u>	<u>2,735,798,263</u>

5. INCOME/(LOSS) FROM INVESTMENT

	2006	2005
Share of associated companies (loss)/income	(299,907)	620,515
Adjustment for the changes in the equity of investees at year end	154,656,876	105,997,757
Income from investment of stock	12,549,881	—
Income from entrusted loan	4,230,589	—
Amortisation of investment difference	(214,983)	229,554
Other investment income	2,019,853	15,548,200
	<u>172,942,309</u>	<u>122,396,026</u>

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VII RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

1 Related party with controlling relationship

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

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VII RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

1 Related party with controlling relationship (continued)

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

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VII RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

1 Related party with controlling relationship (continued)

Name	Registered Address	Main business	Relation with the Company	Nature or type	Legal representative
Shanxi Jingwei Heli Machinery Manufacturing Company	PRC	Manufacturing, design, installation and sales of machinery and electrical equipment and mineral production; import and export;	Subsidiary	Joint Corporation	Guan Xuefeng
Kunshan Jingwei Machinery Manufacturing Company Limited	PRC	Manufacturing and installation of textile machines and providing after sales services; sales of own made products	Subsidiary	Limited company	Guan Xuefeng
Tianjin Jingwei New Type Textile Machinery Company Limited	PRC	Developing and processing textile machinery and related components; providing technical consultation.	Subsidiary	Limited company	Zhang Jianguo
Tianjin Hongda Textile Machinery Component Trading Company Limited.	PRC	Trading of textile, electronic products, textile machinery and related components, raw materials and chemical products (other than dangerous products); providing technical consultation.	Subsidiary	Limited company	Li Xiangjie
Shenyang Hongda Huaming Textile Machinery Company Limited	PRC	Developing and processing textile machinery and related components; providing technical consultation.	Subsidiary	Limited company	Ye Maoxin
Xianyang Wei'er Machinery Company Limited	PRC	Manufacturing of weaving machines and equipments, and relevant consulting service	Subsidiary	Limited company	Cheng Jianrong
Wuxi Hongda Textile Machinery and Special Parts Company Limited	PRC	Manufacturing of new type textile machines and equipment.	Subsidiary	Limited company	Xiong Jianlin
Wuxi Textile Technology and Testing Company Limited	PRC	Manufacturing of textile production; processing of textile material; made of textile machine and equipment; renting of equipment.	Subsidiary	Limited company	Liu Zhongming
Yichang Jingwei Textile Machinery Company Limited	PRC	Developing and manufacturing textile machine.	Subsidiary	Limited company	Ye Maoxin



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VII RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

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

Name of enterprise	Beginning balance	Increase	Decrease	Year end balance
China Hengtian Group Company	1,801,950,000	—	—	1,801,950,000
China National Textile Machinery (Group) Co., Ltd. ("CTMC")	2,735,820,000	—	—	2,735,820,000
Jinzhong Jingwei Ring Manufacturing Company Limited	500,000	—	—	500,000
Jingwei Textile Machinery Yuci Material Company Limited	5,000,000	—	—	5,000,000
Taiyuan Jingwei Electrical Company Limited	5,000,000	—	—	5,000,000
Ningbo Daxie Development Zone Wu Fang Hongda Company Limited	2,400,000	—	(2,400,000)	—
Qingdao Hongda Textile Machinery Company Limited	114,000,000	—	—	114,000,000
Tianjin Hongda Textile Machinery Company Limited	78,500,000	—	—	78,500,000
Zhengzhou Hongda New Textile Machinery Company Limited	74,500,000	—	—	74,500,000
Shenyang Hongda Textile Machinery Company Limited	71,000,000	—	—	71,000,000
Beijing Jingwei Textile Machinery New Technology Company Limited	100,000,000	—	—	100,000,000
Shanghai Weixin Electrical & Machinery Company Limited	16,000,000	—	—	16,000,000
Beijing Ximen Information Technology Company Limited	12,000,000	—	—	12,000,000
Hong Kong Huaming Company Limited	4,966,416	57,433,584	—	62,400,000
Beijing Jingpeng Investment Management Company Limited	100,000,000	—	—	100,000,000
Shanghai Chuangan Trading Company Limited	2,000,000	—	—	2,000,000

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VII RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

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

Name of enterprise	Beginning balance	Increase	Decrease	Year end balance
Wuxi Jingwei Textile Technology and Testing Company Limited	49,530,000	—	—	49,530,000
Shanghai Jingwei Dongxing Blowing-Carding Machinery Company Limited	50,000,000	—	—	50,000,000
Shanxi Jingwei Heli Machinery Manufacturing Company	100,000,000	—	—	100,000,000
Changde Textile Machinery Company Limited	42,349,900	—	—	42,349,900
Kunshan Jingwei Machinery Manufacturing Company Limited	3,208,260	—	—	3,208,260
Tianjin Jingwei New Type Textile Machinery Company Limited	16,000,000	—	—	16,000,000
Tianjin Hongda Textile Machinery Component Trading Company Limited.	500,000	—	—	500,000
Shenyang Hongda Huaming Textile Machinery Company Limited	40,000,000	—	—	40,000,000
Wuxi Hongda Textile Machinery and Special Parts Company Limited	20,000,000	—	—	20,000,000
Xianyang Wei'er Machinery Company Limited	15,079,600	60,000,000	—	75,079,600
Wuxi Textile Technology Testing Company Limited	1,000,000	—	—	1,000,000
Yichang Jingwei Textile Machinery Company Limited	—	20,000,000	—	20,000,000

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

Name	Beginning balance amount	%	Increase	%	Decrease	%	Year end balance amount	%
CTMC	220,000,000	36.44	8,615,248	1.42	(24,360,000)	4.03	204,255,248	33.83

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



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VII RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

5 Jointly controlled entities:

Name	Registered Address	Main business	Relation with the Company	Nature or type	Legal representative
Anhui Huamao Jingwei New Type Textile Company Limited	PRC	Production, processing and sales of various kinds of yarn and textile products.	Jointly controlled entities	Limited Company	Hua Guanxiong
Shanghai WSP Mould and Injection Plastic Company Limited	PRC	Development, manufacturing and trading of textile machinery, automobile component, mould and general machinery	Jointly controlled entities	Limited Company	Shang Zhengkai

6 Changes in the stock or owner's equity of the joint venture enterprises:

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

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VII RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

7 Fellow subsidiaries in which the Company has no control:

Name of related party	Relation with the Company
Tianjin Textile Machinery Plant	Fellow subsidiaries
Jingwei Machinery (Group) Company Limited	Fellow subsidiaries
Hengyang Textile Machinery Plant	Fellow subsidiaries
Shenyang Textile Machinery Plant	Fellow subsidiaries
Changde Textile Machinery Plant	Fellow subsidiaries
Changzhou Textile Machinery Plant	Fellow subsidiaries
Zhengzhou Textile Machinery Company Limited	Fellow subsidiaries
Zhengzhou Textile Machinery Plant	Fellow subsidiaries
Weinan Textile Machinery Plant	Fellow subsidiaries
China Textile Machinery (Group) Company Limited	Fellow subsidiaries
Guangzhou branch office	Fellow subsidiaries
China National Textile Machinery Group Sales Company	Fellow subsidiaries
Huangshi Textile Machinery Plant	Fellow subsidiaries
Shaoyang Textile Machinery Company Limited	Fellow subsidiaries
Beijing Hongda Shiye Company Limited	Fellow subsidiaries
Shenyang Hongsheng Textile Machinery Company Limited	Fellow subsidiaries
Shenyang Textile Machinery Spare Parts Sales Company	Fellow subsidiaries
Yichang China National Textile Machinery Components Company Limited	Fellow subsidiaries
Tianjin Textile Machinery Steel Stripped-down Company Limited	Fellow subsidiaries
Tianjin Textile Machinery Heat-Treatment	Fellow subsidiaries
Yichang China National Textile Machinery Industrial and Trading Company Limited	Fellow subsidiaries
Urumchi Jingwei Xijin Company	Fellow subsidiaries
Hongda International Trading Company Limited	Fellow subsidiaries
Beijing Hongda Tiancheng Trading Company Limited	Fellow subsidiaries
Shanying Parts Company	Fellow subsidiaries
China Textile Industry Company Sales and Technical Service Company	Fellow subsidiaries
Yuci Chemical Fibre Machinery Company Limited	Fellow subsidiaries
Hongda Investment Company Limited	Fellow subsidiaries
China Garments Company Limited	Subsidiaries of China Hengtian Group
Jingjin Associated Packing Plant	Subsidiaries of Jingwei Group
Hongda Research Company Limited	Associated companies
Qingdao Jinyi Pressing and Casting Company Limited	Associated companies
Shenyang Jingxing Textile Machinery Company Limited	Associated companies
Shenzhen Jinghuachi Science and Technology Investment Company Limited	Associated companies
China Textile Machinery and Technology Import and Export Corporation	Associated companies
Zhengzhou Hongda Non-Woven Fabric Company Limited	Associated companies
Qingdao Jinshan City Hotel	Associated companies
Qingdao Lanlifeng Laser Technology Company Limited	Associated companies
Beijing Chen Yu Tai He Property Development Co., Ltd.	Associated companies

The subsidiaries of the holding company, the subsidiaries of the ultimate holding company and the associated companies of Jingwei Machinery (Group) Co., Ltd are collectively referred to as “fellow subsidiaries”

Related companies include the ultimate holding company, holding company, associated companies and joint venture enterprises.



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VII RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

8 Related party transactions

The Group is controlled by CTMC which owns 33.83% of the Company's shares. The remaining 66.17% of the shares are widely held. The ultimate parent of the Group is CTMC.

CTMC is the controlled subsidiary of China Hengtian Group Company (the "Controlling Shareholders"). The Controlling Shareholder and the Company also holds investments in various subsidiaries ("Fellow Subsidiaries"), associated companies and joint venture enterprises. These parties sell goods and provide relevant services and leases to the Company and vice versa. Fellow subsidiaries, associated companies and joint venture enterprises, similar to the Company are also under the control of the Controlling Shareholder, and therefore constitute related parties of the Company.

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

i) Investments

		For the twelve months ended 31st December	
	Note	2006	2005
Purchase of investments			
– from holding company	(i)	–	11,293,600

ii) Sales of goods and services

		For the twelve months ended 31st December	
	Note	2006	2005
Sales of finished goods:			
– Fellow subsidiaries	(ii)	43,933,362	36,834,948
– Associated companies		292,713,738	171,935,087
– Jointly controlled entities		69,382,995	38,940,181
Sale of raw materials and components			
– Fellow subsidiaries	(ii)	353,850,022	262,828,285
– Associated companies		–	4,315,635
Receive of processing fee			
– Associated companies		480,000	131,534
Provision of other supporting services expense			
– Holding company		2,900,000	–
– Fellow subsidiaries	(ii)	5,726,451	6,029,442
Rental income			
– Fellow subsidiaries	(ii)	6,076,486	7,198,259

iii) Purchases of goods and services

		For the twelve months ended 31st December	
	Note	2006	2005
Purchases of finished goods:			
– Fellow subsidiaries	(ii)	423,715,743	502,956,310
– Associated companies		15,015,878	–
Purchases of raw material and components:			
– Fellow subsidiaries	(ii)	137,358,080	177,007,759
– Associated companies		16,679,881	17,206,589
– Jointly controlled entities		2,067,740	–
Purchase of tools model			
– Fellow subsidiaries	(ii)	36,436,367	16,516,977
Purchase of castings			
– Fellow subsidiaries	(ii)	92,714,856	111,429,798
– Associated companies		30,716,248	17,789,580
Purchase of energy			
– Fellow subsidiaries	(ii)	5,292,250	13,245,338
Purchase of intangible assets			
– Fellow subsidiaries	(ii)	11,973,619	–
Processing fees paid			
– Fellow subsidiaries	(ii)	154,153,275	104,573,399

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VII RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

8 Related party transactions (continued)

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

iii) Purchases of goods and services (Continued)

		For the twelve months ended 31st December	
	Note	2006	2005
Fees paid for transportation services			
– Fellow subsidiaries	(ii)	8,750,572	10,149,055
Fees paid for repairs and maintenance services			
– Fellow subsidiaries	(ii)	25,384,806	24,506,592
Fees paid for other supporting services			
– Fellow subsidiaries	(ii)	8,794,822	29,955,880
Rental expense			
– Fellow subsidiaries	(ii)	1,296,873	11,475,109
Staff accommodation rental expenses			
– Fellow subsidiaries	(ii)	345,741	402,024
Estate administrative expense			
– Fellow subsidiaries	(ii)	1,366,368	1,421,437
Interest expense			
– Fellow subsidiaries	(ii)	1,296,518	55,238

iv) Guaranteed debt

		For the twelve months ended 31st December	
	Note	2006	2005
Guaranteed debt received:			
– Holding company		200,000,000	–
– Fellow subsidiaries		–	74,000,000

v) Others

		For the twelve months ended 31st December	
	Note	2006	2005
Cash transactions with:			
– Holding company		4,447,917	385,724,300
– Ultimate holding company		–	30,000,000
– Fellow subsidiaries		9,829,358	31,317,385
– Associated companies		151,210,736	260,469,077

Notes:

- (i) HongKong Huaming acquired 25% equity share of Wuxi Zhuanjian at a consideration of HKD with an equivalence of RMB 11,923,600 from CTMC in May 2005.
- (ii) These transactions are conducted under the “Contract of Comprehensive Services” between the group and the holding company.



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VII RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

8 Related party transactions (continued)

(b) Pricing policy

The general price policy for ongoing related party transactions:

The term of these transactions with related parties follows the composite service agreements entered into by the Group and its related parties on 18th August 2004. The prices which the Group charged or was being charged were determined on following basis:

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

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

- (i) such transactions were entered into by the Group in the ordinary course of its business;
- (ii) such transactions were entered into on normal commercial terms or on terms no more favourable or less favourable than terms available to or made by independent third parties;
- (iii) such transactions in accordance with the relevant agreements governing them were fair and reasonable and in the interests of the shareholders of the Company as a whole.

VIII CONTINGENT LIABILITIES

	Company	
	31st December 2006 Amount	31st December 2005 Amount
Discount of commercial bills	174,575,191	289,709,150
Guarantees for bank loans of subsidiaries	—	80,000,000
Guarantees for bank loans of third party (i)	235,000,000	405,000,000
Guarantees for bank loans of jointly controlled entities	—	20,000,000
	409,575,191	794,709,150
	Group	
	31st December 2006 Amount	31st December 2005 Amount
Discount of commercial bills	224,575,191	289,709,150
Guarantees for bank loans of third party (i)	235,000,000	405,000,000
Guarantees for bank loans of jointly controlled entities	—	10,000,000
	459,575,191	704,709,150

- (i) As at 31 December 2006, the details of guarantees for bank loans of third parties are as follows:

Beneficiary	Guaranteed Amount
Beijing Hualian Commercial Buildings Joint Stock Co. Ltd.	70,000,000
Beijing Hualian Commerce and Trade Development Co. Ltd.	165,000,000
	235,000,000

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IX CAPITAL AND LEASE COMMITMENTS

As at 31st December 2006 and 31st December 2005, the following capital commitments and leasing commitments, principally for construction and equipment purchases, were outstanding:

(a) Capital commitments

	31st December 2006 Amount	31st December 2005 Amount
Contracted but not provided for	<u>5,247,596</u>	<u>44,142,849</u>

(b) Lease commitments

	31st December 2006 Amount	31st December 2005 Amount
Lease in respect of land		
Within 1 year	2,045,103	1,717,900
1-2 years	1,717,900	1,717,900
2-3 years	—	1,717,900
3 years and above	—	3,435,800
	<u>3,763,003</u>	<u>8,589,500</u>
	31st December 2006 Amount	31st December 2005 Amount
Lease in respect of a building		
Within 1 year	8,683,336	11,508,616
1-2 years	—	1,098,751
	<u>8,683,336</u>	<u>12,607,367</u>

X SUBSEQUENT EVENT

(a) Transactions with China Worldbest Group

As described at note V2(b), as at 31 December 2006, the Company had received neither the repayment of the last tranche of entrusted loan of an amount of RMB 100,000,000, nor the related interests from Huayuan Shengming, a subsidiary of China Worldbest Group. On 27th March 2007, the Company received repayment of the principal of the entrusted loan of RMB 100,000,000. The related interests have not been received as of the date of the financial report. The Company has not recognised any revenue in relation to these interests.

On 23 March 2007, Beijing New Technology, a subsidiary of the Company entered into a sale and purchase agreement with China Advanced and New Technology Investment and Development Company Limited ("China Advanced and New Technology"), a subsidiary of China Worldbest Group and sister company of Huayuan Shengming. Pursuant to the terms of the sale and purchase agreement, Beijing New Technology agreed to purchase 65% equity share of real estate developer Beijing Bohong Real Estate Development Company Limited ("Beijing Bohong"), a subsidiary of China Advanced and New Technology for a consideration of RMB 100,000,000. The net assets value of Beijing Bohong has been evaluated by qualified valuers in the PRC. On 26 March 2007, Beijing New Technology paid this consideration. The share transfer has been completed on 6 April 2007. Beijing Bohong is involved in the development of Champion City real estate in Beijing.



Notes to the Financial Statements For the year ended 31st December 2006

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

X SUBSEQUENT EVENT (CONTINUED)

(a) Transactions with China Worldbest Group (Continued)

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

	Net book value
Cash	32,114,876
Inventory – development cost	319,364,514
Other current assets	2,091,509
Fixed assets	384,792
Intangible assets	40,000
Short-term loans	(108,000,000)
Accounts payable	(20,418,976)
Advance from customers	(6,535,039)
Other payables	(112,020,301)
Other current liabilities	(6,525,858)
Total	<u>100,495,517</u>
Revalued net book value	163,253,864
Interest acquired by the Group	65%
Shared revalued net book value	<u>106,115,012</u>

Due to the acquisition of above investment, the Group's share of the capital commitment of contracted but not provided for amounts to RMB122,685,951, and approved but not contracted amounts to RMB175,829,683.

(b) Changes in applicable income tax rate

On 16 March 2007, the General Assembly of the People's Congress approved the Enterprise Income Tax Law of the People's Republic of China ("New Income Tax Law"), which will be enacted on 1st January 2008.

As at the release date of the report, the specific implementation rules of the New Income Tax Law are not issued. Therefore the income tax rate which will be applicable to the Company and the Group, the calculation of taxable income, detailed preferential income tax policies and the transition measures of preferential income tax policies are not available. Hence the Company and the Group is not in a position to estimate the applicable income tax rate under the New Income Tax Law reliably.

XI DEBT RESTRUCTURING

The Group does not have any major debts restructuring during the year 2006.

XII NET PROFIT AFTER DEDUCTING EXTRAORDINARY ITEMS

	2006
Net Profit	183,630,749
Add (Less): Extraordinary items	
– Loss on disposal of long-term investment and fixed assets	(1,220,969)
– Government subsidies	(3,118,034)
– Income of short-term investment	(18,420,583)
– Amortization of consolidation difference	2,518,324
– Income of entrusted loan interest	(4,230,588)
– Non-operating income after deducting the asset impairments	(860,248)
– Non-operating expense after deducting the asset impairments	3,398,556
– Reversal of the impairments recognised in previous years	(46,262,613)
– Others	2,432,391
Income tax impact of extraordinary items	2,925,173
Net profit after deducting the extraordinary items	<u>120,792,158</u>

XIII COMPARATIVE FIGURES

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