Chapter XV FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH HONG KONG FINANCIAL REPORTING STANDARDS

CONSOLIDATED BALANCE SHEET

(Prepared in accordance with HKFRS)
(All amounts in RMB '000 unless otherwise stated)

AS AT 31 DECEMBER 2006

	Note	As at 31 December 2006	2005
ASSETS			
Non-current assets			
Property, plant and equipment	6	1,363,065	1,111,207
Land use rights	7	239,452	150,552
Intangible assets	8	24,517	13,933
Interests in associates	10	127,092	118,097
Available-for-sale financial assets	12	39,611	36,744
Deferred income tax assets	22	33,919	33,726
		1,827,656	1,464,259
Current assets			
Inventories	13	1,326,039	1,771,977
Trade receivables	14	203,825	216,130
Bills receivables		1,595,723	1,181,314
Prepayment to suppliers		140,564	169,216
Deposits, other receivables and prepayment		35,618	229,811
Amounts due from fellow subsidiaries	15	204,398	236,960
Amounts due from associates	15	33,695	44,598
Amounts due from jointly-controlled entities	15	99,052	8,228
Loan receivable	16	100,000	-
Financial assets at fair value through profit and loss	17	8,886	-
Restricted bank deposits		7,891	4,656
Cash at banks and in hand	18	897,390	802,523
		4,653,081	4,665,413
Total assets		6,480,737	6,129,672
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	19	603,800	603,800
Other reserves	20	1,779,833	1,695,684
Retained earnings			
-Proposed final dividend	20	48,304	30,190
-Others	20	416,889	363,922
		2,848,826	2,693,596
Minority interest		176,565	175,473
Total equity		3,025,391	2,869,069
LIABILITIES			
Non-current liabilities			
Long-term bank loans, secured	21	200,000	-
Deferred income tax liabilities	22	1,237	25,949
		201,237	25,949
Current liabilities			
Trade payables	23	1,443,687	1,150,741
Bills payables		356,022	342,397
Taxation payable	24	23,762	52,537
Advance from customers		421,714	524,658
Amounts due to holding company	15	46,015	23,965
Amounts due to fellow subsidiaries	15	140,358	146,387
Amounts due to associates	15	10,691	2,849
Amounts due to jointly-controlled entities	15	556	3,180
Other payables and accruals		288,517	278,201
Short-term bank borrowings	21	522,787	709,739
		3,254,109	3,234,654
Total liabilities		3,455,346	3,260,603
Total equity and liabilities		6,480,737	6,129,672
Net current assets		1,398,972	1,430,759
Total assets less current liabilities		3,226,628	2,895,018

The accompanying notes are an integral part of these consolidated financial statements.

Ye Maoxin
Director

Yao Yuming
Director

BALANCE SHEET

(Prepared in accordance with HKFRS)
(All amounts in RMB '000 unless otherwise stated)

AS AT 31 DECEMBER 2006

	Note	As at 31 December 2006	2005
ASSETS			
Non-current assets			
Property, plant and equipment	6	471,652	458,261
Land use rights	7	82,361	78,845
Intangible assets	8	18,469	9,030
Investments in subsidiaries	9	1,008,529	939,266
Interests in associates	10	102,000	114,500
Available-for-sale financial assets	12	22,354	22,354
Deferred income tax assets	22	20,735	16,535
		1,726,100	1,638,791
Current assets			
Inventories	13	506,489	605,823
Trade receivables	14	82,988	75,645
Bills receivables		854,917	662,819
Prepayment to suppliers		30,291	32,574
Deposits, other receivables and prepayment		22,560	217,105
Amounts due from fellow subsidiaries	15	82,282	164,929
Amounts due from associates	15	90,819	8,069
Amounts due from jointly-controlled entities	15	33,607	8,228
Loan receivable	16	100,000	–
Financial assets at fair value through profit and loss	17	7,005	–
Cash at banks and in hand	18	567,264	540,062
		2,378,222	2,315,254
Total assets		4,104,322	3,954,045
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	19	603,800	603,800
Other reserves	20	1,645,265	1,576,902
Retained earnings			
– Proposed final dividend	20	48,304	30,190
– Others	20	22,081	87,163
		2,319,450	2,298,055
LIABILITIES			
Non-current liabilities			
Long-term bank borrowings, secured	21	150,000	–
Current liabilities			
Trade payables	23	743,065	363,892
Bills payables		156,290	189,715
Taxation payable	24	26,790	32,966
Advance from customers		253,542	349,073
Amounts due to holding company	15	15,042	4,491
Amounts due to fellow subsidiaries	15	22,766	47,714
Amounts due to associates	15	7,027	1,169
Amounts due to jointly-controlled entities	15	502	3,180
Other payables and accruals		59,099	46,282
Short-term bank borrowings	21	350,749	617,508
		1,634,872	1,655,990
Total liabilities		1,784,872	1,655,990
Total equity and liabilities		4,104,322	3,954,045
Net current assets		743,350	659,264
Total assets less current liabilities		2,469,450	2,298,055

The accompanying notes are an integral part of these consolidated financial statements.

Ye Maoxin
Director

Yao Yuming
Director

CONSOLIDATED INCOME STATEMENT

(Prepared in accordance with HKFRS)
(All amounts in RMB '000 unless otherwise stated)

FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	Year ended 31 December 2006	2005
Revenue	5	4,609,322	4,241,912
Cost of sales	26	(3,824,525)	(3,552,573)
Gross profit		784,797	689,339
Other gains-net	25	86,825	59,342
Distribution expenses	26	(141,843)	(106,540)
Administrative expenses	26	(500,812)	(464,851)
Operating profit	5	228,967	177,290
Finance costs-net	27	(330)	756
Share of (losses)/profits of associates		(297)	613
Profit before taxation		228,340	178,659
Income tax expense	28	(23,574)	(17,141)
Profit for the year		204,766	161,518
Profit attributable to			
Equity holders of the Company		187,442	153,028
Minority interests		17,324	8,490
		204,766	161,518
Dividends	30	48,304	30,190
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
– Basic and diluted	31	0.31	0.25

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Prepared in accordance with HKFRS)
(All amounts in RMB '000 unless otherwise stated)

FOR THE YEAR ENDED 31 DECEMBER 2006

		Attributable to equity holders of the Company			Minority interest	Total
	Note	Share capital	Other reserves	Retained earnings		
Balance at 1 January 2006		603,800	1,695,684	394,112	175,473	2,869,069
Net income recognised directly in equity						
– Exchange differences arising on translation of the accounts of a foreign subsidiary		–	(2,022)	–	–	(2,022)
Profit for the year		–	–	187,442	17,324	204,766
Total recognised income and expense for 2006		–	(2,022)	187,442	17,324	202,744
Transfer from retained earnings		–	86,171	(86,171)	–	–
Dividend	30	–	–	(30,190)	(11,967)	(42,157)
Acquisition of additional interests in a subsidiary		–	–	–	(15,254)	(15,254)
Disposal of a subsidiary		–	–	–	(21,193)	(21,193)
Minority interest-business combination		–	–	–	31,705	31,705
Capital contribution from minority interest		–	–	–	477	477
Balance at 31 December 2006		603,800	1,779,833	465,193	176,565	3,025,391
Balance at 1 January 2005		603,800	1,553,345	413,748	146,917	2,717,810
Net income recognised directly in equity						
– Exchange differences arising on translation of the accounts of a foreign subsidiary		–	(135)	–	–	(135)
Profit for the year		–	–	153,028	8,490	161,518
Total recognised income and expense for 2005		–	(135)	153,028	8,490	161,383
Transfer from retained earnings		–	142,474	(142,474)	–	–
Dividend	30	–	–	(30,190)	(1,347)	(31,537)
Capital contribution from minority interest		–	–	–	151	151
Minority interest-Business combination		–	–	–	21,262	21,262
Balance at 31 December 2005		603,800	1,695,684	394,112	175,473	2,869,069

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

(Prepared in accordance with HKFRS)
(All amounts in RMB '000 unless otherwise stated)

	Note	Year ended 31 December 2006	2005
Cash flows from operating activities			
Net cash inflow generated from operations	34(a)	139,335	154,278
Interest received		22,824	16,001
Interest paid		(32,492)	(17,533)
PRC income tax paid		(30,969)	(21,881)
Net cash inflow from operating activities		98,698	130,865
Cash flows from investing activities			
Investment in associates		–	(11,711)
Investment income received		15,344	8,474
Purchase of intangible assets		(13,069)	(9,193)
Purchase of subsidiaries, net of cash acquired	36	912	(43,364)
Acquisition of minority interest		(15,254)	–
Purchase of property, plant and equipment		(227,244)	(186,704)
Purchase of land use rights		(29,037)	(8,303)
Purchase of available-for-sale financial assets		(2,867)	(8,050)
Proceeds on disposal of available-for-sale financial assets		–	79,392
Purchase of financial assets of fair value through profit and loss		(53,137)	–
Proceeds on disposal of financial assets at fair value through profit and loss		44,251	–
Loans granted to associate		(156,584)	–
Repayments of loan from associate		118,464	–
Increase in loan receivable	16	(400,000)	–
Repayments of loan receivable	16	300,000	–
Other loans granted to third parties	34(d)	(239,448)	–
Repayments of other loan from third parties	34(d)	456,657	–
Proceeds on disposal of a subsidiary		12,957	–
Proceeds on disposal of associates		–	1,400
Proceeds on disposal of property, plant and equipment		18,242	10,011
Decrease in time deposits with maturity more than three months		4,095	4,816
Increase in pledged bank balances		(3,235)	(2,842)
Net cash outflow from investing activities		(168,953)	(166,074)
Net cash outflow before financing activities		(70,255)	(35,209)
Cash flows from financing activities			
Dividends paid		(11,909)	(30,190)
Dividends paid to minority shareholders		(11,968)	(1,347)
Capital contribution from minority shareholders		477	151
New bank loans		531,460	1,078,534
Loans from related parties		19,755	–
Loans from third parties		238,745	–
Repayments of bank loan		(442,351)	(1,198,300)
Repayments of loan from related parties		(7,893)	–
Repayments of loan from third parties		(145,077)	–
Net cash inflow/(outflow) from financing activities		171,239	(151,152)
Increase/(decrease) in cash and cash equivalents		100,984	(186,361)
Cash and cash equivalents at 1 January		796,523	983,019
Effect of foreign exchange rate changes		(2,022)	(135)
Cash and cash equivalents at 31 December	34(b)	895,485	796,523

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

(Prepared in accordance with HKFRS)
(All amounts in RMB '000 unless otherwise stated)

1 GENERAL INFORMATION

Jingwei Textile Machinery Company Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in manufacturing and sales of textile machinery. The Group has manufacturing plants and sells mainly the People's Republic of China ("the PRC"). The registered address of the Company is 8 Yongchangzhong Road, Beijing Economic & Technological Development Zone, Beijing, the PRC.

These consolidated financial statements are presented in Renminbi thousands (RMB'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 18 April 2007.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

(a) Adoption of new and revised HKFRS

- HKAS 39 and HKFRS 4 Amendment requires financial guarantees accounted for as financial liabilities under HKAS 39 "Financial Instruments: Recognition and Measurement" and measured initially at fair value and subsequently stated at the higher of (i) the amount initially recognised less accumulated amortisation; and (ii) the amount of the provision, if any, that should be recognised in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets". Based on management's assessment, there was no material impact from the adoption of HKAS 39 and HKFRS 4 Amendment to the consolidated financial statements of the Group.

- HK(IFRIC) Interpretation 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006). IFRIC Interpretation 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (i) fulfillment of the arrangement is dependent on the se of a specific asset or assets (the "asset"); and (ii) the arrangement conveys a right to use the asset. Based on management's assessment, there was no material impact from the adoption of HK(IFRIC) Interpretation 4 to the consolidated financial statements of the Group.

Standards, interpretations and amendments to published standards effective in 2006 but not relevant to the operations of the Group are summarised as follows:

- HKAS 19 (Amendment), Employee Benefits
- HKAS 21 (Amendment), Net Investment in a Foreign Operation
- HKAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- HKAS 39 (Amendment), The Fair Value Option;
- HKAS 1 (Amendment), First-time Adoption of Hong Kong Financial Reporting Standards and HKFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
- HK(IFRIC) 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds;
- HK(IFRIC) 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

Notes to the consolidated financial statements

(Prepared in accordance with HKFRS)
(All amounts in RMB '000 unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(b) New or revised HKFRS and interpretations that are not yet effective

Certain new standards, interpretations and amendments to published standards have been published, that are relevant to the operations of the Group, but not yet effective and have not been early adopted are summarised as follows:

HKFRS 7, Financial Instruments: Disclosures, and the complementary Amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures (effective from annual periods beginning on or after 1 January 2007). HKFRS 7 introduces new disclosure relating to financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces disclosure requirements in HKAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under HKFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be sensitivity analysis to market risk and the capital disclosures required by the amendment of HKAS 1. The group will apply HKFRS 7 and the amendment to HKAS 1 from 1 January 2007.

HK(IFRIC) Interpretation 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC) 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. Management considered there will be no significant impact from adopting HK(IFRIC) Interpretation 10 on the consolidated financial statements of the Group. The Group will apply HK(IFRIC) Interpretation 10 from 1 January 2007.

2.2 Consolidation

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

(a) Subsidiaries

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

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

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

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

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

Notes to the consolidated financial statements

(Prepared in accordance with HKFRS)
(All amounts in RMB '000 unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation (Continued)

(b) Transactions with minority interests

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

(c) Associates

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

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

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

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

(d) Jointly controlled entities

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

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

2.3 Segment reporting

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

Notes to the consolidated financial statements

(Prepared in accordance with HKFRS)
(All amounts in RMB '000 unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

(c) Group companies

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

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

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

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

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

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

2.5 Property, plant and equipment

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

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

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

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

Notes to the consolidated financial statements

(Prepared in accordance with HKFRS)
(All amounts in RMB ’000 unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Property, plant and equipment (continued)

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

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

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

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

2.6 Intangible assets

(a) Goodwill

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

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

(b) Patents and trademark

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

(c) Computer software

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

(d) Research and development costs

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

(i) it is technically feasible to complete the intangible asset so that it will be available for use or sale;
(ii) management intends to complete the intangible asset and use or sell it;
(iii) there is an ability to use or sell the intangible asset;
(iv) it can be demonstrated how the intangible asset will generate probable future economic benefits;
(v) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
(vi) the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years.

Development assets are tested for impairment annually, in accordance with HKAS 36.

Notes to the consolidated financial statements

(Prepared in accordance with HKFRS)
(All amounts in RMB ’000 unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Impairment of non-financial assets

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

2.8 Financial Assets

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

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

Financial assets at fair value trough profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) Loans and receivables

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

(c) Available-for-sale financial assets

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

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

Gains and losses arising, from changes in the fair value of the “financial assets at fair value through profit or loss” category including interest and dividend income, are presented in the income statement within “other (losses)/gains-net”, in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group’s right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in profit or loss, and other changes in carrying amount are recognised in equity. Changes in the fair value of monetary securities classified as available-for-sale and non-monetary securities classified as available-for-sale are recognised in equity.

Notes to the consolidated financial statements

(Prepared in accordance with HKFRS)
(All amounts in RMB ’000 unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Financial assets (Continued)

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

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

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

2.9 Inventories

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

Properties under development for sale are stated at the lower of cost and net realisable value. Cost comprises development expenditure, professional fees, and interest capitalised. Net realisable value is determined by reference to management estimates based on prevailing market conditions less costs to be incurred in selling the property. On completion , the properties are transferred to completed properties held for sale.

A property development is considered complete upon the issuance of engineering quality inspection certificate or relevant government authority’s certificate, whichever is the earlier.

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

2.10 Trade and other receivables

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

2.11 Cash and cash equivalents

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

2.12 Share capital

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

Notes to the consolidated financial statements

(Prepared in accordance with HKFRS)
(All amounts in RMB ’000 unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Borrowings

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

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

2.14 Deferred income tax

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

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

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

2.15 Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

2.16 Operating leases

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

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

2.17 Employee benefits

(a) Employee leave entitlements

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

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

(b) Bonus plans

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

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

Notes to the consolidated financial statements

(Prepared in accordance with HKFRS)
(All amounts in RMB '000 unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Employee benefits (Continued)

(c) Retirement benefit costs

Companies within the Group, which were established in the PRC, contribute to a defined contribution retirement scheme established by the relevant local municipal government who undertakes the retirement benefit obligations of all existing and future retired employees employed by the Group. Contributions to the schemes are charged to the income statement as incurred.

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

2.18 Provision

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

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

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

2.19 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(a) Sales of goods

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

(b) Interest income

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

(c) Investment income

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

2.20 Dividend distribution

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

Notes to the consolidated financial statements

(Prepared in accordance with HKFRS)
(All amounts in RMB ’000 unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in RMB and did not have significant exposure to foreign exchange risk during the period. At 31 December 2006 foreign currency (mainly Hong Kong dollars) cash and bank balances were RMB73,932,526 in aggregate. The conversion of Renminbi into foreign currencies is subject to the rules and regulations of the foreign exchange control promulgated by the PRC government.

(ii) Price risk

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

(b) Credit risk

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

(c) Liquidity risk

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

(d) Cash flow and fair value interest rate risk

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

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

3.2 Fair value estimation

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

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

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

Notes to the consolidated financial statements

(Prepared in accordance with HKFRS)
(All amounts in RMB ’000 unless otherwise stated)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

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

(ii) Income taxes

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

(iii) Estimated net realisation value of inventories

The Group follows the policy stated in Note 2.9 to determine the net realizable value of inventories. This determination requires significant judgment. In making this judgment, the Group estimates the selling prices in the ordinary course of business, the costs of completion and the costs necessary to make the sale.

5 REVENUE, TURNOVER AND SEGMENT INFORMATION

Turnover represents the value of goods sold, net of value added tax (“VAT”). VAT was assessed on the Group’s sales at the statutory rate of 17% (2005: 17%) less deductible input VAT.

The Group is principally engaged in the manufacturing and sales of textile machinery. Revenues recognised for the year are as follow:

	Group	
	2006	**2005**
Revenue		
Sale of goods	4,609,322	4,241,912

Primary reporting format-business segments

No analysis on business segments for the year ended 31 December 2006 and 2005 is presented as the Group is engaged only in manufacturing and sales of textile machinery during the years.

Secondary reporting format-geographical segments

	Revenue		**Segment results**		**Total assets**		**Capital expenditure**	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
PRC	4,175,874	3,918,074	217,867	165,300	6,201,282	5,929,197	323,789	189,094
Other countries	433,448	323,838	6,810	(3,322)	152,363	82,378	10	–
	4,609,322	4,241,912	224,677	161,978	6,353,645	6,011,575	323,799	189,094
Investment income			4,290	15,312				
Operating profit			228,967	177,290				
Interests in associates					127,092	118,097		
Total assets					6,480,737	6,129,672		

Notes to the consolidated financial statements

(Prepared in accordance with HKFRS)
(All amounts in RMB ’000 unless otherwise stated)

6 PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Machinery and equipment	Motor vehicles	Construction in progress	Total
Year ended 31 December 2006					
Opening net book amount	380,404	612,064	56,561	62,178	1,111,207
Acquisition of subsidiary (Note 36)	62,402	37,208	2,180	3,984	105,774
Additions	10,371	69,177	11,808	177,763	269,119
Transfer upon completion	45,159	81,065	1,878	(128,102)	–
Disposal of subsidiary (Note 34)	–	–	(1,899)	–	(1,899)
Depreciation (Note a)	(21,692)	(73,466)	(8,957)	–	(104,115)
Disposals	(6,147)	(9,172)	(1,702)	–	(17,021)
Closing net book amount	470,497	716,876	59,869	115,823	1,363,065
At 31 December 2006					
Cost	712,187	1,732,958	101,135	115,823	2,662,103
Accumulated depreciation	(241,690)	(1,016,082)	(41,266)	–	(1,299,038)
Net book amount	470,497	716,876	59,869	115,823	1,363,065

	Buildings	Machinery and equipment	Motor vehicles	Construction in progress	Total
At 1 January 2005					
Cost	527,446	1,370,890	80,831	67,995	2,047,162
Accumulated depreciation	(180,196)	(793,583)	(27,578)	–	(1,001,357)
Net book amount	347,250	577,307	53,253	67,995	1,045,805
Year ended 31 December 2005					
Opening net book amount	347,250	577,307	53,253	67,995	1,045,805
Acquisition of subsidiary	–	–	2,424	–	2,424
Additions	2,906	42,142	9,339	117,211	171,598
Transfer upon completion	47,059	75,969	–	(123,028)	–
Depreciation (Note a)	(14,113)	(79,275)	(5,915)	–	(99,303)
Disposals	(2,698)	(4,079)	(2,540)	–	(9,317)
Closing net book amount	380,404	612,064	56,561	62,178	1,111,207
At 31 December 2005					
Cost	572,726	1,459,814	88,637	62,178	2,183,355
Accumulated depreciation	(192,322)	(847,750)	(32,076)	–	(1,072,148)
Net book amount	380,404	612,064	56,561	62,178	1,111,207

Notes to the consolidated financial statements

(Prepared in accordance with HKFRS)
(All amounts in RMB ’000 unless otherwise stated)

6 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company

	Buildings	Machinery and equipment	Motor vehicles	Construction in progress	Total
Year ended 31 December 2006					
Opening net book amount	167,125	255,956	18,612	16,568	458,261
Additions	16,505	4,439	1,462	40,071	62,477
Transfer upon completion	12,783	26,515	1,878	(41,176)	–
Depreciation	(13,069)	(24,685)	(2,326)	–	(40,080)
Disposals	(3,069)	(5,937)	–	–	(9,006)
Closing net book amount	180,275	256,288	19,626	15,463	471,652
At 31 December 2006					
Cost	277,402	698,343	31,214	15,463	1,022,422
Accumulated depreciation	(97,127)	(442,055)	(11,588)	–	(550,770)
Net book amount	180,275	256,288	19,626	15,463	471,652

	Buildings	Machinery and equipment	Motor vehicles	Construction in progress	Total
At 1 January 2005					
Cost	252,286	663,866	27,562	23,613	967,327
Accumulated depreciation	(81,653)	(407,896)	(8,559)	–	(498,108)
Net book amount	170,633	255,970	19,003	23,613	469,219
Year ended 31 December 2005					
Opening net book amount	170,633	255,970	19,003	23,613	469,219
Additions	1,518	5,199	2,224	27,999	36,940
Transfer upon completion	1,833	33,211	–	(35,044)	–
Depreciation	(6,325)	(35,736)	(819)	–	(42,880)
Disposals	(534)	(2,688)	(1,796)	–	(5,018)
Closing net book amount	167,125	255,956	18,612	16,568	458,261
At 31 December 2005					
Cost	255,102	683,869	27,874	16,568	983,413
Accumulated depreciation	(87,977)	(427,913)	(9,262)	–	(525,152)
Net book amount	167,125	255,956	18,612	16,568	458,261

Notes:

(a) Depreciation expenses of the Group have been charged to income statement as follows:

	Group	
	2006	**2005**
Cost of sales	73,069	66,639
Distribution expenses	1,443	1,118
Administrative expenses	29,603	31,546
	104,115	99,303

(b) Lease rentals income amounting to RMB 10,027,000 for the year ended 31 December 2006 (2005: RMB 11,376,000) relating to the lease of machinery and property, respectively, are included in the consolidated income statements.

(c) None of the property, plant and equipment was pledged as security for bank loans (2005: Nil).

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(Prepared in accordance with HKFRS)
(All amounts in RMB '000 unless otherwise stated)

7 LAND USE RIGHTS

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

	Group		Company	
	2006	**2005**	**2006**	**2005**
At 1 January	150,552	145,526	78,845	80,686
Additions	39,352	8,303	5,448	–
Acquisition of subsidiaries (Note 36)	54,679	–	–	–
Amortisation	(5,131)	(3,277)	(1,932)	(1,841)
At 31 December	239,452	150,552	82,361	78,845

The land use rights of the Group and Company are held on medium term leases with terms of between 10 to 50 years.

The amortisation expenses of the land use rights of the Group and Company have been charged to administrative expenses.

In December 2006, a subsidiary of the Company acquired a land use right of RMB2,800,000. As at 31 December 2006, the issuance of license for that land use right is in progress.

8 INTANGIBLE ASSETS

Group

	Patent and licence	Software	Goodwill	Total
Year ended 31 December 2006				
Opening net book amount	6,876	7,057	–	13,933
Additions	11,980	1,089	2,259	15,328
Amortisation	(2,743)	(2,001)	–	(4,744)
Closing net book amount	16,113	6,145	2,259	24,517
At 31 December 2006				
Cost	22,475	12,332	2,259	37,066
Accumulated amortisation and impairment	(6,362)	(6,187)	–	(12,549)
Net book amount	16,113	6,145	2,259	24,517

	Patent and licence	Software	Goodwill	Total
At 1 January 2005				
Cost	3,061	9,484	–	12,545
Accumulated amortisation and impairment	(2,936)	(2,424)	–	(5,360)
Net book amount	125	7,060	–	7,185
Year ended 31 December 2005				
Opening net book amount	125	7,060	–	7,185
Additions	7,434	1,759	–	9,193
Amortisation	(683)	(1,762)	–	(2,445)
Closing net book amount	6,876	7,057	–	13,933
At 31 December 2005				
Cost	10,495	11,243	–	21,738
Accumulated amortisation and impairment	(3,619)	(4,186)	–	(7,805)
Net book amount	6,876	7,057	–	13,933

Notes to the consolidated financial statements

(Prepared in accordance with HKFRS)
(All amounts in RMB ’000 unless otherwise stated)

8 INTANGIBLE ASSETS (CONTINUED)

Company

	Patent and licence	Software	Total
Year ended 31 December 2006			
Opening net book amount	6,869	2,161	9,030
Additions	11,973	868	12,841
Amortisation	(2,735)	(667)	(3,402)
Closing net book amount	16,107	2,362	18,469
At 31 December 2006			
Cost	21,407	3,896	25,303
Accumulated amortisation and impairment	(5,300)	(1,534)	(6,834)
Net book amount	16,107	2,362	18,469

	Patent and licence	Software	Total
At 1 January 2005			
Cost	2,000	1,269	3,269
Accumulated amortisation and impairment	(1,882)	(409)	(2,291)
Net book amount	118	860	978
Year ended 31 December 2005			
Opening net book amount	118	860	978
Additions	7,434	1,759	9,193
Amortisation	(683)	(458)	(1,141)
Closing net book amount	6,869	2,161	9,030
At 31 December 2005			
Cost	9,434	3,028	12,462
Accumulated amortisation and impairment	(2,565)	(867)	(3,432)
Net book amount	6,869	2,161	9,030

Patent and licence mainly represent licensing of technology for production of textile machinery.

The amortisation of the intangible assets of the Group and Company have been charged to administrative expenses.

Notes to the consolidated financial statements

(Prepared in accordance with HKFRS)
(All amounts in RMB '000 unless otherwise stated)

9 INVESTMENTS IN SUBSIDIARIES

	Company 2006	2005
Unlisted investments, at cost	861,605	706,375
Amounts due from subsidiaries	146,924	232,891
	1,008,529	939,266

Amounts due from subsidiaries are unsecured and bear interest at commercial banks' lending rates.

Set out below are particulars of the subsidiaries at 31 December 2006.

Name of company	Date of establishment	Registered capital	Percentage of equity interest held by the Company Indirectly %	Directly %	Principal activities
Jingwei Textile Machinery Yuci Material Company Limited	9 July 1996	RMB5,000,000	0.8	99.2	Trading of furnace materials, metals, textile machinery component and charcoal
Taiyuan Jingwei Electrical Company Limited	18 March 1997	RMB 5,000,000	2	98	Manufacturing and sales of transformers and electrical components
Qingdao Hongda Textile Machinery Company Limited	16 August 1999	RMB114,000,000	–	98	Manufacturing, sales and leasing of textile machinery and related components
Tianjin Hongda Textile Machinery Company Limited	17 August 1999	RMB78,500,000	–	98	Sales of textile, photocopying, agriculture processing machinery and related components
Zhengzhou Hongda New Textile Machinery Company Limited	11 August 1999	RMB74,500,000	–	98	Developing and manufacturing of textile machinery and related components
Shenyang Hongda Textile Machinery Company Limited	16 August 1999	RMB71,000,000	–	98	Developing, manufacturing and processing of textile machinery and related components
Changde Textile Machinery Company Limited	5 January 2002	RMB42,349,900	25	70	Manufacturing and trading of textile machinery and other machinery
Beijing Jingwei Textile Machinery New Technology Company Limited ("Beijing New Tech")	2 March 2000	RMB100,000,000	–	98.4	Technical development and manufacturing of textile machinery, sale of textile, industrial specialised machinery
Shanghai Weixin Electrical and Machinery Company Limited	30 June 2000	RMB16,000,000	10	90	Textile machinery, automobile component and general machinery's development and manufacturing
Beijing Jingpeng Investment Management Company Limited ("Beijing Jingpeng")	30 July 2001	RMB100,000,000	4	96	Investment management, sales of electronic and chemical products

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(All amounts in RMB ’000 unless otherwise stated)

9 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of company	Date of establishment	Registered capital	Percentage of equity interest held by the Company Indirectly %	Directly %	Principal activities
Shanghai Chuangan Trading Company Limited	29 September 2001	RMB2,000,000	–	90	Trading of textile, electronic products and chemical products
Shanghai Jingwei Dongxing blowing-carding Machinery Company Limited	5 September 2001	RMB50,000,000	10	73.874	Manufacturing and sales of blowing-carding machinery and related components
Beijing Ximen Information Technology Company Limited	7 June 2001	RMB12,000,000	63.08	–	Research and development and sales of softwares
Wuxi Jingwei Textile Technology and Testing Company Limited	14 May 2003	RMB49,530,000	–	66.55	Manufacturing and sales of textile products; research and development of technology relating to textile machinery and equipments
Kunshan Jingwei Machinery Manufacturing Company Limited	20 July 1991	RMB3,208,260	25	75	Manufacturing and installation of textile machines
Tianjin Jingwei New Type Textile Machinery Company Limited	16 August 2005	RMB16,000,000	25	75	Developing and processing textile machinery and related components
Shenyang Hongda Huaming Textile Machinery Company Limited	13 July 2005	RMB40,000,000	98.5	–	Development and processing of textile machinery and related components
Wuxi Textile Technology Testing Company Limited (“Wuxi Testing”) (note c)	31 December 2005	RMB1,000,000	42	–	Manufacturing and sales of textile products; textile machinery and related components
Wuxi Hongda Textile Machinery and Special Parts Company Limited (“Wuxi Hongda”) (note c)	13 March 2005	RMB20,000,000	25	10	Manufacturing of textile machinery and related components, general machinery and component, advanced textile machinery
Xianyang Wei’er Machinery Company Limited (“Xianyang Wei’er”) (note a)	9 April 1999	RMB75,079,600	–	99.33	Manufacturing of weaving machines and equipments, and provision of relevant consulting service
Yichang Jingwei Textile Machinery Company Limited	22 December 2006	RMB20,000,000	25	75	Development and manufacturing of textile machine
Jinzhong Jingwei Ring Manufacturing Company Limited	24 September 1993	RMB500,000	–	98	Manufacturing of textile machinery components

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(All amounts in RMB '000 unless otherwise stated)

9 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of company	Date of establishment	Registered capital	Percentage of equity interest held by the Company Indirectly %	Directly %	Principal activities
Hong Kong Huaming Company Limited (note b)	31 December 2000	USD7,700,000	–	100	Provision of general trading and consulting services
Shanxi Jingwei Heli Machinery Manufacturing Company (note c)	26 February 2003	RMB100,000,000	–	30	Designing and manufacturing of various electromechanical products and mining products

Notes:

(a) 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 Weier's share capital increased to RMB 75,079,000, and the equity share owned by the Company increased to 99.93%. The effect on Group's financial position and results by the acquisition is described in Note 36.

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

(c) The Group is able to control the composition of the board of directors of these companies. Accordingly, these companies are accounted for as subsidiaries of the Group.

10 INVESTMENTS IN ASSOCIATES

	Group 2006	2005
Unlisted investments, at cost	126,199	116,911
Share of post-acquisition profits	893	1,186
	127,092	118,097

	2006	2005
Beginning of the year	118,097	107,173
Share of associates results		
– profit before taxation	1,649	1,336
– income tax expenses	(1,946)	(723)
	(297)	613
Additional investment during the year	21,006	11,711
Disposals during the year	–	(1,400)
Transfer to a subsidiary	(11,714)	–
End of the year	127,092	118,097

	2006	2005
Share of associates		
Assets	382,778	234,992
Liabilities	(255,686)	(116,895)
Net assets	127,092	118,097
Revenue	316,230	259,127
Net (loss)/profit	(297)	613

	Company 2006	2005
Unlisted investments, at cost	102,000	114,500

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(Prepared in accordance with HKFRS)
(All amounts in RMB '000 unless otherwise stated)

10 INVESTMENTS IN ASSOCIATES (CONTINUED)

Details of investments in associates are as follows:

Name of company	Date of establishment	Registered capital	Attributable equity interest %	Principal activities
Qingdao Jinyi Pressing and Casting Company Limited	24 March 2000	RMB3,850,000	27	Pressing and casting of non-ferrous metal. Design, manufacturing and sales of model metal products
Shenzhen Jinghuachi Technology Investment Company Limited (Formerly named Shenzhen Bolue Technology Investment Company Limited)	11 April 2001	RMB85,500,000	40.94	Investing, setting up and management of new enterprises and investment consultation
Hongda Research Company Limited	8 May 2001	RMB50,000,000	40	Sale and development of environmental protective machine, textile machine, office equipment, electronics and provision of technical support servers
Qingdao Jinshan City Hotel	14 March 2002	RMB1,000,000	20	Provision of accommodation, restaurant, wholesale and retailing of food
Qingdao Lanlifeng Laser Technology Company Limited	9 August 2002	RMB3,200,000	31.25	Manufacturing and trading of laser machine and equipment
Shenyang Jingxing Textile Machinery Company Limited	5 June 2002	RMB3,200,000	31.25	Manufacturing and sales of textile machinery, spare parts and related components
Zhengzhou Hongda Non-woven Fabric Company Limited	10 June 2003	RMB40,000,000	23.74	Manufacturing and sales of various non-woven fabrics; consultation and training services of relevant techniques. Research and development of new products, techniques, equipments and materials

Notes to the consolidated financial statements

(Prepared in accordance with HKFRS)
(All amounts in RMB '000 unless otherwise stated)

10 INVESTMENTS IN ASSOCIATES (CONTINUED)

Details of investments in associates are as follows (Continued):

Name of company	Date of establishment	Registered capital	Attributable equity interest %	Principal activities
China Textile Machinery and Technology Import and Export Corporation	16 December 2004	RMB120,000,000	25	Provision of management consultation and corporate image services.
Beijing Chen Yu Tai He Property Development Co., Ltd. ("Beijing Chen Yu") (Note)	6 March 2003	RMB44,000,000	30	Property development

Note: In November 2006, the Group disposed of a 40% equity interests in Beijing Chen Yu, a former 70% owned subsidiary of the Group, to an independent third party. Thereafter, Beijing Chen Yu became an associate of the Group (Note 34).

11 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

The Group's interest in its principal jointly controlled entities, all of which are unlisted, were as follows:

Name	Registered capital and country of incorporation	Date of establishment	Attributable equity interest	Principal activities
Anhui Huamao Jingwei New Type Textile Company Limited	RMB 50,000,000 PRC	8 June 2005	50%	Production, processing and sales of various kinds of yarn and textile products
Shanghai WSP Mould and Injection Plastic Company Limited	Euro 500,000 PRC	14 May 2005	50%	Development manufacturing and trading of textile machinery, automobile component, mould and general machinery

Notes to the consolidated financial statements

(Prepared in accordance with HKFRS)
(All amounts in RMB '000 unless otherwise stated)

11 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (CONTINUED)

The following amounts represent the Group's share of the assets and liabilities, and results of operation of the jointly controlled entities that are included in the consolidated balance sheet and income statement:

	2006	2005
Assets:		
Non-current assets	168,803	63,966
Current assets	12,753	7,542
	181,556	71,508
Liabilities:		
Long-term liabilities	53,268	25,424
Current liabilities	101,448	18,411
	154,716	43,835
Net assets	26,840	27,673
Revenue	55,250	508
Expenses	(56,087)	(458)
(Loss)/profit after income tax	(837)	50

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

	2006	2005
Property, plant and equipment		
– authorised but not contracted for	–	36,701

As at 31 December, the Group had no significant contingent liabilities relating to its interest in the jointly controlled entities. In addition no significant contingent liabilities existed in the jointly controlled entities as at 31 December 2006.

12 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Company	
	2006	2005	2006	2005
At 1 January	36,744	272,493	22,354	260,287
Additions	2,867	8,050	–	–
Disposal	–	(238,799)	–	(237,933)
Impairment	–	(5,000)	–	–
At 31 December	39,611	36,744	22,354	22,354

All available-for-sale financial assets are non-current unlisted equity securities.

Notes to the consolidated financial statements

(Prepared in accordance with HKFRS)
(All amounts in RMB '000 unless otherwise stated)

13 INVENTORIES

	Group		Company	
	2006	**2005**	**2006**	**2005**
Raw materials	360,477	294,574	85,722	83,422
Work in progress	367,633	381,079	132,568	184,699
Finished goods	642,209	610,948	303,869	349,306
Property under development held for sales	–	520,788	–	–
	1,370,319	1,807,389	522,159	617,427
Less: Provision	(44,280)	(35,412)	(15,670)	(11,604)
	1,326,039	1,771,977	506,489	605,823

14 TRADE RECEIVABLES

	Group		Company	
	2006	**2005**	**2006**	**2005**
Trade and receivables	395,439	412,016	146,746	134,587
Less: Provision	(191,614)	(195,886)	(63,758)	(58,942)
	203,825	216,130	82,988	75,645

At 31 December 2006, the ageing analysis of the gross trade receivables is as follows:

	Group		Company	
	2006	**2005**	**2006**	**2005**
Less than 1 year	159,646	154,683	58,196	60,178
1-2 years	40,080	56,358	25,027	19,524
2-3 years	31,890	39,001	10,960	6,203
Over 3 years	163,823	161,974	52,563	48,682
Total	395,439	412,016	146,746	134,587

The carrying amounts of the trade receivable are denominated in the following currencies:

	Group		Company	
	2006	**2005**	**2006**	**2005**
Hong Kong dollar	5,670	8,227	–	–
RMB	198,155	207,903	82,988	75,645
Total	203,825	216,130	82,988	75,645

Majority of the Group's revenues is generated through receipt of customers' payments in advance. The remaining settlement is made in accordance with the terms specified in the contracts governing the relevant transactions. A credit period ranging from 30 to 360 days may be granted to large or long established customers with good payment history.

15 AMOUNTS DUE FROM/TO HOLDING COMPANY, FELLOW SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

Except for RMB28,000,000 due from an associate, Beijing Chen Yu, which bore interest at 6.12% per annum (2005: Nil), the balances with the holding company, fellow subsidiaries, associates and jointly controlled entities are unsecured, interest free and have no fixed terms of repayment.

Notes to the consolidated financial statements

(Prepared in accordance with HKFRS)
(All amounts in RMB '000 unless otherwise stated)

16 LOAN RECEIVABLE

During the year, the Company granted four trenches of entrusted loans with each loan amounting to RMB 100,000,000 to Huayuan Shengming, a subsidiary of China Worldbest Group, a state-owned enterprise (the "Borrower"). Details of loans granted were as follows:

Loan	Grant date	Actual repayment date	Annual interest rate
I	26 January 2006	31 March 2006	7.00%
II	3 April 2006	30 June 2006	7.00%
III	3 July 2006	30 September 2006	6.00%
IV	8 October 2006	27 March 2007	6.00%

As at 31 December 2006, the entrusted loan receivable outstanding from the Borrowers amounted to RMB100,000,000. Such loan is unsecured, bore interest at 6% per annum and repayable within three months from date of grant. As of the date of this report, the entire loan principal of the receivable has been settled. Please refer to Note 39 (a) for details.

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	Group		Company	
	2006	**2005**	**2006**	**2005**
Listed securities,				
– Equity securities – Hong Kong	1,126	–	–	–
– Equity securities – PRC	7,760	–	7,005	–
Total	8,886	–	7,005	–
Market value of listed securities	8,886	–	7,005	–

18 CASH AT BANKS AND IN HAND

The average effective interest rates on short-term bank deposits is 2.07%(2005: 2.16%). These deposits have an maturity of 30 - 150 days (2005: 25 - 90 days).

Cash at bank and in hand are denominated in the following currencies:

	Group		Company	
	2006	**2005**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Hong Kong dollar	63,455	19,407	31	103
RMB	824,146	766,130	566,980	539,149
USD	3,638	1,747	200	810
Euro	381	6,594	37	–
Others	5,770	8,645	16	–
	897,390	802,523	567,264	540,062

19 SHARE CAPITAL

Registered, issued and fully paid

	No of shares		RMB'000	
	2006	**2005**	**2006**	**2005**
Domestic shares, RMB 1.00 each	–	220,000,000	–	220,000
A shares, RMB 1.00 each				
– restricted	195,640,000	–	195,640	–
– others	227,360,000	203,000,000	227,360	203,000
H shares, RMB 1.00 each	180,800,000	180,800,000	180,800	180,800
	603,800,000	603,800,000	603,800	603,800

In August 2006, the Company completed its share reform ("Share Reform") whereby the Company's only unlisted domestic shareholder, CMTC (also the company's holding company), compensated the Company's A shareholders with 1.2 shares and RMB 2.5 for every 10 A shares. Accordingly, CMTC made a total compensation of 24,360,000 shares and RMB 50,750,000 to A shareholders. As a result of the Share Reform, all of the Company's 220,000,000 domestic shares have converted into 195,640,000 A shares (restricted). Disposal of A shares (restricted) held by CTMC are subject to certain conditions for a period ending 8 August 2011.

Notes to the consolidated financial statements

(Prepared in accordance with HKFRS)
(All amounts in RMB '000 unless otherwise stated)

20 RESERVES

Group

	Capital reserve	Other reserves: Statutory surplus reserve (note a)	Other reserves: Statutory public welfare fund (note b)	Other reserves: Discretionary surplus reserve	Exchange difference	Retained earnings	Total
At 1 January 2006	1,249,865	159,075	159,075	127,764	(95)	394,112	2,089,796
Transfer to/from reserves (note a and b)	–	195,246	(159,075)	50,000	–	(86,171)	–
Exchange difference	–	–	–	–	(2,022)	–	(2,022)
Dividend paid	–	–	–	–	–	(30,190)	(30,190)
Profit for the year	–	–	–	–	–	187,442	187,442
At 31 December 2006	1,249,865	354,321	–	177,764	(2,117)	465,193	2,245,026
Representing:							
Reserves	1,249,865	354,321	–	177,764	(2,117)	416,889	2,196,722
2006 final dividends proposed	–	–	–	–	–	48,304	48,304
At 31 December 2006	1,249,865	354,321	–	177,764	(2,117)	465,193	2,245,026
Company and subsidiaries	1,249,865	354,321	–	177,764	(2,117)	465,157	2,244,990
Associates	–	–	–	–	–	893	893
Jointly controlled entities	–	–	–	–	–	(857)	(857)
At 31 December 2006	1,249,865	354,321	–	177,764	(2,117)	465,193	2,245,026
At 1 January 2005	1,249,865	137,838	137,838	27,764	40	413,748	1,967,093
Transfer to/from reserves (note a and b)	–	21,237	21,237	100,000	–	(142,474)	–
Exchange difference	–	–	–	–	(135)	–	(135)
Dividend paid	–	–	–	–	–	(30,190)	(30,190)
Profit for the year	–	–	–	–	–	153,028	153,028
At 31 December 2005	1,249,865	159,075	159,075	127,764	(95)	394,112	2,089,796
Representing:							
Reserves	1,249,865	159,075	159,075	127,764	(95)	363,922	2,059,606
2005 final dividends proposed	–	–	–	–	–	30,190	30,190
At 31 December 2005	1,249,865	159,075	159,075	127,764	(95)	394,112	2,089,796
Company and subsidiaries	1,249,865	159,075	159,075	127,764	(95)	392,876	2,088,560
Associates	–	–	–	–	–	1,186	1,186
Jointly controlled entities	–	–	–	–	–	50	50
At 31 December 2005	1,249,865	159,075	159,075	127,764	(95)	394,112	2,089,796

Notes to the consolidated financial statements

(Prepared in accordance with HKFRS)
(All amounts in RMB '000 unless otherwise stated)

20 RESERVES (CONTINUED)

Company

	Capital reserve	Other reserves: Statutory surplus reserve (note a)	Other reserves: Statutory public welfare fund (note b)	Other reserves: Discretionary surplus reserve	Retained earnings	Total
At 1 January 2006	1,239,298	104,920	104,920	127,764	117,353	1,694,255
Transfer to/from reserves (note a and b)	–	123,283	(104,920)	50,000	(68,363)	–
Dividend paid	–	–	–	–	(30,190)	(30,190)
Profit for the year	–	–	–	–	51,585	51,585
At 31 December 2006	1,239,298	228,203	–	177,764	70,385	1,715,650
Representing:						
Reserves	1,239,298	228,203	–	177,764	22,081	1,667,346
2006 final dividend proposed	–	–	–	–	48,304	48,304
At 31 December 2006	1,239,298	228,203	–	177,764	70,385	1,715,650
At 1 January 2005, as previously reported	1,239,298	91,296	91,296	27,764	196,741	1,646,395
Transfer to/from reserves (note a and b)	–	13,624	13,624	100,000	(127,248)	–
Dividend paid	–	–	–	–	(30,190)	(30,190)
Profit for the year	–	–	–	–	78,050	78,050
At 31 December 2005	1,239,298	104,920	104,920	127,764	117,353	1,694,255
Representing:						
Reserves	1,239,298	104,920	104,920	127,764	87,163	1,669,065
2005 final dividend proposed	–	–	–	–	30,190	30,190
At 31 December 2005	1,239,298	104,920	104,920	127,764	117,353	1,694,255

Notes:

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

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

In accordance with the amendment of the Company Law of PRC on 27 October 2005 and effective from pursuant to 1 January 2006, and pursuant to the Company's Articles of Association and the board resolution, the Company decided not to accrue for statutory public benefit fund from the year 2006. In accordance with the "Circular on Accounting Treatment Following the Implementation of Company Law" issued by Ministry of Finance on 15 March 2006, the balance of statutory public benefit fund amounting to RMB104,920,000 of the Company and RMB159,075,000 of the Group as at 31 December 2005 have been converted into statutory reserve fund.

(c) At 31 December 2006, the distributable reserves of the Company amounted to RMB 70,385,000 (2005: RMB117,353,000).

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(All amounts in RMB '000 unless otherwise stated)

21 BANK LOANS

	Group		Company	
	2006	**2005**	**2006**	**2005**
Non-current				
Long-term bank loans, secured	200,000	–	150,000	–
Current				
Short-term bank loans, unsecured				
– RMB	35,950	66,950	20,000	107,000
– USD	156,174	207,755	156,174	201,755
	192,124	274,705	176,174	308,755
Short-tem bank loans, secured				
– RMB	330,663	435,034	174,575	308,753
	522,787	709,739	350,749	617,508
	722,787	709,739	500,749	617,508

The exposure of the Group's borrowings to interest-rate changes and the contractural repricing dates are as follows:

	Group		Company	
	2006	**2005**	**2006**	**2005**
Six months or less	283,163	351,034	174,575	308,753
Six to twelve months	439,624	358,705	326,174	308,755
	722,787	709,739	500,749	617,508

The Group's loans are repayable as follow:

	Group		Company	
	2006	**2005**	**2006**	**2005**
Within one year	522,787	709,739	350,749	617,508
Within one to two years	–	–	–	–
Within two to three years	200,000	–	150,000	–
	722,787	709,739	500,749	617,508

The effective interest rates of long term bank loans at are as follows:

	Group		Company	
	2006	**2005**	**2006**	**2005**
Bank loans	5.31-6.36%	3.46-6.14%	5.31-6.36%	3.46-5.75%

As at 31 December 2006, bank loans amounting to RMB200,000,000 were guaranteed by China Textile Machinery (Group) Company Limited. As at 31 December 2005, bank loans amounting to RMB20,000,000 were guaranteed by Jingwei Textile Machinery (Group) Company Limited.

Bank loans amounting to RMB47,500,000 (2005: RMB84,000,000) were guaranteed by third parties, and bank loans amounting to RMB283,163,000 (2005: RMB90,575,000) were secured by notes receivables.

The carrying amounts of all borrowings approximate their fair values.

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(All amounts in RMB '000 unless otherwise stated)

22 DEFERRED TAXATION

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 15 to 33% (2005: 15 to 33%).

	Group		Company	
	2006	2005	2006	2005
Deferred tax assets	33,919	33,726	20,735	16,535
Deferred tax liabilities	(1,237)	(25,949)	–	–
	32,682	7,777	20,735	16,535

The amounts shown in the balance sheet include the following:

	Group		Company	
	2006	2005	2006	2005
Deferred tax assets to be recovered after more than 12 months	33,919	33,726	20,735	16,535
Deferred tax liabilities to be settled after more than 12 months	(1,237)	(25,949)	–	–

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

	Group		Company	
	2006	2005	2006	2005
At 1 January	7,777	23,084	16,535	12,772
Deferred taxation credited to income statement (Note 28)	(653)	10,251	4,200	3,763
Disposal of subsidiary	25,558	–	–	
Acquisition of subsidiary	–	(25,558)	–	–
At 31 December	32,682	7,777	20,735	16,535

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

Group

Deferred income tax asset	Provisions		Impairment of assets		Tax loss		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
At 1 January	21,352	12,536	12,374	11,767	–	–	33,726	24,303
(Charged)/credited to income statement	(359)	8,816	(970)	607	1,522	–	193	9,423
At 31 December	20,993	21,352	11,404	12,374	1,522	–	33,919	33,726

Notes to the consolidated financial statements

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22 DEFERRED TAXATION (CONTINUED)

Deferred income tax liabilities	Fair value adjustment on acquisition		Useful life adjustment		Others		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
At 1 January	(25,558)	–	(391)	(1,201)	–	(18)	(25,949)	(1,219)
(Charged)/credited to income statement	–	–	(45)	810	(801)	18	(846)	828
Acquisition of a subsidiary	–	(25,558)	–	–	–	–	–	(25,558)
Disposal of a subsidiary (Note 36)	25,558	–	–	–	–	–	25,558	–
At 31 December	–	(25,558)	(436)	(391)	(801)	–	(1,237)	(25,949)

Company

Deferred tax asset	Provisions		Impairment of assets		Total	
	2006	2005	2006	2005	2006	2005
At 1 January	6,064	2,215	10,471	10,557	16,535	12,772
(Charged)/credited to income statement	4,621	3,849	(421)	(86)	4,200	3,763
At 31 December	10,685	6,064	10,050	10,471	20,735	16,535

23 TRADE PAYABLES

At 31 December 2006, the ageing analysis of the trade payables is as follows:

	Group		Company	
	2006	2005	2006	2005
Less than 1 year	1,392,072	1,061,514	735,901	318,325
1-2 years	25,195	57,373	2,774	41,808
2-3 years	16,475	5,803	1,427	1,549
Over 3 years	9,945	25,781	2,963	2,210
Total	1,443,687	1,150,471	743,065	363,892

The carrying amounts of the trade payables are denominated in the following currencies:

	Group		Company	
	2006	2005	2006	2005
Hong Kong dollar	6,935	4,125	–	–
RMB	1,436,752	1,146,346	743,065	363,892
Total	1,443,687	1,150,471	743,065	363,892

Notes to the consolidated financial statements

(Prepared in accordance with HKFRS)
(All amounts in RMB '000 unless otherwise stated)

24 TAXATION PAYABLE

	Group		Company	
	2006	2005	2006	2005
Enterprise income tax payable	2,764	12,638	2,278	7,238
Other taxes payable	20,998	39,899	24,512	25,728
Total taxation payable	23,762	52,537	26,790	32,966

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

25 OTHER GAINS-NET

	2006	2005
Investment income	4,290	15,312
Income from financial assets at fair value through profit and loss	18,421	342
Net gain on disposal of property, plant and equipment	1,221	693
Negative goodwill on acquisition of a subsidiary (Note 36)	2,136	5,612
Negative goodwill on acquisition of additional interests in a subsidiary	3,206	–
Profit from sale of raw materials	45,169	27,110
Others	12,382	10,273
	86,825	59,342

26 EXPENSES BY NATURE

Expenses included in cost of sales, distribution expenses and administrative expenses are analysed as follows:

	2006	2005
Changes in inventories of finished goods and work in progress	63,198	71,400
Raw materials and consumables used	3,317,522	3,113,339
Employee benefit expenses	523,680	429,713
Depreciation on property, plant and equipment	104,115	99,303
Amortisation		
– intangible assets	4,744	2,445
– land use rights	5,131	3,277
Impairment/(reversal of) impairment provision		
– Accounts receivables	(1,800)	41,490
– Inventories	4,157	10,320
– Available-for-sale financial assets	–	5,000
– Property, plant and equipment	–	96
Load and transportation fee	42,115	14,612
Travelling expenses	37,580	27,193
Research and development expenses	61,117	51,975
Repair and maintenance expenses	53,589	42,678
Operating lease rental payments	19,075	12,079
Entertainment	21,827	7,818
Exhibition expenses	10,680	7,371
Business and other taxes	8,940	9,500
Utilities	42,995	38,251
General expenditure	20,041	17,023
Auditors' remuneration	4,250	4,900
Other expenses	124,224	114,181
Total cost of sales, distribution costs and administrative expenses	4,467,180	4,123,964

Notes to the consolidated financial statements

(Prepared in accordance with HKFRS)
(All amounts in RMB '000 unless otherwise stated)

27 FINANCE COSTS, NET

	2006	2005
Finance income	(24,960)	(16,001)
Interest expenses		
– Bank loans repayable within five years	30,733	18,266
– Other loans repayable within five years	–	1,026
Net exchange gain	(5,443)	(4,047)
	330	(756)

28 INCOME TAX EXPENSES

Hong Kong profits tax has not been provided as the Group had no taxable profits in Hong Kong for the year (2005: Nil). The Company and its subsidiaries are subject to PRC income tax on their taxable profits.

The amount of taxation (credited)/charged to the consolidated income statement represents:

	2006	2005
Company and subsidiaries		
–PRC enterprise income taxation	22,921	27,392
Deferred taxation (Note 22)	653	(10,251)
	23,574	17,141

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

	2006	2005
Profit before taxation	228,340	178,659
Calculated at a taxation rate of 33% (2005: 33%)	75,352	58,957
Income not subject to taxation	(4,755)	(5,306)
Tax loss not recognised	4,877	–
Expenses not deductible for taxation purposes	6,369	2,755
Additional allowance	(18,949)	
Effect of different tax rates	(39,131)	(39,265)
Others	(189)	–
Taxation charge	23,574	17,141

In accordance with an approval document issued by the State Administration of Taxation of Beijing on 19th January, 2004, income tax rate of 15% (2005: 15%) is applicable to the Company during the year. The income tax rates of the Company's subsidiaries range from 15% to 33% (2005: 15% to 33%) and four of the Company's subsidiaries enjoys income tax exemption in 2006. Starting from 2004, one subsidiary of the Company enjoys tax benefit of two years of full-exemption and three years of half exemption from income tax. Starting from 2005, one jointly controlled entity of the Company enjoys the benefit of three years of full exemption and three years of half exemption from income tax. In addition, fourteen other subsidiaries of the Company are subject to a preferential tax rate of 15% in 2005 (2005: 15%).

Notes to the consolidated financial statements

(Prepared in accordance with HKFRS)
(All amounts in RMB '000 unless otherwise stated)

29 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS

The profit attributable to equity holders is dealt with in the financial statements of the Company to the extent of RMB51,585,000 (2005: RMB78,050,000).

30 DIVIDENDS

Proposed final dividend of RMB 0.08 (2005: RMB 0.05)

	2006	2005
A shares		
– Restricted	16,340	11,000
– Others	17,500	10,150
H shares	14,464	9,040
	48,304	30,190

At the Board meeting hold on 18 April 2007, the directors proposed final dividend of RMB0.08 per share. Such dividend is not reflected as dividend payable in the financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2006.

31 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to equity holders of RMB187,442,000 (2005: RMB153,028,000) and the weighted average number of 603,800,000 (2005: 603,800,000) shares in issue during the year.

No diluted earnings per share is presented as the Group does not have any potential dilutive shares as at 31 December 2006 (2005: Nil).

32 STAFF COSTS INCLUDE DIRECTORS AND SUPERVISORS' EMOLUMENTS

	2006	2005
Wages, salaries and other benefits	466,878	379,718
Pension cost-defined contribution plan	56,802	49,995
	523,680	429,713

Pensions-defined contribution plans

The retirement benefit costs charged to the income statement represent contributions payable by the Group to the retirement schemes totalling RMB56,802,000 (2005: RMB49,995,000), representing 25% (2005: 27%) on the aggregate amount of total salaries that participate in the retirement schemes.

At 31 December 2006, contributions totalling RMB9,312,000 (2005: RMB8,239,000) were payable to the retirement schemes and were included in other payables and accruals. There were no forfeited contributions utilised during the year or available at 31 December 2006 to reduce future contributions (2005: Nil).

Notes to the consolidated financial statements

(Prepared in accordance with HKFRS)
(All amounts in RMB '000 unless otherwise stated)

33 DIRECTORS AND SUPERVISORS' EMOLUMENTS

(a) Directors' and senior management's emoluments

The remuneration of every Director for the year ended 31 December 2006 is set out below:

Name of Director	Fees	Salary	Discretionary bonuses	Employer's contribution to pension scheme	Total
Ye Maoxin	–	92	380	8	480
Yao Yuming	–	83	380	7	470
Zhang Jianguo	–	76	282	6	364
Wang Zengjing	30	–	–	–	30
Kon Hiu King	30	–	–	–	30
Gao Yong	30	–	–	–	30
Chen Zhong	30	–	–	–	30
Yu Shiquan	30	–	–	–	30
Peng Zeqing	–	75	281	7	363
Dong Min	–	66	180	5	251
Lian Jinhua	–	60	100	4	164
Bao Weiguo	–	32	54	3	89
	150	484	1,657	40	2,331

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

Name of Director	Fees	Salary	Discretionary bonuses	Employer's contribution to pension scheme	Total
Ye Maoxin	-	74	241	7	322
Yao Yuming	-	69	241	6	316
Zhang Jianguo	-	51	282	5	338
Wang Zengjing	30	-	-	-	30
Kon Hiu King	30	-	-	-	30
Gao Yong	30	-	-	-	30
Chen Zhong	30	-	-	-	30
Yu Shiquan	30	-	-	-	30
Peng Zeqing	-	61	223	6	290
Dong Min	-	54	131	5	190
Lian Jinhua	-	48	81	4	133
Bao Weiguo	-	32	54	3	89
	150	389	1,253	36	1,828

All directors do not waive their right to receive emoluments (2005: Nil).

(B) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three directors and two senior management (2005: five), whose emoluments are reflected in the analysis presented above.

The emoluments of the five highest paid individuals were all within the band of Nil to RMB985,000 (2005: Nil to RMB1,050,000), equivalent to Nil to HK$1,000,000 (2005: Nil to HK$1,000,000).

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

Notes to the consolidated financial statements

(Prepared in accordance with HKFRS)
(All amounts in RMB '000 unless otherwise stated)

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2006	2005
Operating profit	228,967	193,291
Depreciation	104,115	99,303
Gain on disposal of property, plant and equipment	(1,221)	(694)
Amortisation of intangible assets	4,744	2,445
Amortisation of land use right	5,131	3,277
Provision of available-for-sale financial assets	–	5,000
Investment income	(22,711)	(15,664)
Interest income	(24,960)	(16,001)
Operating profit before working capital changes	294,065	270,957
Decrease/(increase) in inventories	177,296	(333,986)
Increase in trade and bills receivables, deposits other receivables and prepayments	(676,281)	(386,229)
Decrease/(increase) in amounts due from fellow subsidiaries	12,810	(77,245)
Negative goodwill	(5,342)	(5,612)
Increase in trade and bills payables, other payables and accruals and advances from customers	340,821	614,077
Increase in amount due to Jingwei Group Company	–	13,713
Increase in amounts due to fellow subsidiaries	21,239	45,238
(Decrease)/increase in other taxation payable	(20,727)	13,365
Net cash inflow from operating activities	139,335	154,278

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

	2006	2005
Net book amount (Note 6)	17,021	9,317
Profit on sale of property, plant and equipment	1,221	694
Proceeds from sale of property, plant and equipment	18,242	10,011

Notes to the consolidated financial statements

(Prepared in accordance with HKFRS)
(All amounts in RMB '000 unless otherwise stated)

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(b) Analysis of the balances of cash and cash equivalents

	2006	2005
Bank balances and cash	905,281	807,179
Bank balances and cash-pledged	(7,891)	(4,656)
Time deposits with maturity more than three months	(1,905)	(6,000)
	895,485	796,523

(c) Disposal of subsidiary

In November 2006, the Group disposed of a 40% equity interest in Beijing Chen Yu at a consideration of RMB 26,000,000. Beijing Chen Yu's assets and liabilities as at date of disposal are as follows:

Cash and cash equivalents	13,043
Interest in associated company	(21,006)
Property, plant and equipment (Note 6)	1,899
Inventory	336,516
Trade receivables and prepayments	272,687
Trade payables and accruals	(530,388)
Deferred tax liabilities	(25,558)
Minority interests	(21,193)
Net assets disposed	26,000

Analysis of the net cash inflow in respect of the disposal of subsidiaries:

	2006
Cash consideration	26,000
Bank balances and cash in hand disposed	(13,043)
Net cash outflow in respect of the disposal of the subsidiary	12,957

(d) During the year, the Group made the following loans to third parties

(i) In July 2006, the Group granted an entrusted loan amounting to RMB 60,000,000 to a property company in Shanghai. The loan was subsequently repaid in August 2006.

(ii) In July 2006, the Group entered into a sales and purchase agreement with the same property company as mentioned in Note 34 (d) (i) above for purchase of a property in Shanghai, the PRC. A deposit of RMB 60,000,000 was paid by the Group in July 2006. In December 2006, the property company refunded the RMB 60,000,000 deposit to the Group upon cancellation of the transaction. The related interest income relating to such deposit amounted to RMB 1,826,000 has not been received and not recognised as revenue as at 31 December 2006.

(iii) In addition to the above, during the year, the Group also made loans to three third parties amounting to RMB119,448,000. As of 31 December 2006, approximately RMB81,102,000 of such loans have been settled. The remaining balance amounting to RMB38,346,000 represented a loan made by Beijing Chen Yu to a third party in October 2006, which has been deconsolidated from the Group's financial statement upon disposals of Beijing Chen Yu in November 2006 (see Note 34(c)).

(iv) Repayment of loans from third parties includes, among others, repayment of certain loan receivables in 2004.

Notes to the consolidated financial statements

(Prepared in accordance with HKFRS)
(All amounts in RMB '000 unless otherwise stated)

35 COMMITMENTS

(a) Capital commitments

	Group		Company	
	2006	2005	2006	2005
Authorised but not contracted for	10,000	–	10,000	–
Contracted but not provided for	5,248	44,143	5,248	4,953
	15,248	44,143	15,248	4,953

(b) Lease commitments

At 31 December 2006, the Group and the Company had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group		Company	
	2006	2005	2006	2005
Land and buildings				
Not later than one year	10,728	14,048	822	822
Later than one year and not later than five years	1,718	7,970	–	–
	12,446	22,018	822	822

36 BUSINESS COMBINATIONS

In June 2006, the Company acquired 10% equity interest in Wuxi Hongda at a consideration of RMB 4,800,000, and details of net assets acquired and goodwill are as follows:

Total purchase consideration	4,800
Fair value of net assets acquired-shown as below	(4,424)
Goodwill (Note 8)	376

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

	Fair value	Acquiree's carrying amount
Cash and cash equivalents	5,448	5,448
Property, plant and equipment (Note 6)	20,614	20,614
Land use right (Note 7)	19,500	19,500
Current assets except cash	59,978	59,978
Non-current assets except land use right and property, plant and equipment	1,899	1,899
Liabilities	(63,199)	(63,199)
Net assets	44,240	44,240
Minority interests (65%)	(28,756)	
Transfer from investment in associates (25%)	(11,060)	
Net assets acquired	4,424	
Purchase consideration settled in cash		4,800
Cash and cash equivalents in subsidiary acquired		(5,448)
Cash inflow on acquisition		(648)

Notes to the consolidated financial statements

(Prepared in accordance with HKFRS)
(All amounts in RMB ’000 unless otherwise stated)

36 BUSINESS COMBINATIONS (CONTINUED)

In July 2006, the Company acquired a 96.68% equity interest in Xianyang Wei’er at a consideration of RMB 1,880,000, and details of net assets acquired and goodwill are as follows:

Total purchase consideration	1,880
Fair value of net liabilities acquired-shown as below	(3)
Goodwill (Note 8)	1,883

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

	Fair value	Acquiree’s carrying amount
Cash and cash equivalents	1,719	1,719
Property, plant and equipment (Note 6)	72,697	72,516
Land use right (Note 7)	35,179	33,505
Current assets except cash	37,379	36,974
Non-current assets except land use right and property, plant and equipment	1,531	1,531
Liabilities	(148,508)	(148,391)
Net liabilities	(3)	(2,146)
Minority interests (3.32%)	–	
Net liabilities acquired	(3)	
Purchase consideration settled in cash		1,880
Cash and cash equivalents in subsidiary acquired		(1,719)
Cash outflow on acquisition		161

In January 2006, Wuxi Testing became a subsidiary of the Group pursuant to the submission of the voting rights by the minority shareholders.

Total purchase consideration	–
Fair value of net liabilities acquired-shown as below	(2,136)
Excess of fair value of net assets acquired over consideration (Note 25)	(2,136)

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

	Fair value	Acquiree’s carrying amount
Cash and cash equivalents	425	425
Property, plant and equipment (Note 6)	12,463	12,463
Current assets except cash	5,575	5,575
Non-current assets except property, plant and equipment	124	124
Liabilities	(13,502)	(13,502)
Net (liabilities)/assets	5,085	5,085
Minority interests (58%)	(2,949)	
Net assets acquired	2,136	
Purchase consideration settled in cash		–
Cash and cash equivalents in subsidiary acquired		(425)
Cash inflow on acquisition		(425)

Notes to the consolidated financial statements

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(All amounts in RMB '000 unless otherwise stated)

37 CONTINGENT LIABILITIES

	Group 2006	Group 2005	Company 2006	Company 2005
Guarantees for bank loans of third party	235,000	405,000	235,000	405,000
Guarantees for bank loans of jointly controlled entity	–	10,000	–	20,000
	235,000	415,000	235,000	425,000

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

38 RELATED PARTIES TRANSACTIONS

The Group is controlled by China Textile Machinery (Group) Company Limited 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 China Textile Machinery Group.

China Textile Machinery Group 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"), associates and jointly controlled entities. These parties sell goods and provide relevant services and leases to the Company and vice versa. Fellow subsidiaries, associates and jointly controlled entities, similar to the Company are also under the control of the Controlling Shareholder, and therefore constitute related parties of the Company.

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

i) Investments

	Note	For the year ended 31 December 2006	2005
Purchase of other investments			
– To holding company	(i)	–	11,294

ii) Sales of goods and services

	Note	For the year ended 31 December 2006	2005
Sales of finished goods:			
– Fellow subsidiaries	(ii)	43,933	36,835
– Associates		292,714	171,935
– Jointly controlled entities		69,383	38,940
Sale of raw materials and components			
– Fellow subsidiaries	(ii)	353,850	262,828
– Associates		–	4,316
Receive of processing fee			
– Associates		480	132
Provision of other supporting services expense			
– Holding company		2,900	
– Fellow subsidiaries	(ii)	5,726	6,029
Rental income			
– Fellow subsidiaries		6,076	7,198

Notes to the consolidated financial statements

(Prepared in accordance with HKFRS)
(All amounts in RMB ’000 unless otherwise stated)

38 RELATED PARTIES TRANSACTIONS (CONTINUED)

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

	Note	For the year ended 31 December 2006	2005
Purchases of finished goods:			
– Fellow subsidiaries	(ii)	423,715	502,956
– Associated companies		15,016	–
Purchases of raw material and components:			
– Fellow subsidiaries	(ii)	137,358	177,008
– Associates		16,680	17,207
– Jointly controlled companies		2,068	–
Purchase of tools and moulds			
– Fellow subsidiaries	(ii)	36,436	16,517
Purchase of castings products			
– Fellow subsidiaries	(ii)	92,715	111,430
– Associates		30,716	17,790
Purchase of intangible assets			
– Fellow subsidiaries	(ii)	11,974	–
Purchase of energy			
– Fellow subsidiaries	(ii)	5,292	13,245
Processing fees paid			
– Fellow subsidiaries	(ii)	154,153	104,573
Fees paid for transportation services			
– Fellow subsidiaries	(ii)	8,751	10,149
Fees paid for repairs and maintenance services			
– Fellow subsidiaries	(ii)	25,385	24,507
Fees paid for other supporting services			
– Fellow subsidiaries	(ii)	8,795	29,956
Rental expense			
– Fellow subsidiaries	(ii)	1,297	11,475
Staff accommodation rental expenses			
– Fellow subsidiaries	(ii)	346	402
Estate administrative expense			
– Fellow subsidiaries	(ii)	1,368	1,421
Interest expense			
– Fellow subsidiaries	(ii)	1,297	55

iv) Guarantee received

	Note	For the year ended 31 December 2006	2005
Guarantee received from:			
– Holding Company		200,000	–
– A fellow subsidiary	(ii)	–	74,000

Notes to the consolidated financial statements

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38 RELATED PARTIES TRANSACTIONS (CONTINUED)

v) Others

	For the year ended 31 December 2006	2005
Balances with:		
– Holding company	4,448	385,724
– Ultimate holding company	–	30,000
– Fellow subsidiaries	9,829	31,317
– Associates	151,211	260,469

vi) Related party transactions with other State-owned entities

	For the year ended 31 December 2006	2005
Sales of finished goods	466,171	424,444
Sale of raw materials and components	311	125,967
Interest income	1,585	1,494
Purchases of finished goods	5,870	106,762
Purchases of raw material and components	244,594	133,850
Purchase of tools and moulds	421	80
Purchase of pressing and castings products	6,832	–
Purchase of energy	58,375	56,868
Processing fees paid	253	4,001
Delivery fees paid	1,929	–
Fees paid for repairs and maintenance services	–	3,248
Interest expense	28,924	7,434
Received debt	80,919	164,000

vii) Key management compensation

	For the year ended 31 December 2006	2005
Salaries and other short-term employee benefits	10,090	8,329
Post-employment benefits	131	105
	10,221	8,434

(i) The Company’s subsidiary Hong Kong Huaming Company Limited acquired 25% equity interest of Wuxi Hongda Texparts Company Limited from China Textile Machinery (Group) Company Limited at a consideration of RMB11,294,000 in May 2005. The acquisition is in HK$. (Investment amount is calculated base on RMB basis exchange rate on the acquisition date).

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

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39 SUBSEQUENT EVENT

(a) Transactions with China Worldbest Group

As described in note 16, as at 31 December 2006, the Company had received neither the repayment of the last tranche of entrusted loan of an amount of RMB100,000,000, nor the related interests from Huayuan Shengming, a subsidiary of China Worldbest Group. On 27 March 2007, the Company received repayment of the principal of the entrusted loan of RMB100,000,000. 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 RMB100,000,000. The net assets value of Beijing Bohong has been evaluated by qualified valuer 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.

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

Purchase consideration – Cash paid	100,000
Fair value of assets acquired (see below)	(106,115)
Negative goodwill	(6,115)

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

	Fair value	Acquiree's carrying amount
Cash and cash equivalents	20,875	20,875
Inventory – development costs	248,393	207,587
Other current assets	1,390	1,359
Property, plant and equipment	207	250
Intangible assets	26	26
Borrowings – short term loans	(70,200)	(70,200)
Trade payables	(13,272)	(13,272)
Advances from customers	(4,248)	(4,248)
Other payables	(72,813)	(72,813)
Other current liabilities	(4,243)	(4,242)
Net assets acquired	106,115	65,322

Due to the acquisition of above investment, the Group's share of the capital commitment of contracted but not provided for amounts to RMB122,686,000, and the authorised but not contracted for amounts to RMB175,830,000.

(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 1 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.

40 ULTIMATE HOLDING COMPANY

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