

Chapter IX Significant Events

1. The Group was not involved in any material litigation or arbitration during the year
2. There were no significant acquisition or disposal of assets during the period under review
3. Related party transactions and ongoing related party transactions

(1) Related party transactions arising from procurement and sales

Details of the related party transactions and ongoing related party transactions of the Group during the year are set out in the notes to the audited financial statements prepared in accordance with HK GAAP. The related party transactions and the ongoing related party transactions have been approved by the Board of the Company. The Audit Committee comprising the independent non-executive directors of the Company have reviewed the related party transactions and confirmed that:

1. such transactions were entered into by the Company in the ordinary and usual course of its business;
2. such transactions were entered into either (1) on normal commercial terms, or (2) where there was no available comparison, on terms that were fair and reasonable so far as the shareholders of the Company are concerned; and
3. such transactions were entered into either (1) in accordance with the terms of the agreements governing such transactions (including volumes of transaction and basis of pricing), or (2) where there was no such agreements, on terms no less favourable than terms available to third parties;
4. the related party transactions and ongoing related party transactions were disclosed in the annual report of the Group in accordance with Rule 14.25(1)(A) to (D) of the Listing Rules. Amounts involving such transactions were within the maximum limit set by The Stock Exchange of Hong Kong Limited in granting the exemption.

(2) Related party transactions arising from transfer of assets or equity

During the year, there was no related party transactions arising from transfer of assets or equity involving any related party.

(3) Creditors' rights, liabilities and guarantee between the Group and the related party (including subsidiaries not consolidated)

	2001 RMB '000	2000 RMB '000
Amount due from the ultimate holding company	140,755	29,383
Amount due from fellow subsidiaries	109,698	73,961
Amount due to fellow subsidiaries	50,478	34,497
Amount due to the Jingwei Group	23,539	11,542
Bank loans of the Group guaranteed by the ultimate holding company	16,000	19,520
Bank loans of the Group guaranteed by the Jingwei Group	533,300	384,910
Bank loans of the Group guaranteed by fellow subsidiaries	24,600	6,600

(4) Other related party transactions

On 6th April 2001, the Company and its controlling shareholder, China National Textile Machinery (Group) Company Limited, jointly established the Hongda Research Company Limited. The main objectives of Hongda Research Company Limited are: (1) to design and develop advanced textile machinery, supporting equipment and spare parts; (2) to study the principles and technology in connection with textile machinery and its manufacture; and (3) to provide technical support to manufacturers of textile machinery. The registered capital of Hongda Research Company Limited is RMB50,000,000, of which RMB20,000,000 is contributed by the Company and RMB30,000,000 by China National Textile Machinery (Group) Company Limited. The announcement in respect of this transaction was published in the China Securities Post, Securities Times, Hong Kong Wen Wei Po and Hong Kong iMail on 10th April 2001.

**4. Material Contracts and Execution**

- (1) During the year, neither the Company nor other companies held in trust, subcontracted or leased significant assets of one another.
- (2) Except as set out below, the Company had no other significant guarantees:
- Contingencies

	Company	
	2001.12.31	2000.12.31
	<i>RMB '000</i>	<i>RMB '000</i>
Guarantee for the bank loan of subsidiaries	44,520	13,650
	<u> </u>	<u> </u>
	Group	
	2001.12.31	2000.12.31
	<i>RMB '000</i>	<i>RMB '000</i>
Guarantees for bank loans of third party	15,000	—
Guarantees for bank drafts of third party	27,700	—
	<u> </u>	<u> </u>

- (3) As at 31st December 2001, the Company placed its major deposits in the four main state-owned commercial banks in the PRC. The Company had outstanding entrusted loans of RMB93,000,000 bearing interest at 5.58% per annum granted to China National Textile Machinery (Group) Company Limited through CTMC Finance Company. Such entrusted loans involve no risk of recoverability.

5. Appointment of the Auditors by the Company for 2001

The Company's accounts for 2001 were audited by PricewaterhouseCoopers Zhong Tian, PRC Certified Public Accountants and PricewaterhouseCoopers, Hong Kong Certified Public Accountants as being the PRC and international auditors respectively for the year.

The remuneration of these auditors was specifically as follows:

	2001	2000
	Financial	Financial
Auditors	Auditing Fee	Auditing Fee
	<i>RMB '000</i>	<i>RMB '000</i>
PricewaterhouseCoopers		
Zhong Tian and (Certified Public Accountants Hong Kong)		
PricewaterhouseCoopers	2,400	2,380
	<u> </u>	<u> </u>

6. The unified income tax and the cancellation of tax refund concession by local governments

The Company was registered as a high and new technology enterprise in the Taiyuan High and New Technology Industrial Development Zone of Shanxi Province. In accordance with an approval document issued by State Tax Bureau of Shanxi Province on 28th September 1995, the Company is currently subject to an income tax rate of 15%. The Company is not entitled to any financial refund in respect of the income tax paid. The Company is not aware of any government policy change such that the tax rate referred to above would be varied.

7. Impact of staff quarters on the Company's results

The provision of staff quarters represented no material adverse effect on the results of the Company. Commencing 2000, the Company has implemented the staff quarters policy in accordance with the relevant policies of the state and local governments.

8. Impact on the Company upon China's accession to the World Trade Organisation ("WTO")

As the Company has competitive advantages over the technology, management, products, research and development aspects of the natural fibre textile machinery and part of the chemical fibre textile machinery, coupled with the cancellation of the restrictions over textile quotas which is beneficial to the exports of the PRC textile products, the impact on the Company subsequent to the accession of China to the WTO will be minimal in the short term. Over the long run, the accession to the WTO will bring about more intensive competition in terms of capital, technology, product, sales network and talents. The Company has and will continue to study and setup workable strategies and measures to minimise the impact on the Company brought by the accession to the WTO and accelerate the development of the Company.

- 9. None of the Company and its subsidiaries had purchased, sold or redeemed any listed shares of the Group during the year ended 31st December 2001.**
- 10. There are no such provisions in the articles of association of the Company or the PRC Law as requiring the Company to grant any pre-emptive rights for new shares to its existing shareholders according to their respective shareholding proportions.**
- 11. Up to 31st December 2001, the Company had complied with the Code of Best Practice as set out in the Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.**