



## Chapter IX Significant Events

### 1. The Group was not involved in any material litigation or arbitration during the year

### 2. Acquisition or disposal of assets during the period under review

- (1) During the period, the Company acquired 95% equity interest of Changde Textile Machinery Company Limited and 64.38% equity interest of Yichang Textile Machinery Company Limited from China Textile Machinery (Group) Company Limited. The Company paid the acquisition prices of RMB47,880,000 and RMB40,148,000 respectively to China Textile Machinery (Group) Company Limited in cash. The consideration totalling RMB88,028,000 for such acquisition was based on the respective net assets of Changde Textile Machinery Company Limited and Yichang Textile Machinery Company Limited multiplied by the percentage of shareholding acquired by the Company. In December 2002, the Company acquired 35.62% equity interest of Yichang Textile Machinery Company Limited from Huarong Asset Management Company. The consideration for such acquisition of RMB22,800,000 was based on the assessed net asset value of Yichang Textile Machinery Company Limited. The Company paid the total sum of RMB22,800,000 in cash. Such acquisition could help to further strengthen the operating model of intensivism and accelerate the development and technical improvement of 針織圓機. By this acquisition, the Company increased its products of textile machinery such as warp loom, weft loom, etc. The Company now has a more complete range of textile machinery products. Also, with the consolidation of internal resources of the Group, new streams of profit have been developed. During the reporting period, the acquisition contributed an additional RMB256,144,000 to the Company's revenue from main operations and an additional RMB24,968,000 to its net profit. These transaction constituted connected transactions and were approved by the general meeting of the Company;
- (2) The Company and its subsidiaries, namely, Zhengzhou Hongda New Textile Machinery Company Limited, Qingdao Hongda Textile Machinery Company Limited, Shenyang Hongda Textile Machinery Company Limited and Tianjin Hongda Textile Machinery Company Limited, acquired the fixed assets of each of Jingwei Machinery (Group) Company Limited, Zhengzhou Textile Machinery Factory, Qingdao Textile Machinery Factory, Shenyang Textile Machinery Factory and Tianjin Textile Machinery Factory, all being subsidiaries of China Textile Machinery (Group) Company Limited. The consideration for such acquisition was based on the assessed net value of the acquired assets. The Company has paid by instalments the total acquisition price of RMB72,809,000 in cash during the reporting period. The acquired fixed assets have been incorporated into the Company for use in operations. Such transaction constituted a connected transaction and was approved by the general meeting of the Company;
- (3) The Company sold the operating assets of its chemical fibre production business to China Textile Machinery (Group) Company Limited in October 2002. The consideration for the sale of RMB29,072,000 was based on the assessed net value of the assets sold. By this asset disposal, the Company could focus on textile and knitting operations so as to achieve optimization of the Company's assets and quality of business. Such transaction constituted a connected transaction and was approved by the general meeting of the Company;

### 3. Connected transactions and ongoing connected transactions

#### (1) Connected transactions arising from procurement and sales

Details of the connected transactions and ongoing connected transactions of the Group during the year are set out in the note headed "Related party transaction" to the audited accounts prepared in accordance with HK GAAP. The connected transactions and the ongoing connected 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 connected 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 connected transactions and ongoing connected transactions were disclosed in the annual report of the Group in accordance with Rule 14.25(1)(A) to (D) of the Listing Rules. The aggregate transaction amount were within the maximum limit approved by The Stock Exchange of Hong Kong Limited set out in its relevant waiver letter.

#### (2) Connected transactions arising from transfer of assets or equity

During the year, connected transactions arising from transfer of assets or equity were set out in paragraphs 2 (1) to (3) of the Chapter IX. In addition, the subsidiary of the Company, Zhengzhou Hongda New Textile Machinery Company Limited acquired assets at the market price from a connected person, Zhengzhou Textile Machinery Company Limited at an aggregate consideration of RMB3,869,000.



### 3. Connected transactions and ongoing connected transactions (continued)

#### (3) Creditors' rights and liabilities between the Group and the related party

in RMB '000

Related Party	Funding to the related party		Funding to the Company from the related party	
	Amount incurred	Balance	Amount incurred	Balance
Due from ultimate holding company	44,203	65,825	—	—
Due from fellow subsidiary	592,311	221,027	—	—
Due to ultimate holding company	—	—	(78,807)	(25,176)
Due to fellow subsidiary	—	—	(373,057)	(140,040)
Total	<u>636,514</u>	<u>286,852</u>	<u>(451,864)</u>	<u>(165,216)</u>

#### Contributing factors and their impacts on the Company

The above unsettled sums arose mainly in connected transactions as a result of deferred rolling payment, among which, RMB29,072,000 was due from the controlling shareholder for its purchase of the Company's of chemical fibre assets to the ultimate controlling company. A sum of RMB8,700,000 had been recovered as at the date of disclosure of this reporting period, as the transaction was conducted in the fourth quarter. The ultimate controlling company intended to make repayment of the outstanding amounts in the first half of 2003.

### 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:

in RMB '000

Party under Guarantee	Date of agreement	Guarantee amount	Type of guarantee	Period of guarantee	Completion or not	Whether in favour of any related party (Y or N)
Zhengzhou Hongda New Textile Machinery Company Limited	20th December 2002	20,000	Incidental liability	20th December 2002 to 25th December 2003	No	No
Qingdao Hongda Textile Machinery Company Limited	29th May 2002	22,800	Incidental liability	29th May 2002 to 28 May 2005	No	No
Qingdao Hongda Textile Machinery Company Limited	28th March 2002	3,520	Incidental liability	28th March 2002 to 27th March 2003	No	No
Beijing Jingwei New Technology Company Limited	28th June 2002	5,840	Incidental liability	28th June 2002 to 27th June 2003	No	No
Beijing Jingwei New Technology Company Limited	23rd October 2002	21,760	Incidental liability	23rd October 2002 to 23rd October 2003	No	No
Beijing Jingwei New Technology Company Limited	13th November 2002	50,000	Incidental liability	13th November 2002 to 13th November 2003	No	No
Beijing Jingwei New Technology Company Limited	18th December 2002	3,910	Incidental liability	18th December 2002 to 18th December 2003	No	No
Beijing Jingwei New Technology Company Limited	27th December 2002	15,000	Incidental liability	27th December 2002 to 2nd January 2003	No	No
Beijing Hualian Commerce and Trade Development Company Limited	8th April 2002	60,000	Incidental liability	8th April 2002 to 7th April 2003	No	No
Zhengzhou Textile Machinery Factory	25th June 2002	10,980	Incidental liability	25th June 2002 to 20th June 2004	No	Yes
Total Actual Guaranteed Amount			213,810			
Total Actual Guaranteed Balance			213,810			
Including, total guaranteed balance in favour of related parties			10,980			



#### 4. Material Contracts and Execution (continued)

##### (3) Other material contracts

1. On 5th February 2002, the joint venture agreement for the establishment of Wuxi Textile Technology Testing Company Limited was signed between the Company and China Textile Machinery (Group) Company Limited, whereby the Company intended to establish a joint venture called Wuxi Textile Technology Testing Company Limited with China Textile Machinery (Group) Company Limited. The Company was to contribute RMB27,240,000 by cash, representing 55% of the total investment of the joint venture (details of the agreement were set out in the "China Securities Post", "Securities Times", and also "Wen Wei Po" and "The Standard" issued in Hong Kong dated 7th February 2002). The establishment of the joint venture was under processing.
2. On 5th February 2002, the joint venture agreement for the establishment of Hongda Non-woven Fabric Engineering Technology Company Limited (hereafter referred to as "Wuxi Agreement") was signed between the Company and China Textile Machinery (Group) Company Limited, whereby the Company intended to establish a joint venture called Hongda Non-woven Fabric Engineering Technology Company Limited with China Textile Machinery (Group) Company Limited in Wuxi, Jiangsu. The Company was to contribute RMB39,610,000 in cash, representing 48% of the total investment of the joint venture (details of the agreement were set out in the "China Securities Post", "Securities Times", and also "Wen Wei Po" and "The Standard" issued in Hong Kong dated 7th February 2002). After further assessment made by the Company and China Textile Machinery (Group) Company Limited of the local environmental protection requirements in Wuxi and of the operating cost of the new company, the Termination Agreement was signed between the two parties. The Termination Agreement was approved at the general meeting of the Company held on 24th December 2002, and the Wuxi Agreement had forth been terminated.
3. On 5th February 2002, the Composite Services Agreement was signed between the Company and China Textile Machinery (Group) Company Limited for the reconciliation of certain continuing connected transactions among the subsidiaries of both parties (details of the agreement were set out in the "China Securities Post", "Securities Times", and also "Wen Wei Po" and "The Standard" issued in Hong Kong dated 7th February 2002).
4. On 4th November 2002, an agreement was signed between the Company and each of Zhengzhou Textile Machinery Company Limited and Hongda Research Company Limited (details of which were set out in the "Securities Times", and also "Wen Wei Po" and "The Standard" issued in Hong Kong dated 5th November 2002) for the establishment of a non-woven fabric joint venture in Zhengzhou City. The registered capital of the company was RMB40,000,000, of which RMB17,000,000, RMB18,000,000 and RMB5,000,000 will be contributed in cash by each of the Company, Zhengzhou Textile Machinery Company Limited and Hongda Research Limited Company respectively. Steps are being taken to establish the joint venture.

#### 5. Appointment of the Auditors by the Company for 2002

The Company's accounts for 2002 were audited by PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd., in the PRC and PricewaterhouseCoopers, Certified Public Accountants in Hong Kong as being the PRC and international auditors respectively for the year. The remuneration of these auditors was as follows:

Auditors	2002	Auditing period Number of years
	Financial auditing fee RMB '000	
PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd. in the PRC and PricewaterhouseCoopers Certified Public Accountants in Hong Kong	2,680	8

**6. Inspection by the agencies under the CSRC**

太原監管特派員辦事處 of the CSRC conducted inspection on the Company in November 2002. Subsequently, a notice was issued containing, inter alia, a written proposal for improvement of the Company. Major suggestions included avoiding the formulation of the written rules of procedures of the general meeting by the Chairman of the Company (who is concurrently a senior management of the controlling shareholder), monitoring the use of proceeds from fund raising activities, establishing and adopting the written terms of the Company's own information disclosure system, and improving the disclosure in the reports regularly published by the Company. During the Board meeting held on 24th December 2002, the Board resolved to follow up the said improvement proposal and established a disclosure system. The improvement proposal of the Company was set out in the "Securities Times" on 25th December 2002.

**7. 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 entitled 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 change in government policy to the effect that the tax rate referred to above would be varied.

**8. 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. A subsidiary of the Company paid to its employees one-off sum of RMB5,411,000 in respect of housing allowance and housing allowance excess in 2002. Please refer to page 57 of 2002 Annual Report for details.

**9. The basic medical insurance policy for employees**

The Group paid a total of RMB7,850,000 in medical insurance premiums for its current and retired employees during 2002. According to preliminary estimation, there would not be any material effects on the Group's consolidated profit and loss account and consolidated balance sheet if all its subsidiaries are also included in such medical insurance policy in future.

**10. 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 set up applicable strategies and measures to minimise the impact on the Company brought by the accession to the WTO and accelerate the development of the Company.

**11. None of the Company and its subsidiaries had purchased, sold or redeemed any listed shares of the Group during the year ended 31st December 2002.**

**12. 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.**

**13. Up to 31st December 2002, 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.**