

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 reporting period

See 3(2) 1 and 2 of Chapter IX.

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 note 28 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 Group in the ordinary and usual course of its business;
- 2 such transactions were entered into on normal commercial terms, or on terms no less favourable than terms available to or made by independent third parties;
- 3 such transactions were fair and reasonable so far as the independent shareholders of the Company are concerned; and
- 4 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 or from contribution

- (1) The Company acquired 28% equity interest of Shangxi Jingwei Heli Machinery Manufacture Company from Jingwei Machinery (Group) Company Limited at a consideration of RMB37,935,000 in July 2003. The consideration for such acquisition was based on the net assets of Heli Company amounting to RMB135,484,000 as at 30th November 2002 as stated in the appraisal report issued by the PRC independent accountant multiplied by the percentage of shareholding being 28% acquired by the Company. Such transaction constituted a connected transaction and was approved by the general meeting of the Company. Details of the transaction were set out in “Securities Times”, and also “Wen Wei Po” and “The Standard” in Hong Kong on 27th March 2003. The transaction further enhanced the completeness of the Company’s products. Upon completion of the transaction until the end of the reporting period, the acquisition contributed an additional RMB234,549,000 to the Company’s revenue from main operations. Its net profit was reduced by RMB1,517,000.
- (2) The Company signed the Equity Transfer Agreement with China National Textile Machinery (Group) Company Limited in December 2003, pursuant to which the Company intended to dispose of 58.92% equity interest in Jintu Information Technology Company Limited held by the Company. The consideration for such acquisition being RMB24,867,000 was based on the percentage of shareholding of Jintu Information Technology Company Limited held by the Company multiplied by the unaudited net asset value of Jintu Information Technology Company Limited as shown in its management accounts as at 30th November 2003. Such transaction constituted a connected transaction (details of which were set out in “Securities Times”, and also “Wen Wei Po” and “The Standard” in Hong Kong on 23rd December 2003). Jintu Information Technology Company Limited had been subject to operational losses since its incorporation in August 2001. Its principal business was different from that of the Company in the textile machinery business. It was difficult for the Company to offer such technical and marketing support as Jintu may require. Therefore, it was impracticable for the Company to ameliorate Jintu’s losses status with its own resources only. In view of this, the Board of Directors believed that the disposal would be in the best interest of the Company. Such disposal was under processing.
- (3) In May 2003, the Company contributed RMB27,241,000 to the joint establishment of Wuxi Jingwei Textile Technology Testing Company Limited with China National Textile Machinery (Group) Company Limited, the controlling shareholder of the Company, representing 55% of the registered capital of the joint venture. The joint venture is engaged in the production and sales of cotton yarn, and the research and development of textile machinery and relevant technology. Such transaction constituted a connected transaction and was approved by the general meeting of the Company. Details of the transaction were set out in “Securities Times”, and also “Wen Wei Po” and “Hongkong i-mail Post” in Hong Kong on 8th February and 13th March 2002.



3. Connected transactions and ongoing connected transactions (continued)

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

- (4) In June 2003, the Company, together with Zhengzhou Textile Machinery Company Limited, a subsidiary of China National Textile Machinery (Group) Company Limited, the controlling shareholder of the Company, and Hongda Research Institute Company Limited injected RMB17,000,000 into the joint establishment of Zhengzhou Hongda Non-woven Fabric Company Limited in Zhengzhou, Henan Province, representing 42.5% of the registered capital of the joint venture. The joint venture is principally engaged in the production and sales of equipment, parts and components for use in the production of non-woven products, and the research and development of relevant technology. Such transaction constituted a connected transaction and was approved by the general meeting of the Company. Details of the transaction were set out in "Securities Times" on 25th December 2002 and in "Wen Wei Po" and "The Standard" in Hong Kong on 27th December 2002.

(3) Creditors' rights, liabilities and guarantees between the Group and related parties

Related Party	2003 RMB'000	2002 RMB'000
Due from the ultimate holding company	8,849	40,650
Due from fellow subsidiaries	283,819	180,759
Due to fellow subsidiaries	82,729	74,512
Due to Jingwei Group Company	116,860	25,258
Bank loan guarantee granted by Jingwei Group Company in favour of the Company	308,960	253,020
Bank loan guarantee granted by fellow subsidiary in favour of the Company	—	20,000

Contributing factors and their impacts on the Company

Creditors' rights and liabilities between the Group and related parties are mainly unsettled sums arising from operations as a result of deferred rolling payment, which will not incur bad debts. Bank loan guarantee made by Jingwei Group Company in favour of the Company is a measure to ensure the safety of the Company's property, and is the counter-guarantee for the guarantee granted to related parties by the Company.

4. Material Contracts and Execution

- (1) During the reporting period, 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 during the reporting period:

in RMB'000

Party under Guarantee	Date	Guarantee amount	Type of Guarantee	Period of Guarantee	Completion or not	Whether in favour of any related party
Zhengzhou New Hongda Textile Machinery Company Limited	20th December 2002	20,000	Incidental liability	20th December 2002 to 25th December 2003	Yes	No
Qingdao Hongda Textile Machinery Company Limited	28th March 2002	3,520	Incidental liability	28th March 2002 to 27th March 2003	Yes	No
Beijing Jingwei New Technology Company Limited	28th June 2002	5,840	Incidental liability	28th June 2002 to 27th June 2003	Yes	No
Beijing Jingwei New Technology Company Limited	23rd October 2002	21,760	Incidental liability	23rd October 2002 to 23rd October 2003	Yes	No
Beijing Jingwei New Technology Company Limited	13th November 2002	50,000	Incidental liability	13th November 2002 to 13th November 2003	Yes	No
Beijing Jingwei New Technology Company Limited	18th December 2002	3,910	Incidental liability	18th December 2002 to 18th December 2003	Yes	No
Beijing Jingwei New Technology Company Limited	27th December 2002	15,000	Incidental liability	27th December 2002 to 2nd January 2003	Yes	No

4. Material Contracts and Execution (continued)*in RMB '000*

Party under Guarantee	Date	Guarantee amount	Type of Guarantee	Period of Guarantee	Completion or not	Whether in favour of any related party
Beijing Hualian Commerce and Trade Development Company Limited	8th April 2002	60,000	Incidental liability	8th April 2002 to 7th April 2003	Yes	No
Qingdao Hongda Textile Machinery Company Limited	29th May 2002	22,800	Incidental liability	29th May 2002 to 28th May 2005	No	No
Changde Textile Machinery Company Limited	23rd January 2003	20,000	Incidental liability	23rd January 2003 to 22nd January 2006	No	No
Zhengzhou New Hongda Textile Machinery Company Limited	31st December 2003	20,000	Incidental liability	31st December 2003 to 30th December 2004	No	No
Jingwei Textile Machinery Company Limited Yichang Branch	16th May 2003	20,000	Incidental liability	16th May 2003 to 15th May 2007	No	No
Beijing Hualian Commercial Buildings Joint Stock Co., Ltd.	25th March 2003	200,000	Incidental liability	25th March 2003 to 25th March 2004	No	No
Beijing Hualian Commerce and Trade Development Company Limited	16th April 2003	40,000	Incidental liability	16th April 2003 to 15th April 2004	No	No
Jingwei Machinery (Group) Company Limited *	22nd November 2003	20,000	Incidental liability	22nd November 2003 to 15th November 2004	No	Yes
Jingwei Machinery (Group) Company Limited *	20th November 2003	8,000	Incidental liability	20th November 2003 to 15th October 2004	No	Yes
Jingwei Machinery (Group) Company Limited *	28th November 2003	7,000	Incidental liability	28th November 2003 to 15th October 2004	No	Yes
Jingwei Machinery (Group) Company Limited *	26th November 2003	14,000	Incidental liability	26th November 2003 to 15th October 2004	No	Yes
Jingwei Machinery (Group) Company Limited *	25th November 2003	14,000	Incidental liability	25th November 2003 to 15th November 2004	No	Yes
Total actual guaranteed amount		565,830				
Total actual guaranteed balance		385,800				
Including, total guaranteed balance in favour of related parties		63,000				
Total actual guaranteed amount to subsidiaries made by listed companies		202,830				
Total guaranteed amount involving irregularities		—				
Proportion of total guaranteed amount to net assets of the Company		15.79%				

* The guarantee denotes such guarantee given to Jingwei Machinery (Group) Company Limited by the subsidiary of the Company, Shanxi Jingwei Heli Machinery Manufacture Company.

(3) Other material contracts

- On 20th August 2003, the Company established, together with Beijing Shuntiantong Real Estate Development Company Limited and Beijing Guanghe Real Estate Company Limited, a joint venture in Shanghai named Shanghai Jingwei Zhonglian Commercial Development Company Limited (“Zhonglian Company”). The capital contribution was made in the form of the property located at Basement to the 3rd floor, No.4 District 5, Anzhen West Li, Chao Yang District, Beijing City valued at cost of approximately RMB335,420,000, which was owned as to 47.92% by the Company. Details were set out in “Securities Times”, and also “Wen Wei Po” and “The Standard” in Hong Kong on 27th October 2003.
- On 30th December 2003, the Company signed the Equity Transfer Agreement pursuant to which the Company agreed to dispose of 47.92% equity interest (“relevant equity”) in Zhonglian Company held by the Company to Beijing Hualian Group Investment Holdings Company Limited (“Beijing Hualian”). The equity interest was transferred to Beijing Hualian at a consideration of RMB335,420,000, which was equivalent to the amount of contribution originally injected into Zhonglian Company by the Company. The term of payment of the consideration is as follows: Beijing Hualian will credit each of 50% of the consideration of the relevant equity to the designated account of the Company before 31st December 2004 and 31st December 2005 respectively. Both parties agreed that during the period from the effective day of the Agreement until the dates of transfer of the registered title, the Company will appoint Beijing Hualian to manage the relevant equity. The relevant announcement was published in “Securities Times” on 31st December 2003 and 14th January 2004 and in “Wen Wei Po” and “The Standard” in Hong Kong on 2nd January 2004 and 14th January 2004.

**5. Appointment of the Auditors by the Company for 2003**

The Company's accounts for 2003 were audited by PRC Certified Public Accountant 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. Details were as follows:

Auditors	2003	Auditing period (Number of years)
	Financial auditing fee (RMB '000)	
PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd. and PricewaterhouseCoopers Certified Public Accountants in Hong Kong	2,900	9

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

The Company was registered as a foreign investment enterprise in the Beijing Economic and Technological Development Zone. In accordance with the document KGSH (2004) No. 21 issued by Beijing State Tax Bureau Development Zone Branch, 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.

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

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

8. Basic staff medical insurance

In 2003, the Group paid basic medical insurance coverage for its existing and retired staff, totalling RMB8,315,000. According to preliminary estimates, it will pose no material impact on the consolidated profits and loss account and consolidated balance sheet of the Group, if all its subsidiaries are also included in such medical insurance in future.

9. 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, 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, products, sales networks 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.

10. None of the Company and its subsidiaries purchased, sold or redeemed any listed shares of the Group during the year ended 31st December 2003.**11. There are no such provisions in the Articles of Association of the Company or the PRC laws requiring the Company to grant any pre-emptive rights for new shares to its existing shareholders according to their respective shareholding proportions.****12. For the year ended 31st December 2003, the Company complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.**