

## Chapter IX Significant Events

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

### 2. Acquisition, disposal of assets and capital contributions during the reporting period

- (1) Pursuant to the Equity Transfer Agreement entered into by the Company and China Textile Machinery (Group) Company Limited in December 2003 and January 2004 respectively, the Company agreed to dispose approximately 58.92% of its equity interest in Jintu Information Technology Company Limited (“Jintu”) to China Textile Machinery (Group) Company Limited for a consideration of RMB24,867,000. Effective from January 2004, 16.40% equity interest in Hongda Investment Co., Ltd. held by China Textile Machinery (Group) Company Limited was transferred to the Company, in order to offset the consideration of RMB24,867,000 in respect of the disposal of the equity interest of Jintu by the Company to China Textile Machinery (Group) Company Limited. Such acquisition constituted a connected transaction. The transaction aforesaid was based on the divergence in the business of the Company and Jintu in which the Company found it hard to provide Jintu with relevant technology and marketing support to turn Jintu from loss to profit-making. The business and technical background of China Textile Machinery (Group) Company Limited is relevant to that of Jintu making it possible to provide Jintu with business convenience and technical support. In addition, after becoming a shareholder of Hongda Investment Co. Ltd., the Company can make good use of its existing network and business relations to enhance our competitive edge and expand the overall market share for the Group.

Details of the transaction were set out in “Securities Times”, and “Wen Wei Po” and “The Standard” in Hong Kong on 23rd December 2003.

- (2) Pursuant to the Equity Transfer Agreement entered into by the Company and China Textile Machinery (Group) Company Limited in August 2004, the Company transferred its 20% equity interest in Hongda International Trading Company Limited (“Hongda Trading”) to China Textile Machinery (Group) Company Limited. The transfer price of RMB6 million was based on the Company’s original investment in the 20% registered capital of Hongda Trading of RMB30 million, and the audited net asset value of Hongda Trading of RMB27,662,000 as at 31 December 2003. As the consideration of the sale of the equity interest is close to the Company’s original investment (equivalent to net book value) in Hongda Trading, no profit or loss has been recorded on the Company’s accounts. Please refer to the description of Section 2(3) in Chapter IX for reasons of the transaction. Such transaction constituted a connected transaction and approval has been obtained at the general meeting of the Company.

Details of the transaction were set out in the “Securities Times” and in “Wen Wei Po” and “The Standard” in Hong Kong on 19th August 2004.



## 2. Acquisition, disposal of assets and capital contributions during the reporting period (continued)

- (3) Pursuant to the Capital Contribution Agreement entered into by the Company and China Hengtian Group Company (“Hengtian Company”, a company holding 100% equity interest in China Textile Machinery (Group) Company (the controlling shareholder of the Company) and an associate of the Company (as defined in the Listing Rules)) on 18th August 2004, the Company agreed to contribute RMB30 million in cash to China Textile Machinery and Technology Import and Export Company Limited (“IE Company”, originally a wholly-owned subsidiary of Hengtian Company) to increase the registered capital in IE Company. The amount contributed by the Company represents 25% of the registered capital of IE Company. Another investor is Hengtian Company, which contributed all the assets originally invested in IE Company amounting to RMB90 million. The IE Company is principally engaged in the import and export of textile machinery and technology. As at 31st December 2004, the net assets and the net profit of IE Company was RMB124,679,700 and RMB4,311,200 respectively. The registered capital of Hengtian Company is RMB1,801,950,000. Hengtian Company is principally engaged in the design, manufacture and sale of the complete sets and parts of textile machineries and other machinery facilities. On 31st December 2003, the net assets and net profit of Hengtian Company amounted to RMB5,440,000,000 and RMB58,650,000 respectively. Major operating business of the Company is the production and sales of textile machines. As IE Company has a better brand image in the international market, established a broad business network, accumulated rich customer resources as well as business experience; and Hongda Trading will no longer operate import and export business of textile machines due to business integration of Hengtian Company, the Company shall, making use of the opportunity of Hengtian Company consolidating its textile import and export business, terminate its investment in Hongda Trading and invest in IE Company, a specialized trading company, in order to maintain and expand the international market of the Company. As such, the Company not only can share the benefit of its import and export business, but participate in the downstream segment of the product chain at the same time, which is helpful for the Company to further develop its international market and enhance the competitive edge of the Group in the international market.

The transaction constituted a connected transaction and was approved by the shareholders in the general meeting. Details of the transaction were set out in the “Securities Times”, and “Wen Wei Po” and “The Standard” in Hong Kong on 19th August 2004.

## 3. Connected transactions and ongoing connected transactions

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

On 18th August 2004, the Company (on its own behalf and its subsidiaries from time to time) and China Textile Machinery (Group) Company entered into the Composite Services Agreement to regulate the mutual supply of goods and services between the Company and China Textile Machinery (Group) Company, covering the following three areas: (i) the supply of goods, parts and components and provision of processing, final processing and maintenance services; (ii) provision of public and social services; and (iii) leasing of properties. The term of the agreement commences from 1st January 2005 and ends on 31st December 2007. All the transactions contemplated under the agreement shall be conducted on arm’s length terms, and the price payable or receivable by the Group shall be determined by the following principles:

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

The contracts aforesaid constituted connected transactions, and the transactions contemplated thereunder constituted ongoing connected transactions and approval has been obtained at the General Meeting of Shareholders of the Company, details of which were set out in the “Securities Times” and in “Wen Wei Po” and “The Standard” in Hong Kong on 19th August 2004.

Transactions between the Group and related parties for the year were conducted in accordance with the composite services agreement entered into by the Group and related parties on 5th February 2002.

Ongoing connected transactions will be conducted on normal commercial terms and conditions as agreed through fair negotiations. Pursuant to the composite services agreement, prices payable or receivable by the Group will be based on the following:

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

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

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

The independent non-executive directors of the Company have reviewed all the continuing connected transactions entered into by the Group for the year, and have confirmed that such transactions have been entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to Group than terms available to or from (as appropriate) independent third parties;
- (iii) in accordance with the relevant agreement governing them or terms that are fair and reasonable in the interests of the shareholders of the Company as a whole; and
- (iv) the transaction amount did not exceed the cap prescribed in the waiver granted by The Stock Exchange of Hong Kong Limited.

Such transactions are conducted in the ordinary course of the Group's operations, which ensures the orderly and smooth operations of the Company. Such transactions have warranted their necessity and continuity in the Company's operations.

The connected transactions of the Company in the sales of products or provision of service to its controlling shareholders or its subsidiaries amounted to RMB504,423,000.

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

See paragraph (1) and (2) of section 2 in chapter 9.

#### (3) Connected transactions arising from joint investment with connected parties

See paragraph (3) of section 2 in chapter 9.

The Company confirms that the disclosure of the above connected transactions in the year 2004 were in compliance with the disclosure requirements as stated in Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. Details of connected transactions and ongoing connected transactions are set out in Note 28 to the accounts prepared in accordance with HK GAAP.

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

|   | 2004<br>RMB'000 | 2003<br>RMB'000 |
|---|-----------------|-----------------|
| Due from the ultimate holding company   | —               | 8,849           |
| Due to the ultimate holding Company   | 10,252          | —               |
| Due from fellow subsidiaries  | 212,541         | 283,819         |
| Due to fellow subsidiaries  | 67,824          | 82,729          |
| Due to Jingwei Group Company  | 39,354          | 116,860         |
| Bank loan guarantee granted by Jingwei Group Company in favour of the Company | 214,000         | 308,960         |
| 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 result in bad debts.



#### 4. Material Contracts and Execution

- (1) The Company held its seventeenth meeting of the Third Board on 30th December 2003 and approved the signing of the Equity Transfer Agreement (“the Agreement”) between the Company and Beijing Hualian Group Investment Holdings Company Limited (“Beijing Hualian”). Pursuant to the Agreement, the Company agreed to dispose of 47.917% equity interest (“relevant equity”) in Shanghai Jingwei Zhonglian Commercial Development Company Limited (“Zhonglian Company”) held by the Company to Beijing Hualian. As Beijing Hualian was not connected with the Company as defined in the Listing Rules, the transactions contemplated under the Agreement did not constitute connected transaction of the Company. Details were set out in “Securities Times” on 31st December 2003, “Wen Wei Po” and “The Standard” in Hong Kong on 2nd January 2004, “Securities Times”, “Wen Wei Po” and “The Standard” in Hong Kong on 14th January 2004.

1. Basis of determination of the consideration of equity transfer: the consideration was based on the original capital contribution in Zhonglian Company made by the Company at the amount of RMB335,420,000. In addition, under the Agreement, the Company shall be paid by Zhonglian Company a dividend, on an annual basis during such period as the consideration remains payable by Beijing Hualian to the Company (namely, 2004 and 2005). The dividend will be calculated at a fixed rate of such portion of the consideration receivable by the Company, and such fixed rate is higher than the prevailing interest rate for current deposit accounts of banks in the PRC. The dividend will initially be paid by the dividends of Zhonglian Company. If the amount of dividend fails to support the payment of the agreed dividend amount, the insufficient portion will be supplemented by Beijing Hualian. The gain of the Company from Zhonglian Company is shown in the following chart:

Unit: RMB'000

| Name of investee company               |                    | Shanghai Jingwei Zhonglian Commercial Development Company Limited  |        |
|--|--------------------|--|--------|
| Investment revenue gain for the period | 28,511             | % of the net profit of the Company   | 18.71% |
| Investee company property              | Scope of operation | investment and management in commercial activities, and industrial enterprises, investment advisory services, commercial information advisory services, corporate management advisory services, economic information advisory services, labour service, conference service and domestic trade. |        |
|  | Net profit         | 18,321   |        |

2. Payment method of the consideration: 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. As at the end of the reporting period, the Company has received the payment of RMB100,000,000, being part of the consideration for such transfer. After negotiation with Beijing Hualian, the management of the Company considers that the Company shall receive in the first half year of 2005 the consideration of RMB70,000,000 which should be received prior to 31st December 2004.
3. Management of Zhong Lian Company during the period of transfer: the Company and Beijing Hualian 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.

Zhonglian Company was established on 20 August 2003 with a registered capital of RMB700,000,000, of which 47.917% of the registered capital in Zhonglian Company was contributed by the Company. Beijing Shuntiantong Real Estate Development Company Limited and Beijing Guanghe Real Estate Company Limited contributed 21.429% and 30.654% of the registered capital of Zhonglian Company respectively. The registered address of Zhonglian Company is at Units A and F, Level 15, 500 Zhangyang Road, Shanghai. It is a limited liability Company.

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

(2) Except as set out below, the Company had no other significant guarantees during the reporting period:

*in RMB '000*

| Party under Guarantee  | Date       | Guaranteed amount | Type of Guarantee    | Period of Guarantee   | Completion or not | Whether in favour of any related party |
|--|------------|-------------------|----------------------|-----------------------|-------------------|--|
| Zhengzhou New Hongda Textile Machinery Company Limited   | 23/4/2004  | 20,000            | Incidental liability | 23/4/2004–22/4/2005   | No                | No                                     |
| Zhengzhou New Hongda Textile Machinery Company Limited   | 31/12/2003 | 20,000            | Incidental liability | 31/12/2003–30/12/2004 | Yes               | No                                     |
| Qingdao Hongda Textile Machinery Company Limited   | 29/5/2002  | 22,800            | Incidental liability | 29/5/2002–28/5/2005   | No                | No                                     |
| Changde Textile Machinery Company Limited  | 23/1/2003  | 20,000            | Incidental liability | 23/1/2003–22/1/2006   | No                | No                                     |
| Jingwei Textile Machinery Company Limited Yichang Branch   | 16/5/2003  | 20,000            | Incidental liability | 16/5/2003–15/5/2007   | No                | No                                     |
| Beijing Hualian Commerce and Trade Development Company Limited   | 13/4/2004  | 40,000            | Incidental liability | 13/4/2004–13/4/2005   | No                | No                                     |
| Beijing Hualian Commercial Buildings Joint Stock Co., Ltd.   | 25/3/2004  | 200,000           | Incidental liability | 25/3/2004–25/3/2005   | No                | No                                     |
| Total actual guaranteed amount during the reporting period   |            | 240,000           |                      |                       |                   |  |
| Total actual guaranteed balance at the end of the reporting period   |            | 240,000           |                      |                       |                   |  |
| Guarantees to subsidiaries made by the Company   |            |                   |                      |                       |                   |  |
| Total actual guaranteed amount to subsidiaries and branches during the reporting period                              |            |                   |                      | 102,800               |                   |  |
| Total actual guaranteed balance to subsidiaries and branches at the end of the reporting period                      |            |                   |                      | 82,800                |                   |  |
| Total guarantee made by the Company (including the guarantees to controlling subsidiaries)                           |            |                   |                      |                       |                   |  |
| Total guaranteed amount  |            |                   |                      | 322,800               |                   |  |
| Proportion of total guaranteed amount to net assets of the Company   |            |                   |                      | 12.65%                |                   |  |
| Guarantees made by the Company involving irregularities  |            |                   |                      |                       |                   |  |
| Guaranteed amount to other associates holding under 50% of the shares for controlling shareholders and the Company   |            |                   |                      | –                     |                   |  |
| Guaranteed amount provided directly or indirectly to guaranteed targets with asset to liability ratio being over 70% |            |                   |                      | –                     |                   |  |
| Whether total guaranteed amount is over 50% of the net asset   |            |                   |                      | No                    |                   |  |
| Total guaranteed amount involving irregularities   |            |                   |                      | –                     |                   |  |

**5. Appointment of the Auditors by the Company during the reporting period**

The Company's accounts for 2004 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:

|  | <b>2004<br/>Financial<br/>auditing fee<br/>(RMB '000)</b> | <b>Year of audit</b> |
|--|---|----------------------|
| PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd. and<br>PricewaterhouseCoopers Certified Public Accountants in Hong Kong | <u>3,100</u>  | <u>10</u>            |

During the past three years, no material change in relation to the accountants aforesaid occurred.

**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 from 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 2004, the Group paid basic medical insurance premiums for its existing and retired staff, totalling RMB9,338,000. 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 of its subsidiaries also join 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. In the long run, the accession to the WTO will bring about more intense competition in terms of capital, technology, products, sales networks and talents. The Company has and will continue to study and formulate feasible 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. Based on the disclosed information known to the Directors, as at the Latest Practicable Date of which the report was issued by the Company, there are adequate public float of shares.**