



## Chapter IX Significant Events

1. The Company was not involved in any material litigation or arbitration during the year, and there is no material litigation or arbitration occurred during the previous period but subsisting during the reporting period.

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

Acquisition of assets

Details of the use of fund not raised through the issue of shares during the period are set out in section 3 of Chapter VIII.

Unit: RMB '000

Counterparties and assets being acquired	Date of acquisition	Acquisition price	Contribution to net profit of the Company from date of acquisition until the year-end	A connected transaction or not	Transfer of title of the subject assets was completed or not	Transfer of subject debts and liabilities was completed or not
The transfer of 25% equity interest in Wuxi Hongda Texparts Co., Ltd. from China Textile Machinery (Group) Limited	June 2005	11,293	Nil	Yes, the price is based on appraised value.	Yes	Yes

The matters involved will not have material effect on the sustainability of operation and stability in the management of the Company. Meanwhile, the assets of the Company and its quality of operation will be optimized.

3. Connected transactions and ongoing connected transactions

- (1) Connected transactions arising from the course of normal operations

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. The general pricing standards for continuing connected transactions are: 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 approximately 105% to 110% of the market price or 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.

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

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

Connected transactions and ongoing connected transactions of the Group for the year were conducted in accordance with the Composite Services Agreement entered into and the details were as follows.

Unit : RMB '000

Related parties	Sales of goods and provision of services to the related parties		Purchase of goods and services from the related party	
	Transaction Amount	Proportion to comparative transaction amount	Transaction Amount	Proportion to comparative transaction amount
Fellow subsidiaries of the Group	312,891	6.25%	1,003,695	30.40%
Associated companies of the Group	176,382	3.52%	34,996	1.06%
Joint ventures of the Group	38,940	0.78%	—	—
Total	528,213	10.55%	1,038,691	31.46%

Including the Company's sales of products or provision of services to its controlling shareholder and its subsidiaries in the amount of RMB489,272,000 during the reporting period.

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

- (1) in the ordinary and normal course of business of the Group;
- (2) either on normal commercial terms or on terms no more favourable or less favourable than terms available to or made by independent third parties;
- (3) were fair and reasonable so far as the independent shareholders are concerned; and
- (4) amounts involving such transactions were within the maximum limit set by The Stock Exchange of Hong Kong Limited in granting the exemption.

Explanatory note on the necessity and continuity of the connected transactions:

Such transactions are conducted in the ordinary course of the Company'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 will not affect the Company's independence.

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

See paragraph 2(2) of section 3 in chapter 7.

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

During the reporting period, Hong Kong Huaming Co., Ltd., a wholly-owned subsidiary of the Company acquired 25% of interest of Wuxi Hongda Texparts Co., Ltd. ("Wuxi Texparts") held by China Textile Machinery (Group) Limited at a consideration of RMB11,293,561 in cash.

The Company confirms that the disclosure of the above connected transactions in the year 2005 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 continuing connected transactions are set out in Note 35 i), ii), iii), iv) and v) to the accounts prepared in accordance with HKFRS.

- (4) During the reporting period, the Group had not entered into any material contracts with the Company's controlling shareholder or any of the Company's subsidiaries, nor the Company's controlling shareholder or any of its subsidiaries had entered into any material contracts for providing services to the Group.
- (5) As at 31st December 2005, the non-operating balances of the amount due from the holding company and fellow subsidiaries was nil. The Group has no guarantee to holding company and fellow subsidiaries.



#### 4. Material Contracts and Execution

- (1) During the reporting period, there were no significant event such as escrow, contracting and lease
- (2) Except as set out below, the Company had no other significant guarantees during the reporting period:

Unit: RMB '000

External guarantee made by the Company (excluding guarantees to subsidiaries)						
Guaranteed party	Date	Guaranteed 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	15th April 2005	40,000	Joint liability	15/4/2005 – 14/4/2006	No	No
Beijing Hualian Commercial Buildings Joint Stock Co., Ltd.	25th March 2005	200,000	Joint liability	28/3/2005 – 27/3/2006	No	No
Beijing Hualian Commerce and Trade Development Company Limited	23rd September 2005	165,000	Joint liability	23/9/2005 – 22/9/2006	No	No
Anhui Huamao Jingwei Textiles Co., Ltd.	9th December 2005	10,000	Joint liability	9/12/2005 – 8/12/2006	No	No
Total actual guaranteed amount during the reporting period			415,000			
Total actual guaranteed balance at the end of the reporting period			415,000			
Guarantees to controlling subsidiaries and branches made by the Company						
Total actual guaranteed amount to subsidiaries and branches during the reporting period						142,800
Total actual guaranteed balance to subsidiaries and branches at the end of the reporting period						90,000
Total guarantee made by the Company (including the guarantees to controlling subsidiaries)						
Total guaranteed amount			505,000			
Proportion of total guaranteed amount to net assets of the Company			19.00%			
Guarantee made by the Company involving irregularities						
Guaranteed amount to other associates holding less than 50% of its shares by controlling shareholder and the Company			0			
Guaranteed amount provided directly or indirectly to guaranteed targets with gearing ratio being over 70%			0			
Whether total guaranteed amount is over 50% of the net asset			0			
Total guaranteed amount involving irregularity			0			

Decision procedure for the guarantee: Within the scope as permitted by the Articles of Association, external guarantees of the Company are subject to approval by more than two thirds of the members of the Board.

- (3) Assigned financial management: Nil

**5. Performance of Commitments by the Company or Shareholders with more than 5% (inclusive) shareholdings**

During the reporting period, no commitments by the Company or Shareholders with more than 5% (inclusive) shareholdings were made or existed in prior periods and sustained in the reporting period, which might significantly impact the operating results or financial status of the Company.

**6. Undertaking for the share reform arrangement**

Specific time arrangement: As advised by China Textile Machinery (Group) Company Limited, our controlling shareholder, it is actively implementing the A Share reform proposal, which is expected to proceed before 30th June 2006.

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

The Company's accounts for 2005 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:

Accounting Firm	2005 Financial auditing fee (RMB '000)	Year of audit
PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd. and PricewaterhouseCoopers Certified Public Accountants	<u>4,900</u>	<u>11</u>

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

**8. 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 approval document KGSH (2004) No. 21 issued by Branch of Beijing Municipal Administration of State Taxation in Beijing Economic & Technological Development Zone, 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.

**9. 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. Since 2000, the Company has implemented the staff quarters policy in accordance with the relevant policies of the state and local governments.

**10. Basic staff medical insurance**

In 2005, the Group paid basic medical insurance coverage for its existing and retired staff, totalling RMB14,924,000. 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 participate in such medical insurance in future.

**11. Audit Committee**

The Audit Committee of the Company has, together with the management, reviewed the accounting principles, accounting standards and methods adopted by the Group, and have discussed the issues regarding auditing, internal control and financial reporting including the review of the audited accounts of the Group for the reporting period.

**12. 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.

**13. 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.**