

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**

Please refer to section 3 (2) of Chapter VII “Use of funds not raised through the issue of shares” of this report.

The matters involved will not have material effect on the continuity 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 (for itself and on behalf of its subsidiaries from time to time) and China Textile Machinery (Group) Company Limited (“China Textile Machinery”, for itself and on behalf of its associates and subsidiaries from time to time (excluding the Group) (“China Textile Machinery Group”)) entered into the Composite Services Agreement to regulate the mutual supply of goods and services between the Group and China Textile Machinery Group, 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 under the agreement are conducted on normal commercial terms and conditions as agreed through fair negotiations, and 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.

Since China Textile Machinery is the controlling shareholder and promoter of the Company, the aforesaid agreement 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 the Company’s announcement in the “Securities Times” and in “Wen Wei Po” and “The Standard” in Hong Kong on 19th August 2004.

For the year, in respect of the connected transactions and ongoing connected transactions of the Group, the aggregate value of the ongoing connected transactions under category of “sales of finished goods, raw materials and components and parts” was approximately RMB690,497,122, which exceeded the 2006 approved cap for such category (i.e. RMB556,800,000). The Board proposed to submit the resolution in respect of considering and ratifying the relevant ongoing connected transactions for the year 2006 to the general meeting. Meanwhile, the Board of the Company will propose to the General Meeting for approval to increase the 2007 Approved Cap from RMB586,600,000 to RMB1,089,078,078. On 12th April 2007, the Company (for itself and on behalf of its subsidiaries from time to time) and China Textile Machinery (for itself and on behalf of its subsidiaries and associates from time to time, excluding the Group) entered into the supplemental agreement, to reflect the upward adjustment of the 2007 Approved Cap.. The resolution of entering into of the Supplemental Agreement will be proposed to General Meeting for approval. (For details, please refer to the announcement of the Company in the “Securities Times”, “Wen Wei Po” and “The Standard” in Hong Kong on 13th April 2007).

Connected transactions and ongoing connected transactions of the Group for the year were detailed as follows.

Unit: RMB '000

Related parties	Sales of goods and provision of labour services to the related parties		Sales of goods and provision of labour services to the related parties	
	Transaction Amount	Proportion to comparative transaction amount	Transaction Amount	Proportion to comparative transaction amount
Controlling Company	2,900	0.05%	—	—
Fellow subsidiaries of the Group	409,587	7.39%	895,610	23.62%
Associated companies of the Group	292,714	5.28%	62,412	1.65%
Jointly controlled entities of the Group	69,383	1.25%	2,068	0.05%
Total	774,584	13.97%	960,090	25.32%

Including the Group’s sales of products or provision of labour services to its controlling shareholder and its subsidiaries in the amount of RMB705,201,000 during the reporting period.

3. Connected transactions and ongoing connected transactions (continued)

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

The independent non-executive directors of the Company have reviewed the ongoing 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 terms no more favourable or less favourable than terms available to or made by independent third parties;
- ③ in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of all shareholders of the Company as a whole.

The influence of the connected transactions on the independence of the Company, the dependence of the Company on the connected parties and relevant solutions:

Such transactions are conducted in the ordinary course of the Company's operations and the related parties have had many years of business cooperation with the Company and good match of production and processing capacity, 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 interest

During the reporting period, the Group purchased intangible assets amounting to RMB11,973,619 from fellow subsidiaries of the Group.

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

There were no connected transactions arising from joint investment with connected parties during the reporting period.

The Company confirms that the disclosure of the above connected transactions in the year 2006 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 35 to the accounts prepared in accordance with HKFRS.

- (4) In the year, the non-operating balances of the amount due from the holding company and fellow subsidiaries was nil. The Group has accepted from the controlling company a loan guarantee of RMB200,000,000, and apart from that, the Group has no other guarantees with connected parties.



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 controlled subsidiaries)						
Name of guaranteed party	Date	Guaranteed amount	Type of guarantee	Period of guarantee	Completion or not	Whether in favour of any related party
Beijing Hualian Commercial Building Joint Stock Company Limited	27/3/2006	70,000	Joint liability	27/3/2006-27/3/2007	No	No
Beijing Hualian Commerce and Trade Development Company Limited	27/9/2006	165,000	Joint liability	27/9/2006-26/9/2007	No	No
Beijing Hualian Commerce and Trade Development Company Limited	15/4/2005	40,000	Joint liability	15/4/2005-14/4/2006	Yes	No
Beijing Hualian Commercial Building Joint Stock Company Limited	25/3/2005	200,000	Joint liability	28/3/2005-27/3/2006	Yes	No
Total actual guaranteed amount during the reporting period			475,000			
Total actual guaranteed balance at the end of the reporting period (A)			235,000			
Guarantees to controlled subsidiaries made by the Company						
Total actual guaranteed amount to controlled subsidiaries during the reporting period			80,000			
Total actual guaranteed balance to controlled subsidiaries at the end of the reporting period (B)			80,000			
Total guarantee made by the Company (including the guarantees to controlled subsidiaries)						
Total guaranteed amount (A+B)			315,000			
Proportion of total guaranteed amount to net assets of the Company (calculated according to PRC GAAP)			11.17%			
Of which:						
Guaranteed amount provided for shareholders, parties which have de facto control and other related parties (C)			0			
Guaranteed amount provided directly or indirectly to parties with gearing ratio exceeding 70% (D)			0			
Total guaranteed amount in excess of 50% of net assets value (E)			0			
Aggregate guaranteed amount of the above three items (C+D+E)			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.**

See paragraph 6, Chapter IX.

6. **Special commitments by the holder of originally non-floating shares during the process of Share Segregation Reform and the implementation**

Name of Shareholder	Special Commitments	Performance of Commitments
China Textile Machinery (Group) Company Limited	China Textile Machinery (Group) Company Limited, being the holder of the originally non-floating Shares, undertakes not to trade or transfer its floating Shares during the three years from the date on which its non-floating Shares are granted the right to list on the Shenzhen Stock Exchange. Within 2 years after the expiry of such period, the number of originally non-floating Shares to be sold through trading on the Shenzhen Stock Exchange shall not exceed 30% of the number of Shares held by it on the date of the implementation of the Share Segregation Reform Proposal, and the sale price will be no less than RMB7.00 per Share (subject to such adjustment as may be made in connection with declaration of dividend, distribution or re-allocation of capital reserve fund to share capital).	To be implemented
	In order to stabilize the prices of secondary market of A Shares and to ensure the controlling shareholder status of China Textile Machinery (Group) Company Limited, for a period of two months after the implementation of the Share Segregation Reform Proposal, China Textile Machinery (Group) Company Limited undertakes to either use no less than RMB30 million to increase its shareholdings through the secondary market of A Shares, or to acquire no less than 10 million floating A Shares. China Textile Machinery (Group) Company Limited further undertakes not to dispose of any of such Shares acquired in such connection within a period of six months after the implementation of plan to increase its shareholdings.	As of the 22 September 2006, China Textile Machinery (Group) Company Limited has increased its shareholdings of the Company by acquiring an aggregate of 8,615,248 Shares, representing approximately 1.43% of the total issued share capital of the Company through centralised bidding in the secondary market. The aggregate consideration of RMB30,017,756.73 was used to increase its shareholdings.

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

The Company's financial statements for 2006 were audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company, Certified Public Accountants registered in the PRC, and PricewaterhouseCoopers, Certified Public Accountants registered in Hong Kong, as being the PRC and international auditors respectively for the year. Details were as follows:

Accounting Firm	2006 Audit fee (RMB '000)	Year of audit
PricewaterhouseCoopers Zhong Tian CPAs Limited Company and PricewaterhouseCoopers	4,250	12

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 2006, the Group paid basic medical insurance coverage for its existing and retired staff, totaling RMB17,134,000. 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. Compliance of "Disclosure Guidelines of Fair Information of the Listed Companies on the Shenzhen Stock Exchange"

During the reporting period, the Company received the review and research by investors and investment institutions by the principles of openness, fairness and impartiality in strict accordance with the Disclosure Guidelines of Fair Information of the Listed Companies on the Shenzhen Stock Exchange. During the reception process, the Company did not disclose, release or divulge any undisclosed material information of the Company on any private, premature basis or selectively to any specific persons, and protect the impartiality of corporate information disclosure and legal interest of investors. During 2006, the Company cordially and regularly accepted investment funds and securities companies such as the Bosera Funds, CLSA Asia-Pacific Markets and Prime Capital Management Limited as well as individual investors along with various research and analysis or through site visits and phone calls, which focused on the Company's operation and strategic development.

12. The Audit Committee of the Board has reviewed the Group's results for the year ended 31st December 2006.**13. Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the Latest Practicable Date prior to the issue of the report, there was sufficient public float of shares.**