

## Significant Events

1. During the period under review, the Company had no significant litigation or arbitration.
2. At the eighteenth meeting of the third term of the Board of Directors of the Company held on 19th April 2002, a resolution was passed to authorize the management of the Company to withdraw in accordance with the relevant procedures all of the Company's investments in Guangzhou Yongda International Container Engineering Company Limited (the Company owned 35% of the issued shares), Contech International Container Engineering Company Limited (the Company owned 25% of the issued shares), Guangzhou Shipyard Machinery Equipment Engineering Co. Limited (the Company owned 10% of the issued shares), Guangzhou Jinfan Advertisement Decoration Company Limited (the Company owned 90% of the issued shares) and Dongguan Yuedong Industry & Commerce Development Company Limited (the Company owned 100% of the issued shares). During the period under review, apart from Guangzhou Shipyard Machinery Equipment Engineering Co. Limited in which the withdrawal of investment is still in progress, the withdrawal of investments in the other companies has already completed.
3. During the period under review, the connected transactions made between the Company and its associated companies and the enterprises under CSSC and the associated companies of the Group in respect of sales of goods amounted to RMB4,830,000 and in respect of purchases of materials and payment of labor expenses amounted to RMB161,022,000. All connected transactions were carried out in accordance with the ordinary terms of business agreement or (where there is no such agreement) on terms no less favorable than terms offered by third parties. The Group did not receive any extraordinary benefit or suffer any extraordinary loss on such transactions. Details of such transactions are set out in note 6 to the financial statements prepared under PRC Accounting Standards and Systems contained in this report.
4. During the period under review, the Company had not managed any trust, any contract or lease assets of other companies or other companies had not managed any trust, any contract or leased the assets of the Company, which occurred during the period under review or occurred before but continued to the period under review.
5. During the period under review, the Company did not provide any guarantee of a significant nature that occurred during the period under review or before but continued to the period under review.
6. As at 31st December 2002, the Company's trust deposits with non-banking financial institutions amounted a total to RMB446,008,000. Among these, the trust deposits at Guangzhou International Trust and Investment Company (GZITIC) at the end of the period amounted to RMB397,072,000 with accumulated special non-recovery provision of RMB325,374,800. The trust deposits at the end of the period at Guangzhou Economic and Technology Development Zone International Trust and Investment Company (GETDZITIC) amounted to RMB48,936,000 with full special non-recovery provision.

In addition, GZITIC announced their plan of debt reorganizing through trust on 27th December 2002. Though, the implementation of the plan needs several pre-conditions. The Company will make timely disclosure of the matters relating to the Company once the plan progressed to the implementation stage. Through conferring with GETDZITIC, the Company has received RMB1.22 million, which compensated and reduced the credit of the Company. Moreover, on 6th January 2003, People's Bank of China, Guangzhou Branch declared the closing down and starting the liquidation progress of GETDZITIC as from the day. The Company had submitted a declaration for its debts on 15th February 2003.

Apart from that, the trust deposits at Guangdong Overseas Chinese Trust and Investment Company ("GOCTIC") at the end of the period amounted to RMB8,090,000. Through consultation, GOCTIC and the Company reached meeting of minds that GOCTIC pay the Company RMB4,693,500 to compensate for its debts of trust deposits capital of RMB8,090,000 owned by the Company, and the Company cancels the balance after verification as bad debts.

Except of the above, the Company had not other significant trust that occurred during the period under review or before but continued to the period under review.

7. During the period under review, the Company or the shareholders who hold over 5% (including 5%) shares of the Company did not give any undertaking that might have a great impact on the business results or financial condition of the Company during the period under review or occurred before but continued to the period under review.
8. In accordance with the requirement of the Guangzhou Municipal Government, Kwangchow Shipyard Container Factory, an enterprise under the Company, and the Mechanical Engineering Division of the Company are required to reallocate for purposes of environment protection. The land use right of the two pieces of land occupied and located at Gexin Road in Guangzhou city will be reclaimed by the Guangzhou city government, and the government will in accordance with the relevant rules compensate the reallocation expenses. Therefore, the Company and Guangzhou Land Development Center entered into "Reallocation Compensation and Resettlement Contract" on 8th November 2002. Accordingly, the Company could get compensation of RMB197,330,000 after a successful auction of the land. The two pieces of land had been successfully sold by auction in December 2002, and the Company had received the first phase of the compensation income of RMB98,665,000 scheduled on 8th February 2003 (refer to Note to financial statement 5 (32) in Financial report). Moreover, according to the terms of the contract, the Company's Mechanical Engineering Division and Kwangchow Shipyard Container Factory of the Company will complete the relocation and surrender the land before 18th June 2003 and 18th December 2003 respectively.
9. The Company had obtained Nanhai Mechanical Factory, a piece of 20,000 square meter manufacturing plant area with related facilities located in Yanbu town, Foshan City, Guangdong Province for RMB12,500,000 through participating in the auction on 19th December 2002. The Group planned to invest in early 2003 an additional amount of RMB5,400,000 for renovation of the plant to make it a new manufacturing place for Mechanical Engineering Division of the Company. Besides, for the better development of the Company's electro mechanical business, the Company has decided to set up Nanhai Electro Mechanical Company through reorganization after the reallocation of the Mechanical Engineering Division.
10. Guangzhou People's Municipal Government ("the Government") has issued the "Provisional Rules of Basic Medical Insurance for Employee in Guangzhou" (hereinafter referred to "the Rules") on 1st December 2001 and stipulated that all enterprises, institutions, government bodies, private enterprises in Guangzhou City and their employees and retired employees are obliged to participate in the basic medical insurance administered by Guangzhou Labor Protection Administration, which is a department under the Government.

## Significant Events

The Company should undertake such medical insurance premium payments for all its existing employees and retired employees. In accordance with the Rules, the Company should pay its employees the medical insurance monthly according to 8% of the society average wages in Guangzhou City, and pay the retired employees the transition medical insurance only one time according to 75% of the society average wages in Guangzhou City. For the existing employees whose payment years was expected less than 10 years, the Company should made up the deficiency of payment whose payment years less than 10 years of the transition medical insurance according to 7.5% of the society average wages in Guangzhou City of the year they will retire and the years they worked for the Company. As to the payment for the retired employees and employees who will retiring within 10 year, enterprises could pay only one time or monthly within 10 years. With a view of the increase of the society average wages in Guangzhou City and the situation of the Company, the Company determined to pay them only one time. Apart from that, in accordance with requirements of related accounting principle, payment to be made by the Company in relation to medical insurance for past services of its retired and retiring employees should be recognized as expenses in 2002, the present value of the aggregate payments for such medical insurance is about RMB54,787,600, of which RMB36,587,600 is transition medical insurance for the retired employees (refer to Note to financial statement 5(12)(4) in PRC financial report).

After participating the medical insurance, the total amount of connected transaction related to the Comprehensive Services Contract between Guangzhou Shipyard and the Company would reduce accordingly, the details would be announced separately by the Company.

11. Because two RO/PAX ships for Sweden customer were firstly built domestically, their costs on design and manufacturing exceeded the previous expectation. The Company had forecasted this contract would probably record a loss (including financial impact of delay delivery) amounted to RMB261,887,800 in 2000 and made a provision for the loss in accordance with accounting principals in that year. As at 2001 annual report, the Company assumed the two ships would be delivered in the second quarter of 2002. However, due to the complexity of the manufacturing technique of this type of ships, the delivery of the ships has been delayed to 2003 and this caused the manufacturing costs to rise. It was expected that an additional loss of RMB33,048,000 would arise. In accordance with the accounting principles, the management of the Company has made a provision for the additional foreseeable loss with this contract in the period. As to the date of this annual report disclosed, the No. 1 RO/PAX ship has been completed and delivered, the No. 2 RO/PAX ship was expected to deliver at the end of August 2003 in accordance with the present situation. Through measuring and calculating, the provision of the contract is enough and no more additional provision is necessary to make.
12. According to the Housing Reform Policy of the Guangzhou Municipal Government, enterprises and government bodies are permitted to issue housing subsidy from year 2000 to staff who and whose spouse have not bought "Housing Reform Department". From the year 2001, the Company issued housing subsidy with reference to standards fixed by Guangzhou Government to the staff members who have applied for subsidy and their qualifications has been approved by relevant authorities in Guangzhou. The housing subsidy issued by the Company amounted to RMB2,372,000 during the period.
13. The re-appointment of Guangzhou Yangcheng Certified Public Accountants Company Limited ("YCPA") and PricewaterhouseCoopers as the Company's PRC auditors and international auditors respectively for 2002 was approved in the 2001 Annual General Meeting. Up till now, such accounting firms have been providing auditing services to the Company consecutively for ten years. Annual audit fee for 2001 of RMB400,000 and HK\$1,150,000 were paid to YCPA and PricewaterhouseCoopers respectively. In addition, HK\$250,000 and HK\$254,500 were paid to PricewaterhouseCoopers as review fee for interim financial statements for 2001 and 2002 respectively.