

SIGNIFICANT EVENTS

1. The Group's 51% holding subsidiary, United Steel Structure Company (the "Subsidiary") had produced some batches of steel structures ("Steel Structures") in the previous years for another shareholder, Havens Steel Company ("Havens") that holds 49% of the Subsidiary. As Havens applied for the protection from winding-up in the U.S. the Subsidiary has filed on 29th December 2004 in the U.S. District Court in the Western District of Missouri against St. Paul Fire & Marine Insurance Company, the guarantee Company to the Steel Structures for Havens, in order to recover the balance of the Steel Structures amounted to approximately USD1.2 million ("Balance"). The case is under going process in view of the above situation, the Group has made a 50% provision for the Balance in its financial accounts for year 2004.

According to the cognizance of litigation and the identical opinion among "Steel Structure", "Havens" and St. Paul Fire & Marine Insurance Company, "Havens" and St. Paul Fire & Marine Insurance Company promised to use the cash, dividend receivable from the Subsidiary, partial funds of transferring the interest in the Subsidiary to repay most of the balance amounting to USD1.09 million. Therefore, the Group adjusted the provision for the bad debt to 21% in financial accounts.

Due to the bankruptcy of Havens, the 49% share right of Havens in the Subsidiary would be listed as clearing asset. The Company is evaluating its influence on the normal production and operation of the Subsidiary. At present, the Subsidiary operates as normal and has not been influenced by the event.

Except for the above-mentioned, there is no other significant litigation or arbitration events to the Group during the period under review.

2. Since April 2000, the Company raised the litigation against Guangdong Changda Road-construction Company Limited ("Changda Company") for the overdue payment of the project of manufacturing, painting the steel box girder of Humen Bridge, and manufacturing the traveling crane. The Company received the judgment on August 22, 2003 by the Final Judgment forwarded by the Supreme Court of Guangdong Province, which demanded Changda Company to pay to the Company the liquidated damage and the interest in amount of RMB13.2320 million, which was received on September 24, 2003 and calculated into the current Profit & Loss of the Company. (Please refer to the item 3-2-3 of The Third Quarterly Report as at September 30, 2003 or item 1 of Significant Events in 2003 Annual Report). On July 22, 2004, the Company received the Civil Administration Procuratorial Register Decision from Procuratorate of Guangdong Province, which declared Changda Company did not give in to the judgment of the Supreme Court of Guangdong Province, and it has appealed to Procuratorate of Guangdong Province.

In January 2006, the Company received a note of hearing, which declared that Changda Company did not give in the judgment and applied for retrial. The Company will pay close attention to the matter, and will publish the information according with relevant rules of publishing.

SIGNIFICANT EVENTS

3. A debt restructuring agreement (“Agreement”) was entered into between the Company and GZITIC on January 31, 2005. Pursuant to the terms of the Agreement, GZITIC will procure transfer of certain unencumbered shops with an approximate area of 19,250 sq. meters located in Urumuqi (“Real Estate”) to the Company, in settlement of debts owing to the Company in the principal amount of RMB220 million and interest otherwise accrued thereon. As at December 31, 2005, the Company has obtained the entire ownership certificate to the Real Estate. However, as the developer had not yet paid the land grant fees in full, the Company did not obtain the land use right certificate of the Real Estate fully. The Company has issued a debts discharge confirmation letter to GZITIC on December 31, 2005 confirming that GZITIC has repaid trust deposits owing to the Company in the principal amount of RMB227,102,566.

A Framework Agreement was entered into between the Company and GZITIC on February 20, 2006, pursuant to which GZITIC will procure transfer of Compensatory Assets to the Company in settlement of debts owing to the Company in the principal amount of RMB169,923,134 and interest otherwise accrued thereon. The compensatory assets included: property in Hengyang City of Hunan Province, Shenzhen City, Guangzhou City and Heshan City of Guangdong Province, 108 golf membership cards and creditor's rights of RMB10.64 million in Hong Kong Guanghong Intl' Co., Ltd (the Company and Hong Kong Guanghong Intl' Co., Ltd. had come to an agreement for Guanghong Co. to settle the debts in the amount of RMB10.64 million with cash of RMB2,200,000, automobile and equity interest in other companies, GZITIC has agreed to assist in the implementation and completion of such assignment of creditor's rights). As at the date that this report disclosed, the Company has obtained part of the certifications of the real estates and cash. The debt restructuring will be finished once all the Compensatory Assets of GZITIC have been transferred to the Company, and all the trust deposit in GZITIC will be cancelled.

In view of the debt restructuring fact, as the Company has obtained Real Estate in Xinjiang and part cash, the ninth meeting of the fifth term of the Board of Directors approved the resolution on January 24, 2006 of canceling debt of RMB228,942,566 owed by GZITIC. Meanwhile, the Board appointed evaluating organizations at home and aboard to evaluate the assets which had been transferred or are on the way of been transferred to define the predicted net cash-exchange value, and transvaluated if the bad debt provision for the trust deposit in GZITIC was reasonable or suitable. The 9th and 10th meeting of the fifth term of the Board of Directors passed the resolution of writing back the bad debt provision in an amount of RMB36.17 million, which has been recorded in the profit and loss accounts for the year 2005.

4. As at December 31, 2005, the Company's trust deposits at Guangzhou Economic and Technology Development Zone International Trust and Investment Company ("GETDZITIC") amounted to RMB47.408 million. A full bad debt provision in respect of such deposit has been made in 2000. On January 6, 2003, People's Bank of China Guangzhou Branch announced to abolish GETDZITIC, which is on its procedure of liquidation. On March 16, 2004, the Company received the notice of Kai Guo Tou Che Zi (2004) No. 9 from liquidation team, which announced the work progress of liquidating to GETDZITIC, and in accordance with the liquidation situation, there is not any assets in GETDZITIC to repay, all debtees were faced with the situation of "zero repayment". The liquidation team of GETDZITIC issued on June 28, 2004 [2004] No. 11 Notice, which put forward a proposal of assigning the book creditor's rights of GETDZITIC to each creditor because most of the creditors did not agree to the scheme of "zero repayment", and sought opinions about the proposal from all creditors. The Company answered GETDZITIC on 15th July 2004 that the Company did not agree to the proposal, and requested for a bankruptcy liquidation.

The Company received the notice of Kai Guo Tou Che Zi (2006) No. 1 from liquidation team which declared that the balance of clearing property of GETDZITIC after paying the liquidation fees was not enough to pay off the taxation, and GETDZITIC had no clearing property to pay to the debtees. Whereas, the 10th meeting of the fifth term of the Board of Directors on March 10, 2006 approved the proposal of canceling this right after verification and the bad debt provision amounted to RMB47.408 million which will be recorded in the accounts of 2006.

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

5. 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.
6. During the period under review, the Company did not change its auditors. The Company appointed Guangdong Yangcheng Certified Accountants Company Limited and PricewaterhouseCoopers Certified Public Accountants as the domestic auditors and international auditors of the Company respectively, and their audit payment for the year 2005 amounted to RMB0.5 million and HKD1.67 million respectively. As at the end of the period, the two above-mentioned auditors have supplied audit service to the Company for 13 years.

The Company carried out the claims in the "Regulations on Changing the Onymous Certificate Accountant in Rotation in Securities and Futures Audit Business", and change the onymous certificate accountants of domestic audit report in periodic reports since 2004. The certificate accountants who signed on the domestic audit report in 2005 Annual Report are Mr. Chen Xiongyi and Mr. Xiemin.

SIGNIFICANT EVENTS

7. The Company received the notification of Zhen Jian Li Tong No. 001 on November 17, 2003, due to the alleged breaches to securities laws and regulations by the Company, the Company is currently being investigated by the Guangzhou Investigation Bureau of China Securities Regulatory Commission (the "GIB") in respect of certain issues in the previous announcement commencing on November 17, 2003. The matter has been published in "Shanghai Securities News", "Hong Kong Commercial Daily" and "China Daily" (overseas version) on November 17, 2003. As at the date of the disclosure of this annual report, the investigation has not any final conclusion.
8. The contents, amounts and pricing basis of connected transactions in 2005 (Unit: RMB)

No.	Content and category	Transaction amount in 2005	Proportion in the same type of transactions	Pricing basis
1	Total materials and labor services supplied to CSSC Group by the Company	22,574,229.93		
1.1	Steel, material and accessories	4,126,483.71	18.02%	Market price
1.2	Utilities	3,120,944.99	9.18%	Cost plus management fee of 25%
1.3	Labor services	15,326,801.23	15.52%	Not less than the price to the third parties
2	Total materials and labor services supplied to the Company by CSSC Group	230,005,256.75		
2.1	Steel, material and accessories	10,127,582.35	0.16%	Market price
2.2	Utilities	148,482,247.42	2.39%	Market price
2.3	Labor services	71,395,426.98	2.09%	Cost plus management fee of 10%
3	Total financial services supplied from CSSC Group			
3.1	Deposits	Balance: 928,326.17	0.14%	Interest rate on deposits published by the People's Bank of China
3.2	Interest from deposits	7,510.88	0.15%	
3.3	Loans			
3.4	Interest from loans			
4	Total guarantee fees for guarantee supplied to the Company from CSSC Group	1,100,000.00	44.01%	Agreed fee for providing guarantee from 0.2% to 0.5% of guaranteed amount
5	Total sales agency fees	29,108,240.46	43.60%	1% of contract price in accordance with international practice

SIGNIFICANT EVENTS

No.	Content and category	Transaction amount in 2005	Proportion in the same type of transactions	Pricing basis
6	Total purchases agency fees	3,383,435.20	0.05%	1% to 1.5% of contract price in accordance with international practice
6.1	Steel, metallic accessories	–		
6.2	Ship accessories	31,475.02		
6.3	Ship equipment	3,351,960.18		

The Group had since the H-shares of the Company were listed on the Stock Exchange engaged in various continuing connected transactions with the CSSC Group due to the nature of assembly building. The transactions of importing raw materials and equipment and handling export through subsidiaries of CSSC, purchasing electrical and mechanical equipment from manufacturers under the supervision of CSSC, provision of testing, design, management and subcontracting services by companies controlled by CSSC, and purchase of steel through the materials procurement department of CSSC pursuant to the State's steel allocation plan.

All the transactions processed by bidding or under the better prerequisites than that of independent third parties. Moreover, the Company makes clear the responsibilities and obligations of both parties. Therefore, the transactions did not make impact on independence of the Company, and nor led to dependence of the Company on any connected parties.

Matters in relation to connected transactions are set out in Connected Transactions of Report of the Board of Directors and in note (VI) to the financial statements prepared under PRC accounting standards contained in this report.

9. Due to the long-term unsuccessfully business development since the establishment of the subsidiary Xinhui City Nanyang Industrial Trading Development Co., Ltd ("Nanyang Company."), which was 70% controlled by the Company, the 21st meeting of the fourth term of the Board of Directors of the Company held on 23rd February 2005 determined to remise its interest in Nanyang Company.

An interest transferring agreement was entered into between the Company and an individual investor on February 25, 2005 under friendly negotiation. The transferring price is RMB13.52 million, which was calculated in the account on March 9, 2005. Now the transfer has been finished, and does not exert special influence on the operation, business results or financial condition of the Company.

SIGNIFICANT EVENTS

10. The fourth meeting of the fifth term of the Board of Directors held on October 10, 2005 passed the resolution of transferring 26% of the interest in Guangzhou Hongfan Information Technique Co., Ltd (77% controlled by the Company) to Information and technology Company Limited of CSSC (a connected party of the Company). For the development of shipbuilding informatization, approving Information and technology Company Limited of CSSC to be the shareholder will improve the reputation of Hongfan Information Technique Co., Ltd and strengthen the cooperation between two parties in marine material management, shipbuilding management, collectivization finance management and information security technology. The transferring agreement was signed on January 6, 2006. The transferring payment amounting to RMB1.59 million was received on January 24, 2006 and the gain or losses will be recognized in Profit and Loss Accounts of 2006. All four independent directors are of the opinion that the transferring agreement is fair and reasonable and in the interests of the independent directors shareholders. The correlated connected transaction information was published on Shanghai Securities News, Hong Kong Commercial Daily, and China Daily (overseas version) on January 9, 2006.
11. The fifth meeting of the fifth term of the Board of Directors held on October 26, 2005 approved the proposal of selling the property of the fourth and the fifth floor of the office building located in No. 126 in Gexin Lu of Haizhu District in Guangzhou City to Guangzhou Marine Engineering Corporation (a connected party with the Company) according to the evaluating price by professional evaluators. The sale above can reduce the daily management cost, and is advantageous to improving the occupancy efficiency and income. The transfer agreement was signed on January 13, 2006. The first transferring payment amounting to RMB2.79 million was received on March 1, 2006 and the gain or losses will be recognized in Profit and Loss Accounts of 2006. All four independent directors are of the opinion that the transferring agreement is fair and reasonable and in the interests of the independent directors shareholders. The correlated connected transaction information was published on Shanghai Securities News, Hong Kong Commercial Daily, and China Daily (overseas version) on January 9, 2006.

Except for the three cases above-mentioned, neither the Company nor its subsidiaries made any purchase, sale or redemption of the Company's securities during the period under review.

12. In accordance with the regulations issued by China Securities Regulatory Commission, the Company devoted itself in recovering the non-operating capital impropriation by the connected parties. As to December 31, 2005, the amount of non-operating capital impropriation with an amount of about RMB 60,000 had been discharged in full. The Company will strictly confirms to the "Notice Transmitted by the State Council about Improving Quality of Listing Companies from China Securities Regulatory Commission" (Guo Fa (2005) 34), and put an end to non-operation capital impropriation by controlling shareholder and connected parties,

SIGNIFICANT EVENTS

13. In order to improve the Competence and quality of the Company, the 11th meeting of the fifth term of the Board of Directors held on March 23, 2006 approved Glory Group Development Co., Ltd., a subsidiary of the Company to invest in Zhengjiang CSSC Equipment Co., Ltd. together with other entities in the CSSC Group on basis of over 10% yield, with the total investment not exceeding USD 2 million.
14. During the period under review, in accordance with the Measures Concerning Employee Medical Insurance, the Company joined the basic medical insurance that managed by Guangzhou Municipal Labor Protection Administration Department and bore insurance amounting to RMB10.68 million for its employees.
15. During the period under review, in accordance with the housing reform policy of Guangzhou City, the Company paid housing allowance amounted to RMB 14.08 million for the qualified staff.

Moreover, for the purpose of safeguarding legitimate rights and interests of retired employees and stabilizing the staff team, the Company approved the proposal of developing housing monetary allowances policy for retired employees in the seventh meeting of the fifth term of the Board of Directors dated on January 4, 2006. The policy is going to be started in 2006, and the total amount of the allowances is less than RMB24 million which would be paid within two years.

16. Pursuant to the item 39 of the "PRC Population and Family Planing Law" and relevant regulations of Guangdong Province and Guangzhou City, enterprises should pay preferential fee to retired employees who only have one child or no children. The tenth meeting of the fifth term of the Board of Directors of the Company held on March 10, 2006 approved to implement preferential retirement policy for eligible retirees. Payment to eligible retirees who retired before December 31, 2005, amounting to about RMB4.33 million will be drawn in one installment in 2005, and will be paid to eligible retirees in one installment in 2006. Payment to eligible retirees who retired after January 1, 2006, will be paid at their retire time in one or serial installments in accordance with the operating situation of the Company, and will be reflected in the financial statements of relevant financial years.
17. The Stock Exchange of Hong Kong Limited granted the Company a conditional waiver from the strict compliance with Rule 3.24 of the Listing Rules, according to which the Company must ensure that, at all times, it employs a qualified accountants on a full time basis. Pursuant to the waiver, the Company appointed Mr. Li Chi Sing, a practicing member of Hong Kong Institute of Certified Public Accountants on January 18, 2005 for the purpose of assisting the chief accountant of the Company in the discharge of the duties in the overseeing the Company's financial reporting procedures and internal controls.

SIGNIFICANT EVENTS

Mr. Li Chi Sing commenced work during the period under review. He reviewed the procedure for finance reporting and internal control of the Company, and confirmed that the connected transactions of the Company entered into during the period under review were within daily operations of the Company, were carried out in the ordinary course of business, were fair and reasonable to all shareholders, and accorded with the interest of the Company as a whole.

18. The fourth term of the Board of Directors expired during the period under review, and the 2004 Annual General Meeting ("AGM") of the Company, which was held on May 27, 2005, elected the fifth term of the Board of Directors. Moreover, the first extraordinary general meeting of 2005 of the Company held on 10th October 2005 approved the resignation of Mr. Hu Guoliang, the former chairman of the Company, as director and chairman of the Company due to his job relocation and elected Mr. Li Zhushi as director of the Company. At the meeting of the Board of Directors held on the same day, Mr. Li Zhushi was elected as chairman of the Company. Detail information is set out in "Information of Directors, Supervisors, Senior Management and Staff".
19. The Company had not managed any trust, any contract or leased assets of other companies or other companies had not managed any trust, any contract or leased assets of the Company, which occurred during the period under review or occurred before but continued to the period under review during the period under review.
20. During the period under review, the Company had not provided any significant guarantee.
21. The Company has received the "A Share Reform Action Lettle and Authority Letter" from the non-listed shareholder, CSSC, on February 28, 2006, which indicated the beginning of the A share reform of the Company. CSSC has appointed Shenyin & Wanguo Securities Co., Ltd. and Jun He Law Offices as the sponsor and lowyer respectively, and will pay relevant expenses to them for the reform.