

## SIGNIFICANT EVENTS

1. The agreement reached between United Steel Structures Limited ("United Steel", a subsidiary of the Company), Havens Steel Company ("Havens", the other shareholder of United Steel) and St. Paul Fire & Marine Insurance Company ("St. Paul", the guarantor of Havens) in relation to the payment for work done owing to United Steel by Havens has been approved by the U.S. District Court in the Western District of Missouri. During the period under review, the agreement has been implemented. In accordance with the agreement, United Steel has received partial cash payment and had applied the dividend otherwise payable to Havens to settle the debts owing to United Steel by Havens and St. Paul.
2. Refer to the case that the Company raised and recovered the litigation against Guangdong Changda Road-construction Company Limited ("Changda Company") for project overdue payment (details refer to "Significant Events" in the annual reports for the years of 2003, 2004 and 2005). 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. Supreme Court of Guangdong Province issued a "Notice of Rejection of Retrial Application" (2005) Yue Gao Fa Min-Shen Zi No. 31 stating that the retrial application of Changda Company was rejected as it did not comply with the conditions for retrial set out in the relevant laws and regulations. That was the final judgement.

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

3. The Company and CSSC entered into the second supplemental agreement to framework agreement for connected transactions on 26th October 2006 to increase the cap amount of fees for sales agency services for 2006 and to make certain administrative amendments to the framework agreement. Besides, the Company and CSSC entered into the framework agreement for continuing connected transactions for the years 2007 to 2009. Both of the above-mentioned agreements were approved at the first extraordinary general meeting of 2006.

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### 4. The contents, amounts and pricing basis of connected transactions in 2006 (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	17,852,458.85		
1.1	Steel, material and accessories	3,801,957.36	4.94%	Market price
1.2	Utilities	2,182,054.33	2.84%	Cost plus management fee of 25%
1.3	Labor services	11,868,447.16	15.43%	Not less than the price to the third parties
2	Total materials and labor services supplied to the Company by CSSC Group	263,370,314.98		
2.1	Steel, material and accessories	13,547,713.94	0.63%	Market price
2.2	Shipbuilding accessories and equipments for use on ships	149,466,936.17	7.02%	Market price
2.3	Labor services	100,355,664.87	9.22%	Cost plus management fee of 10%
3	Total financial services supplied from CSSC Group			
3.1	Deposits	458,194.93	0.01%	Interest rate on deposits published by the People's Bank of China
3.2	Interest from deposits	9,315.83	0.05%	
3.3	Loans			
3.4	Interest from loans			
4	Total guarantee fees for guarantee supplied to the Company from CSSC Group	1,794,887.33	43.50%	Agreed fee for providing guarantee from 0.2% to 0.5% of guaranteed amount
5	Total sales agency fees	48,111,095.9	43.23%	1% of contract price in accordance with international practice
6	Total purchases agency fees	4,148,596.19	2.1%	1% to 1.5% of contract price in accordance with international practice
6.1	Steel, metallic accessories	0		
6.2	Ship accessories	50,868.95		
6.3	Ship equipment	4,097,727.24		

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### The financing balance of the Company and CSSC and its subsidiaries during the year

Item	Unit: RMB	
	Closing balance	Opening balance
Other receivables	—	—
Accounts receivable	2,010,486.62	296,686.42
Advanced payment	106,211,159.01	23,634,446.68
Accounts payable	28,162,901.22	10,938,832.81
Other payables	1,120,449.73	17,072.00
Advances from customers	1,524,000.00	180,000.00

Since the H-shares of the Company were listed on the Stock Exchange the Group had engaged in various continuing connected transactions with the CSSC Group due to the nature of assembly shipbuilding. The transactions included 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 were processed by bidding or under better prerequisites for the Group than that of independent third parties. Moreover, the responsibilities and obligations of both parties are clearly set out in contract. 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.

- Pursuant to the approval of the fourth meeting of the fifth term of the Board, an interest transfer contract was entered into between the Company and China Shipbuilding IT Co. Ltd ("CSIT") on January 6, 2006, to transfer 26% of the interest in Guangzhou Hongfan Information Technology Co., Ltd, a subsidiary of the Company to CSIT. CSIT is a connected person of the Company as CSSC and its subsidiaries have 90.625% shareholding in CSIT. The consideration amounting to approximately RMB1.59 million, was received on January 24, 2006 and the gain has been recognized in Profit and Loss Accounts of 2006. Details refer to the announcement published on *Shanghai Securities News*, *Hong Kong Commercial Daily*, and *China Daily* (overseas version) on January 9, 2006.

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6. Pursuant to the approval of the fifth meeting of the fifth term of the Board, the Company entered into a real estate sale and purchase with connected party China State Shipbuilding Corporation No.605 Institute on January 13, 2006, for selling the fourth and the fifth floors of the office building located at No. 126 Gexin Lu of Haizhu District in Guangzhou City of the Company. The consideration amounting to RMB5.58 million was received and the gain has been recorded in Profit and Loss Accounts of 2006. Details refer to announcement published on *Shanghai Securities News*, *Hong Kong Commercial Daily*, and *China Daily* (overseas version) on January 16, 2006.
7. During the period under review, there was no non-operating capital of the Company impropriation by main shareholders or its subsidiaries. The Company 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.
8. Pursuant to the approval of the sixteenth meeting of the fifth term of the Board, the Company entered into a maximum amount guarantee contract for a maximum guarantee amount of RMB50 million with Bank of China, Zhujiang Branch during the period from December 2006 to January 2007, so as to guarantee working capital loan of United Steel Structure Limited, a 51% subsidiary of the Company. Details refer to announcement published on *Shanghai Securities News*, *Hong Kong Commercial Daily*, and *China Daily* (overseas version) on January 12, 2007. Apart from that, no significant external guarantees occurred during the period under review.
9. Pursuant to the approval of the fifteenth meeting of the fifth term of the Board, the Company has authorized Bank of China to buy Central Bank Notes. The investment is for the purpose of better usage of free capital, ensuring capital value maintenance and increment, to maximize shareholders' interest.
10. Pursuant to the debt restructuring agreement entered into between the Company and Guangzhou International Trust Investment Company ("GZITIC") on January 31, 2005, the Company has obtained the entire ownership certificate to the shops with an approximate area of 21,175 sq. meters located in Urumuqi ("Real Estate"). However, as at the date of this annual report, the developer of the Real Estate 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.

As at the end of the period under review, in accordance with the framework agreement for the debts restructuring entered into between the Company and GZITIC on February 20, 2006, the Company has obtained the building ownership certificates of certain shops and apartments located in Heshan City, Guangzhou City, Dongguang City and Shenzhen City of Guangdong Province and Hengyang City of Hunan Province with the total gross floor area of 14,546 sq.m., cash of RMB0.92 million, a car, golf membership cards, and ownership certificate of equity and creditor's rights in Guangzhou Jingxin Instruments and Electrical products Co, Ltd. For the other assets, ownership transfer of the 32 apartments in Shenzhen City of Guangdong Province are in process, while the creditor's rights in Hongkong Guanghong Intl' Co., Ltd. is in process of negotiation and performance.

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The Company has dealing with the received assets in accordance with market situation, part of them has been sold, which the rest are in process of negotiation for rent or sale as soon as possible.

11. The Company received Kai Guo Tou Che Zi (2006) Notice No. 1 from the liquidation team of Guangzhou Economic and Technology Development Zone International Trust and Investment Company ("GETDZITIC") in January 2006, which declared that the balance of property of GETDZITIC available for distribution after paying the liquidation fees was not enough to pay off outstanding taxes, and GETDZITIC had no property available for distribution to creditors. Consequently, the 10th meeting of the fifth term of the Board of Directors held 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. Such write-off has been finished during this period under review.
12. The fourteenth meeting of the fifth term of the Board of the Company held on August 17, 2006 approved an additional special bank loan with an aggregate amount of RMB3.2 billion for the purpose of hedging against exchange risk of RMB. The Company has obtained loans in the amount of USD212 million which was exchanged for RMB in 2006. Besides, the Company has obtained loans in the amount of USD33 million and exchanged such amount for RMB in January 2007. As at the date of this annual report, USD245 million in loans has been obtained and exchanged for RMB by the Company.
13. Implementation of the A share reform of the Company was completed on May 24, 2006 under approval of the A share Market general meetings. The only shareholder of non-tradable state-owned A-shares, made undertakings as follows:
  - (1) The non-tradable shares held by CSSC shall not be listed or traded on any stock exchange within 12 months (May 24, 2006 to May 23, 2007) from the date of implementation of the share reform plan.
  - (2) CSSC shall not trade in any A shares listed on any stock exchange within 24 months (May 24, 2007 to May 23, 2009) upon the expiry of the aforesaid 12-month period.
  - (3) In the event that CSSC disposes of any A Shares which represent 1% or more of the total number of shares of the Company, an announcement shall be made within two business days from the date on which such disposal occurs. However it shall not be necessary for CSSC to stop disposing of the relevant shares in the meantime.

Further, CSSC undertook to offer an additional 0.2 shares for every 10 shares (a total of 2,529,590 additional bonus shares on the basis of 126,479,500 tradable A shares in issue prior to the share reform) in the event that ① the total profits for 2007 increases by less than 100% compared to the total profits for 2005; or ② an annual audit report with "standard unqualified opinion" fails to be produced for either of the 2006 or 2007 financial years. Relevant lock-up arrangements have been made in respect of the additional bonus shares prior to implementation of the share reform plan.

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14. During the period under review, pursuant to the requirements of related department of the state, and with approval of the first extraordinary general meeting of 2006, the Company changed its domestic auditors from Guangdong Yangcheng Certified Accountants Co., Ltd. to Ascenda Certified Public Accountants, Limited (Beijing) for the year 2006. Guangdong Yangcheng Certified Accountants Co., Ltd confirmed to the Company that there were no matters that needed to be brought to the attention of the shareholders of the Company in respect of its retirement.
15. 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 this annual report, the investigation has not concluded.
16. In accordance with resolution of the eleventh meeting of the fifth term of the Board, Glory Group Development Co., Ltd, a subsidiary of the Company, entered into a joint venture agreement with parties (including connected persons of the Company) for the investment in Zhenjiang CSSC Equipment Company Limited on April 8, 2006. The investment amount contributed by the Glory Group Development Co., Ltd was equal to RMB16 million which shall be funded by the internal financial resource of the Group. The investment of the project has finished and put into production in December 2006. Details refer to the announcement of the Company on Shanghai Securities News, Hong Kong Commercial Daily, and China Daily (oversea versions) on April 11, 2006.
17. Pursuant to the resolution of the seventeenth meeting of the fifth term of the Board, the Company, as a strategy investor, purchased 10 million shares of initial public offer shares of Merchants Energy Transportation Co., Ltd. on November 23, 2006 with total investment of RMB37.1 million.
18. Pursuant to the approval of the first extraordinary general meeting of 2006, the Company purchased directors and officers liability insurance for the year 2007 for directors, supervisors and senior management of the Company. The insured amount is RMB50 million, while total expenses amounted to RMB189,800.
19. During the period under review, in accordance with the housing reform policy of Guangzhou City, the Company paid housing allowance amounting to RMB19.66 million for 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. The total amount of the allowances is less than RMB24 million and would be paid within two years. The Company implemented this policy and RMB23.39 million has been paid in 2006.

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20. Pursuant to the resolution of the tenth meeting of the fifth term of the Board and the item 39 of the "PRC Population and Family Planning Law" and relevant regulations of Guangdong Province and Guangzhou City, the Company should pay preferential fee to retired employees who only have one child or no child. During the period under review, the Company paid preferential fee amounting to RMB4.28 million to qualified retired employees.
21. During the period under review, in accordance with the Measures Concerning Employee Medical Insurance, the Company joined the basic medical insurance scheme managed by Guangzhou Municipal Labor Protection Administration Department and paid insurance amounting to RMB11.58 million for its employees.
22. 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 material 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.
23. New Corporate Income Tax Law ("New Tax Law") was passed by the National People's Congress on March 16, 2007. The Law will take effect on January 1, 2008. The New Tax Law provides that almost all enterprises established in the PRC shall be subject to a unified corporate income tax rate of 25 percent. This will have impact on the tax policies currently enjoyed by the Group. The Group will evaluate the financial impact of the New Tax Law after the detail implementation measures for the transitional periods and rules on the existing tax policies were announced.
24. 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 lease assets of the Company, which occurred during the period under review or occurred before but continued to the period under review.
25. The internal controlling information is set out in "Corporate Governance" of this annual report.