

# SIGNIFICANT EVENTS

## 1. Major Litigation

There was no major litigation in the reporting period.

## 2. Purchase and Disposal of Assets or Merger and Acquisition Activities During the Reporting Period

During the reporting period, there was no significant purchase and disposal of assets, or merger and acquisition activities occurred in the Company.

## 3. Significant Connected Transactions during the Reporting Period

### (1) Connected transaction concerning daily operations

There was no connected transaction concerning daily operations in the reporting period.

### (2) Capital being used at the end of the reporting period and the plan of repayment

Balance of Non-operational use of capital by large shareholder and its subsidiaries (RMB'0000)		Total repayment during the reporting period	Repayment method	Repayment amount (RMB'0000)	Repayment time (month)
As at the beginning of the year	As at the year end				
950	0	950	Pay in cash	950	10

Repayment information of Non-operational use of capital by large shareholder and its subsidiaries

### (3) Other connected transaction

During the reporting period, the Company and its connected party-Xi'an Jiaotong University (the controlling shareholder of the former largest shareholder of the Company-Xi'an Jiaotong University Industry (Group) Incorporation) invested together to Ruite National Fast Prototyping and Manufacturing Research Centre Company Limited ("Ruite"). The registered capital of Ruite is RMB60,000,000, of which, xi'an Jiaotong University invested RMB30,000,000, occupied 50% shareholding of Ruite. The Company invested RMB10,000,000, occupied 16.67% shareholding of Ruite. The payment of the registered capital was in cash.

## 4. Trust

During the reporting period, the Company did not enter into any trust arrangement.

## 5. Sub-contracting

During the reporting period, the Company did not enter into any sub-contracting arrangement.

## 6. Lease

During the reporting period, the Company did not enter into any lease arrangement.

## 7. Guarantee

During the reporting period, the Company did not enter into any guarantee arrangement.

## 8. Entrusted investment

- (1) There is no new entrusted investment for the year.
- (2) On February, 2004, an agreement for trusteeship of the management of investment in State Bonds was entered into the Company and Chinese Fortune Securities ("China Fortune") pursuant to which the Company entrusted China Fortune to conduct investment on State Bonds with RMB50,000,000 funded by internal sources. After inspection performed by the Group, it has been identified that China

Fortune fails to comply with agreement to invest in state bonds, but using the fund to invest in A shares and to incurred huge losses. On September, 2004, China Fortune was taken over by China Huarong Assets Management Corporation ("Chian Huarong"). The Group has announced the above incident in "China Securities Daily", "Shanghai Securities Daily", Hong Kong Wen Wei PO and "Chian Daily" on 2nd April, 2004, 10th June, 2004 and 22nd April, 2005.

In January, 2006, Capital Airport Group Company started the restructuring process of China fortune, for the period of 6 months. However, the process was failed after 6 months. On 3rd August, 2006, China Securities regulation Commission appointed Beijing Gao Peng Tianda Law Firm to establish an administrative liquidation working group for performing the liquidation work and registration of claims. On 3rd August, 2006, according to the China Fortune Securities is registration of claim, the administrative liquidation workshop made an announcement to the public. According to the announcement, Shanghai Securities Limited Company was formed in accordance with the law for China Fortune's debts registration. Registration time for debt started form 5th August, 2006 to 3rd November, 2006, for the period of 90 days. By 31st December, 2006, the liquidation process is continuous.

## 9. Other Significant Contracts

During this reporting period, the Company did not have any significant contract that was subject to disclosure.

# SIGNIFICANT EVENTS

## 10. Commitments by the Company and Shareholders Holding More Than 5% of Total Capital

- (1) Pursuant to the “Related Party Transaction and Prohibited for the Competition Agreement” signed by the Company and Jiaotong Group, Jiaotong Group had undertaken that it would not participate in any business or activities, which would compete against the Company either directly or indirectly. During the reporting period, Jiaotong Group had adhered to the agreement.
- (2) Shenyang Machien Tool (Group) Company Limited (“Shenyang (Group)”) became the largest shareholder from the share transfer date, 1st December, 2006.
  - (2).1 In the Acquisition Report to All Shareholders made by the Board of Directors of the Company which published on 10th March, 2006, Shenyang Group had undertaken that after the acquisition, it would hold the shares of the Company for at least five years. It would expend the Company business and would not involve in the business or products which detrimental the shareholders interest and the long-term development of the Company.
  - (2).2 In the Share Reform Proposal of the Company published on 10th November, 2006, Shenyang Group and Yunnan State-owned Assets Operation Company Limited had promised that:
    - a. the shares of the Company held by the above two shareholders would not be listed for trading from the listing date of circulating share to 31st December, 2010.
    - b. after completion of the Share Reform in one year, the above two shareholders would propose and consent to the proposal of transfer of capital reserves to new shares in the General Meeting for at least 5 shares would be allocated to shareholders for every 10 existing shares.
    - c. they would propose and content to the proposal of distribution of profit, not less than 50% of profits would be distributed in form of cash if the performance of the Company in 2006 or 2007 could meet the requirement of profit distribution.
    - d. Shenyang Group had undertaken that it would expend the Company business by offering support in terms of technical production, corporate management and resources expertise. It would combine its competitive advantage expertise and restructure the related resources based on the Company development principal and formula within two years after the share transfer and share reform. It would strive to improve the Company competence in the business operation and production development, to push the Company towards a continuing healthy development environment.

## 11. Appointment and Re-appointment of Auditors

During the reporting period, the Company did not change its auditors. It re-appointed Xian Xigema Certified Public Accountants Firm Ltd as the domestic auditors of the Company for the year 2006. It re-appointed Deloitte Touche Tohmatsu as the international auditors for the year 2006.

## 12. Penalties to the Company, the Board of Directors and its Directors and the Issue of Rectification

NIL

## 13. Other significant events

### (1) Share Reform during the reporting period

- (1).1 by 30th June, 2006, the repayment of non-operational usage of capital of the Company was finished and started off the share reform.
- (1).2 by 30th June, 2006, holders of non-circulating shares proposed a motion in relation to the share reform. The motion was proposed by two-third or above of total holders of non-circulating shares of the Company. Sponsor and legal consultant have been appointed to formulate the arrangement of share reform.
- (1).3 by 30th June, 2006, holders of non-circulating shares had not had the consistent agreement for the share reform.
- (1).4 the announcements on share reform were showed in the table below:

No.	Announcement	Date
1	Announcement on implementation of the revised share reform proposal	2007-03-02
2	Announcement on implementation of the proposal of increasing share with capital reserves	2007-02-05
3	Results of the relevant shareholders' meeting in relation to the share reform	2006-12-25
4	Announcement on the results of 2006 second EGM	2006-12-25
5	Legal opinions for the relevant shareholders' meeting in relation to the share reform	2006-12-25
6	Legal opinions for the second EGM 2006	2006-12-25
7	Indicative announcement on the share reform proposal approved by State-owned Assets Supervision and Administration Commission	2006-12-20
8	Second indicative announcement on notice of relevant shareholders meeting in relation to the Share Reform	2006-12-18
9	First indicative announcement on notice of relevant shareholders meeting in relation to the Share Reform	2006-12-11
10	Notice of investors' meeting through internet	2006-12-8
11	Supplementary notice of 2006 second EGM	2006-11-16
12	Report on recruiting voting rights	2006-11-16
13	Independent directors' independent opinion for revised share reform proposal	2006-11-16
14	Announcement on negotiation status of share reform proposal and revised share reform proposal	2006-11-16
15	Supplementary opinion in relation to share reform by the sponsor	2006-11-16
16	Supplementary legal opinion in relation to share reform by Legal Advisor	2006-11-16
17	Revised summary of share reform proposal	2006-11-16
18	Notice of relevant shareholders' meeting in relation to share reform	2006-11-16
19	Share reform instruction (revised)	2006-11-16
20	Sponsor's opinion in relation to the share reform	2006-11-7
21	Legal opinion in relation to the share reform	2006-11-7
22	Independent non-executive directors' independent opinion in relation to the share reform proposal	2006-11-7
23	Summary of share reform instruction	2006-11-7
24	Notice of EGM	2006-11-7
25	Share reform proposal	2006-11-7
26	Indicative announcement on share reform	2006-10-30

# SIGNIFICANT EVENTS

---

- (1).5 After 25th December, 2006, the company implement the proposal for increasing shares with capital reserve and the proposal for share reform.
- (2) According to the Document No.6 in 2005 issued by the Tax Policy Department, Ministry of Finance, the Land transfer would result in Land Appreciation Tax (LAT) of RMB10,984,000. During the reporting period, the actually LAT was RMB5,049,000 and this incurred the adjustment of an increase of deferred income of RMB5,237,000, an increase of profit of RMB698,000 for the current period, decrease LAT payable of RMB5,935,000.

## 14. Internal control System

The board of directors (the "Board") of the Company is responsible to the internal control system, and reviews its effect through Audit Committee in the reporting period. The Board insists to build up and improve the internal control system. Audit Committee, senior management and external auditors also devote to the improvement of the internal control of the Company. The Board understands that the stable, effective internal control system can ensure the Company to achieve its target. Details please refer to Corporate Governance in this report.

Other than that, the Company will provide reports and opinions to different-level management in regarding to the risk of internal control system incurred in different business process by the audit committee to ensure the management can master the monitoring results of the operation, and to improve the internal control system continuously.

- 15. The Annual Report Summary 2006 in Chinese and English was published in the "China Securities Daily", "Shanghai Securities Daily", "Wen Wei Po" and "The Standard" in Hong Kong on 19th April, 2007. The Annual Report of 2006 will be posted on the website <http://www.sse.com.cn> and <http://www.hkex.com.hk>, as required by CSRC and Hong Kong Stock Exchange respectively.