

Major Events

1. Material litigations and arbitrations

On 16 January 2001, the Company instituted legal proceedings in Sichuan Deyang Intermediate People's Court for loan disputes against Ruixin Industry Co. Ltd. and Deyang Insurance Co. Ltd. (the "Defendants"). The Company applied for an order against Ruixin Industry Co. Ltd. for immediate repayment of the principal of RMB9,400,000.00 and payment of an indemnity of RMB1,107,450.00 and an order against Deyang Insurance Co. Ltd. to bear the corresponding default and an order that all legal costs shall be borne by the Defendants. On 28 February 2001, Sichuan Deyang Intermediate People's Court issued the Civil Mediation (2001) De Jing Chu Zi No. 17 stating that Ruixin Industry Co. Ltd., Deyang Insurance Co. Ltd. and the Company had reached an agreement in the course of the proceedings as follows: Ruixin Industry Co. Ltd. shall forthwith repay RMB200,000.00 to the Company at the time the Civil Mediation became effective, and RMB2,800,000.00 and RMB6,400,000.00 of the balance by 25 April 2001 and 31 May 2001 respectively, with payment of indemnity of RMB20,000.00. Deyang Insurance Co. Ltd. bore one-third of the aforesaid debt owned by Ruixin Industry Co. Ltd.. The legal costs arising from the lawsuit which were amounted to RMB57,010.00 and other legal costs incurred which were amounted to RMB14,250.00, totalling RMB71,260.00 shall be paid by Ruixin Industry Co. Ltd. directly to the Company. Ruixin Industry Co. Ltd. had paid RMB200,000.00 to the Company at the time the Civil Mediation became effective.

2. The Company's distribution plan for the year: No final dividend to be declared for the year, no capital reserve to be transferred to increase share capital.
3. The Company's distribution plan for last year: No final dividend to be declared for the year, no capital reserve to be transferred to increase share capital.
4. During the reporting period, the Company had neither purchase nor acquisition.
5. During the year, none of the directors and senior management was penalised by any supervisory authority.
6. The change in the Board of Directors and change in the Company's General Manager is set out in the Report of the Board of Directors. There is no change of controlling shareholders during the year.
7. Major connected transactions

On 25 February 1994, the Company signed an agreement with DFEW to provide various service to each other after its restructuring. The agreement was effective on 1 January 1994. Under the agreement, fees payable by the Company to DFEW for the year ended 31 December 2000 amounted to RMB76,786,000. Income receivable from DFEW amounted to RMB6,707,000 .

In addition, for the year ended 31 December 2000, sales made on behalf of the Company handled by China Dongfang Electric Corporation, the superior administrative organisation of DFEW, amounted to RMB12,641,000.

Details are set out in the note 43, Connected parties and transactions, to financial Statements prepared under PRC GAAP.

8. The Company was relatively independent from its controlling shareholder, DFEW, in terms of personnel, asset integrity and finance.
 - (1) The Company was independent in terms of labour, personnel and salary management. The General Manager, Deputy Manager and senior management received remuneration from the Company and do not hold any positions in the holding company.
 - (2) The Company has independent production, sale and purchase system.
 - (3) The Company has independent financial and accounting department, independent accounting system and management system. The Company has independent accounts in the bank.
9. During the year, the Company re-appointed Pan China (Schinda) Certified Public Accountants of the PRC and Deloitte Touche Tohmatsu of Hong Kong as the statutory and international auditors of the Company respectively.
10. Guarantee

It was disclosed in the Company's 1999 Annual Report that the Company acted as guarantor of the two loans and their extensions of DFEW, the Company's controlling shareholder. The total amount of guarantee was RMB32,160,000. The guarantee was expired on 1st January 2001 and accordingly the two guarantees were released. In addition to the above, the Company did not provide any guarantee for DFEW.

11. During the year, the Company did not entrust, subcontract and lease any assets of other company. None of the Company's assets was entrusted or subcontracted by any other company. However, production sites over the Company's Factories were leased to Dongfang Boiler Group Co., Ltd. generating a net profit of RMB1,260,000 for the year.
12. According to the document issued by the PRC State Tax Bureau on 23 February 1994 (Guo Shui Han Fa (1994) No. 062), the income tax rate applicable to the Company is 15%. This policy has not been changed. The cancellation of tax refund concession by local government does not have any significant impact on the Company.

13. Entrusted deposit

The Company made detailed disclosure in the 1999 Annual Report. In order to cash the mortgage as soon as practical, the Company entered into "Agreement to handle the secured assets" with Qingdao Huangde Property Development Company Limited and Chongqing Stallion Real Estate Company Limited on 11 August 2000. The above three parties agree to sell Qingdao Huangde Coastal Garden, the mortgage to the Company in form of transferring share equity. Pursuant to the provisions of the above agreement, the Company recovered RMB8 million as the proceeds of selling the said property on 12 January 2001.

14. Unrecovery of overdue time deposit

The overdue deposit that China Hua Yang Lease Company Limited owed to the Company amounted to RMB25,900,000.00. The Company disclosed this matter in detail in the 1999 Annual Report. Details are also set out in the note 44, Contingent Events, to the financial statements prepared under PRC GAAP.

15. Staff quarters

The Company had disclosed in its 1997 and 1998 Annual Report the details with respect to the assignment of the title of staff quarters to its employees. During the year of 2000, the assignment of the title was completed. Accordingly, such staff quarters were written off from fixed assets. According to the results of the budget in respect of the project, the Company incurred an additional amount of investment of Rmb896,988.75. In accordance with the "Notice regarding the financial handling of corporate housing system reform Document No. (2000) 295 and "Supplemental Notice regarding the financial handling of corporate housing system reform" Document No. (2000) 878, issued by the Ministry of Finance, which allows the inclusion of effect of housing reform in the undistributed profits at the beginning of the year, the loss on transfer of staff quarters, amounting to RMB16,432,488.75 has been charged to undistributed profit at the beginning of 1999 in the financial statements prepared under PRC GAAP.

Under the HKGAAP, the loss on the transfer of such staff quarters was calculated to be RMB15,535,000, which represented the difference between the cost of staff quarters of RMB16,432,488.75 and the related accumulated depreciation of RMB896,988.75, and had been included in the financial statements of the Company prepared under HKGAAP for the year 2000 as administrative expenses. There was no further loss relating to the transfer of staff quarters save as disclosed above.

In the foreseeable future, the Company will not have any other staff housing reform scheme other than the above.

The accounting treatment in respect of loss on the transfer of staff quarters had been approved by the twelve session of the 3rd Board of Directors meeting and will be submitted for approval at the 2000 Annual General Meeting.

16. As at 31 December 2000, China Dongfang Power Plant Equipment Corporation Shenzhen Company owed the Company the amount of RMB7,480,000.00. In November 2000, the said company applied to Shenzhen Intermediate People's Court for bankruptcy and liquidation. Details are set out in the note 44, Contingent Event, to the financial statements prepared under PRC GAAP.