

6. IMPORTANT EVENTS

(1) Corporate Governance

The Company was strictly in compliance with the relevant requirements of modern corporate systems. During the reporting period, the Company progressively improved internal management pursuant to bylaws of the Company, made amendments to Work Rules for the Board of Directors' Meeting (董事會工作規則), determined Rules of Procedures for Annual General Meeting (股東大會議事規則) and Work System for Independent Directors (獨立董事工作制度). During the reporting period, Directors, Supervisor and members of senior management studied Notice of Modern Corporate System Inspection on Listed Companies issued by China Securities Regulatory Commission and State Economic and Trade Commission (中國證監會、國家經貿委關於開展上市公司建立現代企業制度檢查的通知). According to such Notice, the Company implemented an expensive and thorough self-inspection with respect to establishment of modern corporate systems and prepared a self-inspection report. Directors reviewed such report and submitted it to the relevant authorities.

(2) The interim appropriation plan of the Company: No distribution of interim dividend and no increase in share capital by converting from surplus reserve.

(3) Material litigation

The details of the legal proceedings between the Company, Ruixin Industry Co. Ltd. and Deyang Insurance Co. Ltd. and the reconciliation thereof had been disclosed in the Annual Reports for the years 2000 and 2001 and the 2001 interim report. There was no new progress regarding this litigation as at the date hereof.

(4) Acquisition and merger

The Acquisition of Deyang Dongfong Electrical Machinery Manufacturing Co. Ltd. by DFEM Power System Company Limited, a subsidiary of the Company by way of increase in capital was disclosed in the 2001 Annual Report. Currently, the first step of increase in capital was finished, the second step is in progress.

(5) Major connected transactions

On 25 February 1994, the Company signed an agreement with DFEW to provide various services to each other after its restructuring. The agreement was effective on 1 January 1994. Under the agreement, expenses payable by the Company to DFEW as at 30 June 2002 amounted to RMB22,636,000. Income receivable from DFEW amounted to RMB4,006,000.

For six months ended 30 June 2002, the Company bought raw materials from Dongfang Electrical Machinery Works and its subsidiaries in consideration of RMB 33,450,000. This transaction was reached according to market price.

During the period from January to June of 2002, sales revenue through China Dongfang Electric Corporation as agent amounted to RMB8,590,000.

The above connected transactions were done in the ordinary and usual course of business and are on normal commercial terms.

(6) Material contracts

1. Guarantee contracts

On 15 November 2001, the Company and Dongfang Steam Turbine Machinery Work entered into a cross-guarantee whereby both parties give each other a guarantee of RMB100 million for the period from 15 November 2001 to 14 November 2002.

As of 30 June 2002, the Company provided a counter-guarantee (U.S.\$ 166,863) for the guarantee undertaken by Shanxi Machinery and Equipment Import and Export Company with effect from the effective date of the guarantee and would elapse automatically upon the expiration of the guarantee.

2. Asset management

Upon approval by the Directors at the fourteenth session of the 3rd Board of Director's meeting, the Company entered into an asset management agreement with Hai Tong Securities Limited(海通證券有限公司) ("Hai Tong") in respect of investments in the sum of RMB40 million. The agreement stated that if the annual rate of return from investments is equal to or less than 6%, Hai Tong will not charge any management fee nor commission. If the annual rate of return from investments exceeds 6%, Hai Tong will charge 40% on that part of return exceeding 6% as management fee and commission. The term of the agreement is from 11 July 2001 to 10 July 2002. The sum of RMB42.537 million being combination of principal of the investment and return thereof had been recovered by the Company.

(7) During the reporting period (or in the previous period, but deferred to be executed in this period), the Company and shareholders holding 5% or more of the issued share capital of the Company did not disclose any matters of undertaking in the designated newspapers or websites.

(8) Appointment of accounting firm

On 27 May 2002, in order to enhance auditing efficiency and lower costs, the 2001 Annual General Meeting of the Company determined not to re-appoint Deloitte Touche Tohmatsu as the Hong Kong auditors and Pan China (Schinda) Certified Public Accountants as the PRC auditors, and appointed PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd. as international and the PRC auditors of the Company respectively for the year 2002.

- (9) At no time during the period did the Company make any arrangement to grant to the directors, supervisors and senior management of the Company nor their spouses and children under 18 years of age any rights to subscribe for the shares or debt securities of the Company or any other legal entities.**
- (10) As of 30 June 2002, the Company did not issue any convertible debentures, share options, warrants or similar entitlements in the reporting period.**
- (11) No repurchase, sale, redemption or cancellation of the listed securities of the Company was made by the Company during the reporting period.**
- (12) During the reporting period, none of the directors is aware of any information that would reasonably indicate that the Company is not, or was not at any time during the reporting period in compliance with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.**