

## 1. Litigations and arbitrations

- (1) During the reporting period, the Company was not involved in any litigation.**
- (2) The progress of the disclosed litigations reported in the previous years.**

Details of the litigation and mediation between the Company and Xichuan Ruixin Industry Co. Ltd. and China Life Insurance Company (Deyang Branch) for an aggregate sum of RMB10,507,450 had been fully disclosed in the annual report for the year 2000 and 2001. Since the date for the acceptance of the settlement agreement ended at 31 December 2001, and both the main debtor and the guarantor failed to perform their obligations in the said agreement, the Company through application had resumed the execution procedure in May 2002 with Chengdu Dai Yeng Real Estate Limited (成都大陽置業有限責任公司) being joined as a party to be enforced in the execution procedure. The execution procedure is in progress. As at 31 December 2002, Xichuan Ruixin Industry Co. Ltd. had already repaid RMB1,370,000 to the Company.

## 2. Material Arbitrations

Chongqing Stallion Estate Company (重慶黑馬物業有限公司) and Chongqing Tengyi Automobile Company (重慶騰意汽車有限公司) had due to the Company an aggregate principle sum of RMB52.47163 million. Chongqing Stallion Estate Company pledged the interest in some of the properties in Chongqing Hui Yuan Mansion (重慶匯源大廈) and the shares of Fu Rong Jiang Electric Station (芙蓉江電站) respectively for the aforesaid loan.

To minimize the risks, upon discussion, the Board resolved to take possession of the pledged properties in Hui Yuan Mansion (匯源大廈) through the arbitration procedure to set off the outstanding debt due to the Company by Chongqing Stallion Estate Company. Chongqing Stallion Estate Company agreed to use their existing assets to set off its outstanding debt and the outstanding debt of Chongqing Tengyi Automobile Company. Chongqing Hui Feng Assets Valuation Company Limited (重慶匯豐資產評估有限公司) valued those pledged properties at RMB44.1373 million as at 19th September 2002. According to the verdict by Chongqing Arbitration Committee, the pledged properties could set off debts amounting to RMB44 million. After the deduction of debts by the pledged properties in Hui Yuan Mansion (匯源大廈), Chongqing Stallion Estate Company owed the Company a principle sum of RMB8.47163 million.

## 3. Acquisition and merger

The acquisition of Deyang Dongfong Electrical Machinery Manufacturing Co. Ltd. by DFEM Power System Company Limited (東方電機動力設備有限公司), a subsidiary of the Company by way of increase in capital was disclosed in the 2001 Annual Report. During the reporting period, such acquisition was completed. The Company injected RMB9.40 million and fixed assets valued at RMB8.36 million into the capital of DFEM Power System Company Limited on two occasions raising its capital from RMB25 million to RMB42.75 million.

## 4. Material connected transactions

On 25 February 1994, the Company signed an agreement with DFEW to provide various services to each other after the 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 2002 amounted to RMB61,526,000. Income receivable from DFEW amounted to RMB10,084,000.

In addition, for the year ended 31 December 2002, sales made on behalf of the Company handled by China Dongfang Electric Corporation, the superior administrative organisation of DFEW, amounted to RMB27,947,000.

The above-connected transactions were necessary in the ordinary course of business and were carried out on normal business conditions.

## Major Events *(continued)*

### 5. Major guarantee

As at 31 December 2002, the Company provided a re-assurance in the sum of US\$166,863.075 for the performance guarantee taken out by Shanxi Machinery and Equipment Import and Export Company. The re-assurance was effective from the date of commencement of the performance guarantee and will automatically expire when the performance guarantee expires.

### 6. Asset management on trust

The Company contributed RMB40 million and entered into an agreement for asset management entrusted with Hai Tong Securities Limited. Details of this agreement were disclosed in the 2001 and 2002 annual reports. According to the agreement, the Company recovered the principle and its investment income amounting RMB42.537 million.

7. During the reporting period, the Company and shareholders holding more than 5% of the total issued share capital of the Company had not published any undertakings on designated newspapers and websites.

8. During the reporting period, the Company appointed PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd. and PricewaterhouseCoopers as the PRC and international auditors of the Company respectively. The total audit fee was RMB1.07 million.

9. Pursuant to Guo Shui Han Fa [1994] No. 062 Circular issued by State Taxation Bureau on 23 February 1994, the Company has been allowed to pay 15% of Enterprise Income Tax ("EIT") on taxable income of the Company since its incorporation. Such rate remains unchanged as to the date of this report.

10. According to Cai Shui [2002] No.145 Circular issued by Ministry of Finance, the Company was put on the list of companies, which were entitled to three-tier taxation policy of Sichuan Province between 2002 and the end of 2005 and subject to taxation benefits during the "Tenth Five Year Plan". According to such policy, value added tax paid by the Company in 2000 was set as a basis. 100 % of any value beyond such basis is returned to the Company. Since the Company is entitled to such benefit, the exceeding tax is returned by the relevant authorities under Ministry of Finance and State Taxation Bureau based on "first levied, later returned" basis. The actual amount of value added tax payable by the Company in 2002 is subject to the calculation of State Taxation Bureau.

