

Major Events

1. LITIGATIONS AND ARBITRATIONS

(1) MATERIAL LITIGATION AND ARBITRATION IN THE REPORTING PERIOD

The litigation amongst Chongqing Heima Real Estate Company (重慶黑馬物業有限公司), Chongqing Youji (Holdings) Corporation (重慶友基(集團)有限公司), Fuling Zhongshan Industrial Co., Ltd. (涪陵中山實業有限公司) and the Company, relates to an outstanding debt in the amount of RMB8,471,630. The Company has applied to the Deyang Arbitration Committee for arbitration pursuant to the Debt Confirmation Agreement signed on 31 March 2003. On 30 April 2003, Deyang Arbitration Committee ruled an award of arbitration (De Zhong Cai Zi 2003 No. 71), pursuant to which the respondents Chongqing Youji (Holdings) Corporation and Fuling Zhongshan Industrial Co., Ltd. shall undertake joint and several responsibility for joint repayment of the principal of RMB8,471,630 due to the Company. As the respondents failed to honour its repayment obligation under the award, the Company has filed an application to Chongqing the First Intermediate People's Court for enforcement thereof. On 7 November 2003, the application was accepted by the Court with a case number of (2003) Yu Yi Zhong Ta Zhi Zi No.917. As at 31 December 2003, the execution procedures were still in progress.

(2) THE PROGRESS OF THE DISCLOSED LITIGATIONS REPORTED IN THE PREVIOUS YEARS

Details of the litigation and mediation between the Company and Sichuan Ruixin Industry Co. Ltd. and China Life Insurance Company (Deyang Branch) had been fully disclosed in the annual report for the years 2000, 2001 and 2002. As at 31 December 2003, Sichuan Ruixin Industry Co. Ltd. has repaid the Company an amount of RMB1,370,000, with RMB9,137,450 remained outstanding. On 3 November 2003, the Company entered into an agreement with Chengdu Tai Yeng Real Estate Limited ("Tai Yeng", a party on which judgment would be enforced), pursuant to which Tai Yeng shall repay the Company RMB1,000,000 upon signing of the agreement, and the balance shall be repaid by transferring certain real estate owned by Tai Yeng to the Company. On 4 November 2003, Sichuan Deyang Intermediate People's Court ruled a civil award ((2002) De Fa Zhi Zi No.94-3) for confirmation of the aforesaid arrangement. As at 31 December 2003, Tai Yeng had already repaid the Company an amount of RMB1,000,000 in accordance with the award. Currently, the procedures for assignment of the real estate are in progress.

2. THERE WAS NO ACQUISITION AND MERGER DURING THE REPORTING PERIOD.

3. 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 lasting for 10 years. Under the agreement, fees payable by the Company to DFEW for the year ended 31 December 2003 amounted to RMB77,104,000. Income receivable from DFEW amounted to RMB19,125,000.

On 26 June 2003, the Company entered into the Agreement on Transferral of Land Use Right with DFEW, pursuant to which the Company shall pay RMB2,526,000 as the tranferral fee for land use right to DFEW as at 31 December 2003.

As at 31 December 2003, expenses payable to DFEW for raw material procurement and services amounted to RMB22,628,000, and expenses payable to Dongfang Electric Machinery Supplementary Equipment Company and Dongfang Electric Machinery General Equipment Company for raw material procurement amounted to RMB21,175,000 and 7,480,000 respectively. Pricing of such transactions was on the basis of market transaction price.

In addition, for the year ended 31 December 2003, sales made on behalf of the Company handled by China Dongfang Electric Corporation, the superior administrative organisation of DFEW, amounted to RMB35,513,000.

The above-connected transactions were conducted in the normal course of business and were carried out on normal commercial terms.

4. MATERIAL CONTRACT

(1) During the reporting period or any previous period which extends to the current reporting period, the Company did not manage any trust, any contract or lease assets of other companies and no other company managed any trust, any contract or leased the assets of the Company.

(2) During the reporting period or any previous period which extends to the current reporting period, the Company did not provide any guarantee of a significant nature.

During the reporting period, no guarantee was provided by the Company to any of its subsidiaries.

(3) During the reporting period or any previous period which extends to the current reporting period, the Company did not engage any other party for management of any significant cash assets.

5. 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.

6. In order to further improve auditing efficiency and cut down expenses, the Company resolved to cease to retain the services of PricewaterhouseCoopers Certified Public Accountants and PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd. at the 2002 Annual General Meeting on 19 May 2003. The Company resolved to engage Ho and Ho & Company, Certified Public Accountants and Shenzhen Pan-China Schinda, Certified Public Accountants as the international accountants and the PRC accountants of the Company respectively for 2003. The agreed auditing fees amounted to an aggregate of RMB970,000. Previously, Shenzhen Pan-China Schinda provided auditing services to the Company during 1995 to 2001 and in 2003. Ho and Ho & Company has been providing auditing services to the Company consecutively for one year.

7. Under the approval of Guo Shui Han Fa (1994) No.062 circular of State Administration of Taxation on 23 February 1994, the Company has been granted a preferential tax rate of 15% for income tax since its incorporation. The preferential policy has not been changed to date.

8. 成都證管辦 (Chengdu Securities Administration Office) of CSRC conducted tour inspections at the Company from 15 July to 18 July 2003. On 30 September 2003, the Company received a 《限期整改通知書》 ("Notice of Rectification with Time Limit"), the Cheng Zheng Ban Shang Shi (2003) No.42 circular issued by Chengdu Securities Administration Office, which identified the following problems: 1. the fact that Chairman of the Company was also the Head of DFEW, the controlling shareholder of the Company; 2. the principles adopted by the Company in income realization were inconsistent with the 《企業會計準則—建造合同》 ("Accounting Standards for Construction Agreements"); and 3. professional training for accounting personnel of the Company was required. The Board of Directors were highly concerned about the issues raised in the tour inspection an adhoc committee had been found to discuss and study the issues and to devise relevant measures to rectify the same. The same had been submitted to the seventh meeting of the fourth Board of Directors for discussion and approval. The measures for rectification and opinions of the Board of Directors were published in the Shanghai Security Daily and China Security Daily in the PRC on 7 November 2003 and in the Wen Wei Po and the Standard in Hong Kong on 11 November 2003.