

5. Major Events

(1) Corporate governance

During the reporting period, the Company continued to improve the establishment of a corporate governance structure, regulate the operation, strengthen information disclosure and improve the management of investor relations in strict compliance with the requirements of the Company Law, Securities Law, Corporate Governance Standards for Listed Companies and other relevant laws and regulations.

(2) **The profit appropriation plan for 2003 was reviewed and approved at the Company's 2003 Annual General Meeting: No distribution of dividend and no transfer to reserve. The interim appropriation plan for 2004: No distribution of interim dividend and no increase in share capital by converting from capital reserve.**

(3) **There was no material acquisition, sale or restructuring of assets carried out by the Company during the reporting period or carried out in the previous period and continued to the reporting period.**

(4) Material connected transactions

According to the service agreement signed between the Company and DFEW for the period from 2004 to 2006, fees payable by the Company to DFEW for the six months ended 30 June 2004 amounted to RMB49,482,000. Income receivable from DFEW amounted to RMB23,310,000.

During the six months ended 30 June 2004, the Company purchased raw materials from and received labour services provided by DFEW, 東電輔機公司、東電通用公司、東電金屬結構公司、東電絕緣材料公司. Fees payable by the Company were listed in the following table. Pricing of such transaction was based on the market price.

Company	Transaction	Amount (Unit: RMB'000)
DFEW	Receipt of labour services	2,474
東電輔機公司	Purchase of raw materials	22,365
東電通用公司	Purchase of raw materials	12,318
東電金屬結構公司	Purchase of raw materials	12,417
東電絕緣材料公司	Purchase of raw materials	12,476

During the period from January to June 2004, sales handled on behalf of the Company by China Dongfang Electric Corporation amounted to RMB772,000.

Such transactions were deemed necessary in the ordinary course of business and were carried out on normal commercial terms.

(5) Material contracts

1. There was no material custody, contracting or lease of the assets of another company carried out by the Company, or material custody, contracting or lease of the assets of the Company carried out by another company during the reporting period or carried out in the previous period and continued to the reporting period.
2. There was no material security contract entered into by the Company during the reporting period or entered into in the previous period and continued to the reporting period.
3. There was no material entrustment of another party with the management of cash assets by the Company during the reporting period or in the previous period and continued to the reporting period.

(6) There was no such undertaking made by the Company and its shareholders holding 5% or more of the issued share capital of the Company during the reporting period (or in the previous reporting period that extended to this reporting period) that would affect the Company's operation result or financial situations materially.

(7) Audit Committee

The Company's Board of Directors has set up an audit committee as required by Rule 3.21 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Audit Committee has reviewed the Company's unaudited interim results for 2004.

(8) During the reporting period, none of the directors was aware of any information that would reasonably indicate that the Company 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.

(9) During the reporting period, the Company adopted a code of conduct regarding securities transactions by its directors on terms no less exacting than the Model Code for Securities Transaction by Directors of Listed Companies set out in Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Having made specific enquiry with all directors of the Company, the Company learned that all of them complied with the said model code.

(10) During the reporting period, the Company appointed no fewer than three independent non-executive directors and at least one of them has the appropriate professional qualifications as required by Rule 3.10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(11) Special statement and independent opinion from independent directors on guarantee provided by the Company to outside parties and fulfillment of requirements set out in Circular No. 56 (2003) of CSRC

As the independent directors of Dongfang Electrical Machinery Company Limited, we would like to give the following statement and independent opinions, in accordance with "Notice Relating to Capital Flows between Listed Companies and Connected Parties and Certain Issues Relating to External Guarantees of Listed Companies" set out in Circular No. 56 (2003) of China Securities Regulatory Commission and the essence of "Notice Regarding the Compilation of Interim Report for 2004 of Listed Companies" issued by Shanghai Stock Exchange, after conducting an investigation into the matter and seeking advice from the Board of Directors, Supervisory Committee and managerial staff of the Company:

Other than provision of a loan amounting to RMB10,827,000 for Dong Le Heavy Piece Hoisting Company Limited, an associated company of the Company, cash flows between the Company and its related parties are of a recurring nature for purposes of daily sales and purchases and receipt of labour services. The Company did not directly or indirectly provide any funds for its related parties under the following circumstances:

- (1) Providing designated loans for related parties through banks or financial institutions;
- (2) Entrusting related parties to engage in investing activities on the Company's behalf;
- (3) Issuing commercial bills to related parties without actual transactions; and
- (4) Repaying loans on behalf of related parties.

During the reporting period, the Company did not provide any guarantee for its controlling shareholder and its respective subsidiaries, associated companies and related parties, or any non-corporations and individuals.

(12) Previously, revenue from contracts of complete set of hydro power generators of the Company can be realised on the balance sheet day on the percentage of completion method when over 70% of the project progress has been completed and outcome of the construction contract can be readily estimated. In the year 2003, the accounting policy has been changed so that revenue from contracts of complete set of hydro power generators of the Company can be realised on the balance sheet day on the percentage of completion method provided that materials have commenced to be input into hydro power generators and outcome of the construction contract can be readily estimated. Such changes have been adopted and the Company has made retrospective adjustment to items in connection with such changed accounting policy in the annual report for the year 2003. Accordingly, net profit for the period from January to June 2003 has been adjusted upward by RMB10,840,000.

(13) Directory of material information disclosure

1. On 22 March 2004, the Company issued an announcement on the resolutions passed at the eleventh meeting of the Fourth Session of the Board of Directors and an announcement on convening the Annual General Meeting 2003. The announcements were published in the Shanghai Securities Journal, the China Securities Journal, Wen Wei Po and The Standard.
2. On 30 March 2004, the Company issued an announcement on the signing of a contract for the supply of hydraulic power generator sets for the right coast of the Three Gorges Power Station. The announcement was published in the Shanghai Securities Journal, the China Securities Journal, Wen Wei Po and The Standard.
3. On 28 April 2004, the Company issued an announcement on the resolutions passed at the twelfth meeting of the Fourth Session of the Board of Directors. The announcement was published in the Shanghai Securities Journal, the China Securities Journal, Wen Wei Po and The Standard.
4. On 11 May 2004, the Company issued an announcement on the resolutions passed at the Annual General Meeting 2003. The announcement was published in the Shanghai Securities Journal, the China Securities Journal, Wen Wei Po and The Standard.