

6. SIGNIFICANT EVENTS

(1) Corporate Governance

As an listed company in Hong Kong and Shanghai, the Company had always closely complied with the requirements of the regulations of related laws of the two places and continuously to perfect its corporate governance structure; enhance corporate system construction; and standardize corporate operation. The Company had established strategic development committee, assets management committee, audit committee and various specialized committee accountable to the Board, and all members of these Committees are directors of the Company. For the audit committee, independent directors represented the majority of its members and was chaired by an independent director. During the reporting period, the Company had amended the Article of Association in respect of shareholders' meeting, independent directors, investor relation management etc. in accordance with the related requirements of China Securities Regulatory Committee and Stock Exchange of Hong Kong Limited. Accordingly, the level of corporate governance level had been further enhanced. Meanwhile, the Company had continuously strengthened its information disclosure and promoted investor relation management and had proactively organized result announcement briefings to tighten the communication between investor and the Company. In order to enable that information disclosure can be made in an open, fair and just manner, the Company had also strictly complied with regulations of information disclosure and thereby, enhancing transparency of the Company.

(2) Profit distribution plan implemented during the reporting period

The profit distribution plan of the Company in 2004 was to appropriate cash bonus of RMB1.20 (A Shares inclusive of tax) per 10 shares to all shareholders. That profit distribution plan was considered and passed in the Annual General Meeting of the Company held on 12 May 2005.

As at 3 June 2005, the Company had appropriated cash bonus after tax of RMB0.096 per share to the shareholder whose name were registered in the H Shares registrar of the Company on 11 April 2005 and circulated shareholders and legal shareholders whose name were registered in the A Shares registrar of the Company on 27 May 2005.

(3) There was no profit distribution as for interim of the Company, nor were there additional share capital converted from public reserve fund

(4) Material litigations and arbitrations

The Company had no material litigation and arbitration during the year.

(5) Acquisition and disposal of assets and acquisition and merger during the reporting period

There was no acquisition and disposal of assets or merger during the period.

(6) Material connected transactions during the reporting period

1. Material connected transactions of purchase of goods and receipt of service

Unit: RMB'000

Connected party	Connected transaction	Pricing principles	Price	Amount	Percentage in the amount of similar transactions (%)	Way of settlement	Impact on the Company's profit
Dongfang Electrical Machinery Works	Receipt of services including greening, environment protection, property, community and transportation	On market price basis	Market price	43,195	4.6	Settled by quarter and year	Beneficial for the Company's steady operation and cost reduction, which in line with the development strategies and sustainable growth of the Company.
Sichuan Dongfang Electric Machinery Supplementary Equipment Co., Ltd.	Purchase of relevant ancillary parts	On market price basis	Market price	1,809	0.2	As contracted	
Sichuan Dongfang Electric Machinery General Equipment Co., Ltd.	Purchase of relevant ancillary parts	On market price basis	Market price	16,984	1.8	As contracted	
Sichuan DFEM Metal Framework Accessory Co., Ltd.,	Purchase of relevant ancillary parts	On market price basis	Market price	6,921	0.7	As contracted	
Sichuan DFEM Insulating Material Co., Ltd.	Purchase of relevant ancillary parts	On market price basis	Market price	11,692	1.3	As contracted	

2. Material connected transactions of sales of goods and provision of services

Unit: RMB'000

Connected party	Connected transaction	Pricing principles	Price	Amount	Percentage in the amount of similar transactions (%)	Way of settlement	Impact on the Company's profit
China DFEM Corporation	Sales of products	On market price basis	Market price	12,110	1.0	As contracted	Slight impact
Dongfang Electrical Machinery Works	Provision of security, fire protection, filling and other relevant services	On market price basis	Market price	25,483	2.1	Settled by quarter and year	Beneficial for the Company's steady operation and cost reduction with slight impact on the profit

In accordance with the 2004-2006 "Service Agreement" entered between the Company and Dongfang Electrical Machinery Works. As for January to June 2005, the fee payables to Dongfang Electrical Machinery Works amounted to RMB42,052,000 and the fee receivables from Dongfang Electrical Machinery Works amounted to RMB25,483,000.

In accordance with the Supply Agreement of 2005 entered between the Company and Sichuan Dongfang Electric Machinery Supplementary Equipment Co., Ltd., Sichuan Dongfang Electric Machinery General Equipment Co., Ltd., Sichuan DFEM insulating material Co., Ltd. and Sichuan DFEM Metal Framework Accessory Co., Ltd., as for January to June 2005, the fee payables by the Company to the aforesaid four companies in respect of purchasing raw materials were as follows:

Unit: RMB'000

Unit	Amount
Sichuan Dongfang Electric Machinery Supplementary Equipment Co., Ltd.	1,809
Sichuan Dongfang Electric Machinery General Equipment Co., Ltd.	16,984
Sichuan DFEM Metal Framework Accessory Co., Ltd.,	6,921
Sichuan DFEM Insulating Material Co., Ltd.	11,692

As for January to June 2005, the sales revenue of China Dongfang Electric Corporation on behalf of the Company amounted to RMB12,110,000.

The aforesaid connected transaction was approved by the independent directors in the Annual General Meeting of the Company under the requirements governing the listing of securities of The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company had complied with relevant disclosure requirements of the Listing Rules.

3. Credit and indebtedness with connected parties

Unit: RMB'000

Connected party	Relationship	Provision of capital to the connected party			Provision of capital to the Company by the connected party	
		Amount	Balance	Fund	Amount	Balance
		incurred in the period		appropriation fee received	incurred in the period	
Dongle Heavy Piece Company	Associate	0	10,017	0	0	0
Total	—	0	10,017	—	0	0

During the reporting period, fund provided by the Company to its controlling shareholder and its subsidiaries was nil and the Company did not provide the balance of such funds to its controlling shareholder and its subsidiaries as at the end of the reporting period.

(7) Material contracts and implementation thereof

1. Entrusting

The Company had no entrusting during the year.

2. Contracting

The Company was not involved in any contracting activities during the year.

3. Leasing

The Company was not involved in any leasing activities during the year.

4. Guaranty

The Company was not involved in any guarantee during the year.

5. Asset management on trust

The Company was not involved in any asset management on trust during the year.

6. Other material contract

The Company entered into no other material contract during the year.

(8) Fulfilment of undertakings of the company or shareholders with 5% or more interest in the company

No undertaking of the Company or shareholders with 5% or more interest in the Company occurred in or subsisted to the reporting period.

(9) Appointment or termination of appointment of the auditors

There was no change in respect of the appointment of auditors of the Company.

(10) Punishment and reforms on the company, the Board of Directors and directors

During the reporting period, none of the Company, the Board of Directors and the directors was a subject of inspection, administrative punishment or criticism by CSRC or public censure by any securities exchange.

(11) Purchase, sales or redemption of shares

As at the end of the reporting period, the Company, its subsidiaries or entities collectively controlled by the Company did not purchase, sell or redeem any of the shares of the Company.

(12) Pre-emptive rights

There is no provision regarding pre-emptive rights in the Company's Articles of Association.

(13) Code on Corporate Governance Practice

During the reporting period as at 30 June 2005, the Company had always complied with the requirements of the Code on Corporate Governance Practices under Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong (the "Listing Rules"), except that the Company had not established Remuneration Committee in accordance with the requirements of the rule B.1.1. The Company will establish the Remuneration Committee as soon as possible in accordance with the rule B.1.1.

The Company has not yet appointed a qualified accountant in accordance with Rule 3.24 of the Listing Rules. The Company is actively recruiting an accountant with the required qualification as specified by Rule 3.24 of the Listing Rules.

(14) Model Code

During the reporting period, the Company had adopted a set of standard for the securities transactions of directors which was not lowered than the required standards of the Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 of Rules Governing the Listing of Securities in Hong Kong. Upon specified enquiry to all the directors of the Company, all directors have expressed that they have complied with the above Model Code.

(15) Audit Committee

The Board of the Company had set up an Audit Committee in accordance with the requirements of Rule 3.21 of Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong. The Audit Committee had reviewed the financial statement and interim result report as for the six months end 30 June 2005 of the Company.

(16) Other significant events

There were no other significant events during the reporting period.

(17) Disclosure of information

Items	Name and version of newspapers of publication	Date of publication	Website and searching path of publication
2004 Annual Report, announcement of resolutions passed at the Board, announcement of resolutions passed at the Supervisory Committee, announcement of on-going connected transactions, notice of 2004 shareholders' meeting		2005-03-22	
Announcement of resolutions passed at the Board, notice of 2005 extraordinary shareholders' meeting	China Securities Journal, Shanghai Securities News,	2005-04-12	
First Quarterly Report of 2005, announcement of resolutions passed at the Board, indicative announcement for improved results forecast	Wen Wei Po of Hong Kong, The Standard (English).	2005-04-28	http://www.see.com.cn
Clarification announcement		2005-04-29	
Announcement of resolutions passed at 2004 shareholders' meeting		2005-05-13	
Announcement of dividend declared for A Shares in 2004		2005-05-24	
Announcement of resolutions passed at 2005 extraordinary shareholders' meeting		2005-06-01	