

VI. SIGNIFICANT EVENTS

(I) Corporate Governance

Pursuant to Company Law, Securities Act, Governance Guidelines for Listed Companies and the relevant regulations of China Securities Regulatory Commission, Shanghai Stock Exchange and Hong Kong Stock Exchange, the Company actively perfect its corporate governance structure and standardize corporate operation. The Company has established Strategic Development Committee, Assets Management Committee, Audit and Review Committee and Remuneration Committee. The various specialized committee are accountable to the Board, and all members of these Committees are directors of the Company. For the Audit and Review Committee and Remuneration Committee, independent directors represented the majority of the members and the committees were chaired by independent directors. The Company has formulated a series of corporate governance systems including Articles of Association, the Rules of Procedures for Shareholders' General Meeting, the Rules of Procedures for the Board of Directors, the Rules of Procedures for the Supervisory Committee, the Rules of Procedures for the General Manager, the Rules of Procedures for independent non-executive directors and the terms of references for respective special committees.

(II) Profit distribution plan implemented during the reporting period

The profit distribution plan of the Company in 2005 was to appropriate cash bonus of RMB5.00 (A Shares inclusive of tax) per 10 shares to all its shareholders. The profit distribution plan was considered and passed in the Company's Annual General Meeting held on 15 June 2006. The Company has appropriated cash bonus to shareholders whose names were registered in the H Shares registrar of the Company on 15 May 2006 and shareholders whose names were registered in the A Shares registrar of the Company on 28 June 2006.

(III) The Company had no material litigation and arbitration during the reporting period.

(IV) There was no acquisition and disposal of assets or merger and acquisition during the reporting period.

(V) Material connected transactions during the reporting period

1. Connected transactions related to day-to-day operation

(1) Material connected transactions of purchase of goods and receipt of service

Unit: RMB'000

Name of connected party	Connected transaction	Pricing principle	Price	Amount	Percentage in the amount of similar transactions	Way of settlement	Impact on the Company's profit
					(%)		
Dongfang Electrical Machinery Works and its subsidiaries	Receipt of services	On market price basis	Market price	34,841	1.50	Settled by quarter and year	Beneficial to the Company's steady operation and
DFEM Metal Framework Accessory Co.	Purchase of relevant ancillary parts	On market price basis	Market price	25,260	1.09	As contracted	cost reduction, which was in line with the development
DFEM Insulating Material Co.	Purchase of relevant ancillary parts	On market price basis	Market price	13,568	0.58	As contracted	strategies and sustainable growth of the Company
Dongfang Electric Machinery Supplementary Equipment Co.	Purchase of relevant ancillary parts	On market price basis	Market price	22,951	0.99	As contracted	
Sichuan Dongfang Electric Machinery General Equipme Co.	Purchase of relevant ancillary parts	On market price basis	Market price	19,107	0.82	As contracted	

(2) Material connected transactions of sales of goods and provision of services

Unit: RMB'000

Name of connected party	Connected transaction	Pricing principle	Price	Amount	Percentage in the amount of similar transactions	Way of settlement	Impact on the Company's profit
					(%)		
Dongfang Electrical Machinery Works and its subsidiaries	Sales of raw materials and finished products, sales of power, provision of labour and others	On market price basis	Market price	22,672	1.10	Settled by quarter and year	Beneficial to the Company's steady operation and cost reduction
Dongfang Electric Corporation and its subsidiaries	Sales of products, provision of labour	On market price basis	Market price	215,795	10.72	As contracted	Beneficial to the Company's production and operation

2. Credit and indebtedness with connected parties

Unit: RMB'000

Name of connected party	Relationship	Provision of capital to the connected party	Provision of capital to the Company by the connected party		
		Amount incurred in the period	Balance	Amount incurred in the period	Balance
Dongle Heavy					
Piece Company	Associate	0	8,435	0	0
Total	/	0	8,435		

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.

(VI) For the reporting period, the Company had no entrusting, contracting, leasing, guarantee and asset management on trust.

(VII) Performance of undertakings

On 6 April 2006, the Share Segregation Reform Proposal was approved in the Shareholders' Meeting by way of poll and network voting, pursuant to which Holders of Non-circulating Shares would offer 2.7 shares to Holders of Circulating Shares of the Company for every 10 shares held by them as the arrangement of consideration. As such, a total of 16,200,000 shares would be offered by Holders of Non-circulating Shares to Holders of Circulating Shares. At present, the Share Reform Scheme has been implemented. Accordingly, the shareholding of Dongfang Electric Corporation, the Company's largest shareholder, decreased from 48.89% to 45.29% whilst the total issued share capital of the Company remained at 450,000,000 shares.

Special undertakings provided by the original holder of non-circulating shares of the Company during the course of Share Segregation Reform and its subsequent preformance

Name of shareholder	Special undertaking	Performance
Dongfang Electric Corporation	Dongfang Electric Corporation undertakes that, within twelve months from the date of implementation of the Share Segregation Reform, it will not trade on the Shanghai Stock Exchange or transfer its Non-circulating shares. Upon the expire of the aforesaid undertaking period, the Non-circulating shares of the Company will be traded on the Shanghai Stock Exchange, provided that the number of Non-circulating shares so traded shall not exceed 5% of the total issued share capital of the Company for twelve months of trading and not exceed 10% for twenty four months of trading respectively; and that the selling price of the shares shall not be lower than 150% of the closing price of the A Shares on the trading day immediately preceding the date of the announcement of segregation reform (namely RMB23.39 per A share). If there is any dividends distribution or allotment of shares and capitalization of capital reserve, which results in changes in shares or shareholding structure of the Company, such price will be calculated on an ex-rights basis .	The undertaking has been diligently performed and there has been no breach

(VIII) Appointment or termination of appointment of the auditors

During the reporting period, the Company changed its international auditors. Deloitte Touche Tohmatsu was appointed to replace ShineWing (HK) CPA Limited as the Company's international auditors. Deloitte Touche Tohmatsu is to continue as the Company's domestic auditors.

(IX) 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.

(X) Employees

As at 30 June 2006, the Company employed 7,004 staff. The Company adopted a remuneration system linked with performance and paid the employees in accordance with their performance.

(XI) 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.

(XII) Code on Corporate Governance Practice

During the reporting period, the Directors do not aware any information that is sufficient to reasonably reflect that the Company had not 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 at any time, except that the Company had not 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 to the Listing Rules.

(XIII) Compliance with Model Code

During the reporting period, the Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Companies in Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong. Having made specific enquiry to all directors of the Company, all directors confirmed they had complied with the requirements set out under the Model Code.

(XIV) Audit Committee

The Board of the Company had set up an Audit Committee in accordance with the requirements of Rule 3.21 to the Listing Rules. The Audit Committee had reviewed the financial statement and interim result announcement of the Company for the six months ended 30 June 2006.