

# **Notes to The Financial Statements**

*For the Year Ended 31 December 2000 (Prepared under PRC Accounting Principles)*

## **1. INTRODUCTION**

By the approval document Ti Gai Sheng (1992) No.67 of the State Commission for Restructuring and Guo Zi Qi Han Fa (1993) No. 100 of the State-owned Asset Administration Bureau ("SAAB") on 11 September 1992 and 31 August 1993 respectively, the Company was established as a joint stock limited company with Dongfang Electrical Machinery Works ("DFEW") acting as the sole promoter. The operating assets and relevant liabilities entrusted to DFEW by the State were injected into the Company in consideration for the share of the Company.

The Company was formally established as a wholly owned subsidiary of DFEW following the documentary approval Ti Gai Sheng (1993) No.214 of the State Commission for Restructuring dated 17 December 1993. The Company obtained its business license of number 20511548-5-1 on 28 December 1993. The principal activities of the Company include the manufacturing and selling of hydro turbine generator sets, steam turbine generators, A.C. and D.C. motors, controlling devices, general machinery and oxygen; improving capacity and equipment installation in the power station; exporting the Company's electrical and mechanical products, complete sets of equipment and related techniques; importing raw materials, machinery, equipment, accessories for production, research and development.

By approval document Ti Gai Sheng (1994) No.42 of the State Commission for Restructuring on 12 April 1994, the Company issued overseas listed foreign investment shares (H Shares) publicly in Hong Kong on 31 May 1994 and listed on the Stock Exchange Bureau of Hong Kong Limited on 6 June 1994. The Company issued domestic listed Renminbi ordinary shares (A Shares) publicly in the PRC and listed on the Shanghai Securities Exchange on 4 July 1995 and 10 October 1995 respectively.

The change in the registered capital was approved by the Administration Bureau for Industry and Commerce on 19 July 1995.

## **2. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATIONS OF THE COMPANY**

### **(1) Accounting system**

The Company and its subsidiaries implement the "Accounting Standards for Enterprises of the PRC" and "Accounting Policies for Joint Stock Limited Companies" and supplementary rules on accounting procedures for joint stock limited companies listed in Hong Kong issued by Ministry of Finance of the PRC.

### **(2) Fiscal Year**

The fiscal year is from 1 January to 31 December of each calendar year.

**(3) Bookkeeping currency**

The Company and its subsidiaries maintain their books and records in Renminbi.

**(4) Bookkeeping basis and computation principles**

Bookkeeping is on accrual basis and all assets are recorded at historical cost.

**(5) Foreign currency translation**

Transactions in foreign currencies during the year are translated into Renminbi at the medium market rates of exchange ("market rates") ruling on the first day of the respective month promulgated by the People's Bank of China. At the end of the month, monetary assets and liabilities denominated in foreign currencies are adjusted to translate into Renminbi at the market rates ruling on that date. Exchange differences arising therefrom are dealt with in the income statement for the year.

**(6) Determination for cash equivalent**

Cash equivalent is short term, current, easily converted into known amount of cash and low-risk investments held by the Company and its subsidiaries.

**(7) Computation for bad debts**

Any accounts receivables of the Company and its subsidiaries which are still unrecoverable after the liquidation of a debtor's assets at his bankruptcy or recovery of a debtor's heritage after his death, and those which are apparently unrecoverable after the debtor has failed to make repayment are confirmed as bad debts.

Bad debts are stated at provision. Accounts receivables of the Company and its subsidiaries were provide for bad debts based on the ages of the accounts at the year end according to financial position and cash flow of the debtors, which are dealt with in the income statement for the year.

Details of the provision for bad debts are shown as follows:

	Age Provision percentage
Within 1 year *	5%
1 to 2 years*	6%
2 to 3 years	7%
3 to 4 years	8%
4 to 5 years	10%
Over 5 years	30%

\* As agreed between the Company and its customers, products are sold with warranties of 1 to 2 years and therefore a certain percentage of the sales charges are not paid until the warranties are over. No provision for bad debts is stated by the Company to such charge receivable within 1 year or between 1 to 2 years.

The Company and its subsidiaries determine the provision for bad debts at 20% of the other receivable balance at the year end and dealt with in the income statement for the year. No provision for bad debts are stated by the company to interest income receivable from deposits.

Details of provision for bad debts are set out in Note 8.

#### **(8) Construction contracts**

The Company adopts the following calculation for construction contracts.

For a construction contract that contains several assets, and each asset has independent construction plan where the Company and the client can negotiate over each asset individually and the parties may accept or reject the terms of the contract relating to each asset, and the income and cost for each asset can be identified individually, each of the assets is treated as single contract. For a group of contracts regardless of single or multiple clients, where the group of contracts are signed as one and are closely related, and each contract is actually a component of a consolidated profit project and the group of contracts are performed simultaneously or respectively, the group of contract is combined and treated as a single contract.

Contract cost of the Company includes all the direct and indirect expenses incurred in relation with the performance of the contract during the period starting from the signing day of the contract and ending on the completion day of the contract.

The Company determines the completion progress of the construction contract based on the ratio of the contract cost actually accrued over the total projected cost of the contract.

When the result of the construction contract may be reliably estimated, the contract cost based on the result of the completion progress on the settling day of the construction contract is dealt with in the income statement for the year. When the result of the construction contract can not be reliably estimated, the contract cost is confirmed as expenses for the years it incurs. Where the total projected cost exceeds total projected income, the projected loss is promptly confirmed as expenses for the year.

Details of the construction contract are set out in Note 10.

#### **(9) Inventories**

The daily inventory transactions are accounted for using standard costs. Variance between standard cost and actual cost at the end of the month are allocated to the cost of inventories and cost of sales based on the proportion of incoming and outgoing of each category of inventories bringing the closing inventories to actual costs.

The daily raw material transactions are accumulated for using the method of Last In , First Out by Dongfang Electrical Machinery Large and Medium Electrical Machinery Company Limited, one of the two subsidiaries of the Company.

On settling date, the inventories are stated at the lower cost and net realizable value. Any inventory price loss is charged to the income statement for the year. Net realizable value is calculated based on anticipated sales proceeds obtainable under normal circumstances less any further costs to completion and estimated selling expenses.

Production cost includes direct materials, direct labor and manufacturing overhead.

Consumable stores are charged to the income statement when they are consumed

Details of inventories and provision for inventory price loss are set out in Note 11.

#### **(10) Computation of Short term investments**

Short term investments refer to investments of the Company and Subsidiaries, which are held for a period less than one year (including one year), and can be realized at any time. Short term investments are stated at the method of lower of the cost and the market price. At the year end, the Company and Subsidiaries provide for short term investment devaluation based on the difference between the total market price and total cost of the short term investment, which is dealt with in the profit and loss account for the current year.

Details of short term investments are set out in Note 6.

#### **(11) Long term investments**

A. The long term investments in equity of the Company are accounted for as follows:

Invested companies in which the Company holds less than 20% of the equity are stated at cost. Invested companies in which the Company holds more than 20% and less than 50% of the equity are stated at equity. Invested companies in which the Company holds more than 50% of the equity and invested companies in which the Company holds more than 20% and less than 50% of the equity but over which the Company has effective control are stated at equity and consolidated.

B. The Company's long term investments in bonds represent mainly interest free debentures issued by Southwest Electricity Administration of Ministry of Water Conservancy and Electricity. The investments are stated at cost.

C. For a recoverable amount of long term equity investment less than its book value due to the continuing drop of the market price or the adverse operation status of the invested company on the settling day, and the devaluation is not to be recorded in the foreseeable future, the Company provides for devaluation of long term investment based on the difference between the recoverable amount and the book value of the long term equity investment, and the projected loss on the long term investment is dealt with in the income statement for the year.

Details of long term investments are set out in Note 13.

## **(12) Fixed assets and depreciation**

Fixed assets referred to those tangible assets having a useful life over one year and a unit cost above RMB 2,000.00. Fixed assets are stated at cost. Fixed assets as at 1 April 1994 are stated at the higher of the carrying values or the valuations made by the asset valuer and confirmed by the SAAB. Depreciation is provided to write off the cost of each category of fixed assets, taking into account the estimated residual value of 3% of the asset value, over their estimated useful lives on a straight line basis at the following rates:

	Category	Annual rate Useful life of depreciation
Buildings		
Including:		
Buildings for production purposes	30	3.23%
Buildings not for production purposes	35	2.77%
Plant and machinery	9	10.78%
Equipment	6	16.17%
□ Motor vehicles	6	16.17%

As diminution value of fixed assets incurs due to the reasons including outdated technology, broken and slow moving on the settling day, the Company and its subsidiaries provide for devaluation of the individual fixed assets based on the difference between the recoverable amount and the book value of such fixed assets, and the projected loss is dealt with in the income statement for the year.

During the year, no devaluation of fixed assets was provided as the affairs of a recoverable amount of fixed assets less than its book value incurred..

Details of fixed assets and accumulated depreciation are set out in Note 14.

## **(13) Construction in progress**

Construction in progress is stated at cost. The Company costs for construction in progress include costs for building construction and installation, together with the loan interest expenditure and difference in foreign currency conversion in direct relation with the construction in progress, which prior to the delivery or completion of the asset, are stated at cost of the asset. Construction in progress will be transferred to fixed assets upon its usage.

On the settling day, diminution in value of construction in progress incurred due to the reasons of the three years' continuous adjourn, outdate capability and technology. The Company and its subsidiaries provides for devaluation of construction in progress on the difference between the recoverable amount and the book value, and the projected loss is dealt with in the income statement for the current year.

In accordance with a document of Cai Kuai Zi (2001) No.17 "Notice Regarding the Distribution of 'Implement of enterprise accounting regulations and rules relating to the connection between relevant policies'" issued by the Ministry of Finance, the Company has adopted retroactive adjustment due to the changed accounting policy and adjusted the beginning balance and the actual balance of the previous year in the 2000 consolidated financial statements. Effect of such adjustments on the consolidated financial status and operation results are set out in detail in Note 2(19).

Details of construction in progress are set out in Note 15.

#### **(14) Intangible asset and their amortization**

Intangible asset refers to the land use right of the land situated at No.13 of Huanghe Xi Road, Deyang entrusted to the Company's holding company, DFEW, free of charge. The land use right was injected into the Company at the valuation of 31 December 1993 as confirmed by the SAAB. The land use right is amortized for a term of 50 years with effect from 1 January 1994.

As diminution in value of intangible assets incurs due to the reasons including decline of market value on the settling day, the Company and its subsidiaries provides for devaluation of intangible assets based on the difference between the projected recoverable amount and the book value of such intangible assets, and the projected loss is dealt with in the income statement for the year.

During the year, no devaluation of intangible assets was provided as no affairs of a recoverable amount of intangible assets less than its book value incurred.

Details of intangible asset and their amortization are set out in Note 16.

#### **(15) Amortization of long term deferred expenses**

- A. According to the rules for the contract of collecting capital for using local natural gas, Natural gas charges represent a lump-sum payment amounting RMB 1,100,000.00 to Deyang Natural Gas Company of Sichuan for the right to use 10,000 cubic meter of natural gas daily, which is to be amortized in 10 years starting from 1 January 1993.
- B. Rental for Shanghai office represents a lump-sum payment amounting RMB 1,969,031.11 for the lease of Shanghai office of the Company. The lease has a term of 20 years and the rental payment is to be amortized in 20 years starting from 1 February 1997.
- C. Software expenses represent a lump-sum payment amount RMB 725,135.28 to the processing center for software expenses and are to be amortized in 5 years starting from 1 December 1999.

Details of amortization of long term deferred expense are set out in Note 17.

## **(16) Principles for revenue recognition**

### **A. Construction contracts**

A construction contract of the Company and its subsidiaries include the initial income as provided in the contract and other incomes as a result of change of the contract, claims, rewards and other adjustments.

When the result of the construction contract may be reliably estimated, that is the total contract cost can be reliably stated and the economic benefit relating to the contract can flow into the Company and its subsidiaries, where the completion progress and cost incurred in order to perform the contract can be reliably stated on the date of the balance sheet, contract cost incurred can be clearly differentiated and reliably stated and the actual contract cost can be compared with the previous projected cost, the contract income is confirmed on the date of balance sheet and stated at completion percentage. When the result of the constructed contract may not be reliably estimated, and the contract cost is recoverable, the contract income is confirmed at actual recoverable contract cost.

### **B. Sales of goods**

Sales of goods of the Company and its subsidiaries are completed upon the transfer of material risks and the remuneration in ownership to the buyer and that the Company and its subsidiaries no longer exercises management right and actual control over the goods and the economic benefit in respect of the transaction flows into the enterprise and any revenue and cost relating to the sales of the goods are reliably stated to confirm that the revenue from the sales of the goods is realized.

### **C. Service revenue**

Service revenue of the Company is confirmed when the labor service is completed and the economic benefit in respect of the service flows into the enterprise and when the revenue from the service is realized.

### **D. Price compensation**

The amount of price compensation, which the Company is entitled to receive for increases in the costs of production, can be ascertained with reasonable certainty only after approval by the relevant government department of State Price Control Bureau. Accordingly, price compensation is confirmed as revenue only upon receipt of approval by the relevant government department of State Price Control Bureau.

Details of revenue from principal operations are set out in Note 41.

## **(17) Enterprise income tax**

The Company and its subsidiaries are subject to the enterprise income tax.

Details of enterprise income tax are set out in Note 3 (2).

**(18) Basis on preparation of Consolidation of financial statements**

The Company's consolidated financial statements were prepared according to the document of Cai Kuai Zi(1995) No.11 "Notice Regarding the Distribution of 'Temporary Regulations on Consolidated financial statements'" issued by the Ministry of Finance, and combined the financial statements and all of relevant accounting material of the Company and consolidated subsidiaries.

The Company has adjusted and represented the consolidated financial statements of its subsidiaries in accordance with the "Accounting Standards For Enterprises" and "Accounting Regulation for Joint Stock Limited Companies" of the People's Republic of China based on their original individual financial statements, which have been prepared in conform with "Accounting Standards for Enterprises" and "Accounting Regulations for Industry Companies".

The consolidated income statement and profit distribution statement were prepared with the data of the transferred statutory surplus reserve and statutory welfare fund of the subsidiaries comparing to the investment revenue of the Company, which inflict to adjustment to the transformation of the statutory surplus reserve and statutory welfare fund for the Company during the year.

All significant inter-company transactions and balances between the group enterprises are eliminated on consolidation.

The amount of the minor equity is determined according to the shares of net assets occupied by the third parties in all subsidiaries. The amount of the minor interest is determined according to the distributed profit ( or the born loss) shared by the third parties in all subsidiaries.

**(19) Effect of the change in accounting policies**

As stated in Note 2(13), the Company and its subsidiaries have adopted the retroactive adjustment due to the changed accounting policy on provision for devaluation of construction in progress and adjusted the beginning balance and the actual balance of the previous year in 2000 consolidated financial statements.

The above change of accounting policies on provision for devaluation of construction in progress has effect on net profit and profit distribution as follows:



Item	before 1999	1999	2000
Increasing (decreasing) effect on net profit:			
— provision for devaluation for Construction in progress	RMB(4,157,503.00)		
Including: increasing (decreasing) effect on enterprise income tax			
Increasing (decreasing) effect on distribution of profit			
— transfer to statutory surplus reserve	415,750.30		
— transfer to statutory welfare fund	207,875.15		
Subtotal	623,625.45		
Total	RMB (3,533,877.55)		

### 3. TAXATION AND OTHERS

The Company and its subsidiaries are subject to the following tax:

#### (1) Turnover tax

Taxes	Tax items	Tax rate
Sales of goods and others	Value added tax	17%
Revenue of services	Sales tax	5%

Value added tax payable represents the net amount of output VAT less input VAT.

Urban development tax is charged at 7% on the aggregate of VAT payable and sales tax payable.

Education surcharge is charged at 3% on the aggregate of VAT payable and sales tax payable.

#### (2) Enterprise income tax

Name of company	Tax rate
The Comapny	15%
Dongfang Control Equipment Machinery Co., Ltd.	33%
Dongfang Large and medium Electrical Machinery Co., Ltd.	33%

According to the approval document Guo Shui Han Fa (1994) No.062 issued by the State Tax Bureau, the enterprise income rate applicable to the Company is 15%.

According to the Deyang People's Government letter De Fu (1997) No.71, Dongfang Large and Medium Electrical Machinery Co.,Ltd. Hereafter DFEM A.C & D.C. Co.,Ltd. and Dongfang Control Equipment Machinery Co.,Ltd. Hereafter DFEM Control CO.,Ltd will be enjoyed the policy of Enterprise income tax of four-year exemption from the first profit-marking year and a 50 percent reduction in enterprise income tax during the subsequent three years.

### (3) Real estate tax

Real estate tax is calculated at the rate of 1.2% on 70% of the cost of the real estate.

### (4) Land use tax

During the period between 1 Jan 2000 and 31 August 2000, Land use tax was calculated at the rate of RMB 0.30 per square metre of the land occupied. After the Land use tax was calculated at the rate of RMB 1.00 per square metre of the land occupied.

### (5) Personal income tax

Personal income tax is withheld and paid directly by the Company.

## 4. SUBSIDIARIES AND ASSOCIATES

### (1) Details of investments in which the Company holds more than 50% (including 50%) of the equity are shown as follows:

Name of company	Registered address representative	Date of establishments	Registered capital	% of Interest held	Principal activities	Corporate nature	Legal
DFEM Control Equipment Machinery Co., Ltd.	Deyang Jinghu Economy & Technology Development Zone	18 May 2000	RMB13,000,000.00	96.15%	Design, Production and Sale of Power generating equipment and A.C. and D.C. motors	Limited liability Company	Gong Dan
DFEM Large and Medium Electrical Machinery Co., Ltd	Loshan Road, Deyang, Sichuan, PRC	10 July 2000	RMB25,000,000.00	98%	Design, Production and Sale of Large and Medium A.C. and D.C. motors and Special motors	Limited liability Company	Cheng Teide

\* DFEM Control Equipment Machinery Co.,Ltd is a joint venture with limited liability established by the Company and Deyang Changsheng Supply and Marketing Company. Its actual capital was audited by Shinda Accounting Firm and recorded in Capital Verification Report of Shinda Yan Zi Bao (2000) No. 08.

- \* DFEM Large and Medium Electrical Machinery Co.,Ltd is a joint venture with limited liability established by the Company and Deyang Changsheng Supply and Marketing Company. Its actual capital was audited by Shinda Accounting Firm and recorded in Capital Verification Report of Shinda Yan Zi Bao (2000) No. 11.

**(2) Details of investments in which the Company holds less than 50% of the equity are shown as follows:**

Name of company Corporate address	Registered Dae of Legel establishments	Registered capital	% of Interest held	Principal activities nature representative
Leshan City Dongle 19 Ban San Jie, 8 August 1997 Handling, Limited Yi Nailong			RMB1,000,000.00	49%
Heavy Piece Leshan, Sichuan, Handling Company PRC Central			transportationliability and waehousing	Company

Le Shan City Dongle Heavy Piece Handling Company is a joint venture company with limited liability established by the Company and Le Shan City Chuanjiang Harbor Shipping Development Company. Its actual capital was audited by Le Shan Accounting Firm and recorded in Capital Verification Report of Le Kuai Shi (2001) No. 005. The Company was stated at equity for the year based on the 2000 financial statements of the Le Shan City Dongle Heavy Piece Handling Company audited by Le Shan Zheng Yuan Accounting Firm.

## **5. CASH AT BANKS AND IN HAND**

Details of cash at banks and in hand are as follows:

Item	1999.12.31 31 December 1999	2000.12.31 31 December 2000	RMB equivalent	Amount in original currency	Exchange rate	RMB equivalent
	Amount in orginal currency	Exchange rate				
Cash	RMB2,650.84	-	RMB2,650.84	RMB77,944.34	-	RMB77,944.34
Cash at Banks	USD 26,134,101.80	8.2793	216,371,624.54	USD 28,054,092.61	8.2781	232,234,584.13
	HKD 71.17	1.0478	74.57	HKD 72.26	1.0614	76.91
	RMB301,953,645.18	-	301,953,645.18	RMB417,993,340.61	-	417,993,340.61
				518,327,995.13		650,305,945.99
Other bank deposits	RMB53,724,767.67	-	53,724,767.67	RMB92,577,347.60	-	92,577,347.60
			RMB572,052,762.80			RMB742,883,293.59

## 6. Short term investments

Details of short term government bonds purchased by the Company are as follows:

	1999.12.31 31 December 1999	2000.12.31 31 December 2000				
	Investment amount	Provision for price drop	Market value	Investment amount	Provision for price drop	Market value
Investments in Debt Servilities	RMB10,000,000.00	RMB—	RMB10,052,028.00	RMB -	RMB -	RMB -
Investments in Stock	—	—	—	702,658.00*	-	910,560.00
	RMB10,000,000.00	RMB—	RMB10,052,028.00	RMB702,658.00	RMB -	RMB910,560.00

\* This is an underwrite A share of Baoshan Stee Company amounted to 168,100 shares from the internet. The setting-day is four months which is beginning from 23 Nov 2000.

## 7. Notes Payable

Details of notes payable are as follows:

	2000.12.31 31 December 2000				
Issuing unites	Issuing date	Due date	Amount	Remark	
Henan Anciai Group Chengdu Electron Glass Co., Ltd.	2000.08.18	2001.02.17	RMB500,000.00	Bank acceptance bill	
Zhangjiajie Maosheng Industry Co., Ltd.	2000.12.08	2001.06.08	3,000,000.00	Bank acceptance bill	
Gangjiang Zhangwen Means of Production Co., Ltd.	2000.11.01	2001.04.01	2,000,000.00	Bank acceptance bill	
Sichuan Mianzhu Hanwang HuangLin Co., Ltd.	2000.07.28	2001.01.27	1,400,000.00	Bank acceptance bill	
Sichuan Jinlu Resin Co., Ltd.	2000.12.20	2001.03.19	100,000.00	Bank acceptance bill	
Chongqing Electric Power Company	2000.10.26	2001.04.26	8,000,000.00	Bank acceptance bill	
Jiangsu Wuxi Wajin Machinery Company	2000.11.09	2001.05.07	508,000.00	Bank acceptance bill	
Panzhuhua Iron and Steel (Group) Corporation	2000.12.13	2001.06.12	1,900,000.00	Commercially acceptance bill	
			RMB17,408,000.00		

## 8. TRADE DEBTORS AND OTHER DEBTORS

### (1) Aging analysis of the group trade debtors are listed as follows:

	1999.12.31 31 December 1999			2000.12.31 31 December 2000		
	Amount	%	Provision for bad debts	Amount	%	Provision for bad debts
within 1 year	RMB445,434,483.73	56.65%	RMB17,061,143.96	RMB373,657,292.11	49.44%	RMB13,542,831.66
1 to 2 years	129,812,984.70	16.51%	7,808,648.44	155,730,869.35	20.60%	9,343,852.16
2 to 3 years	121,126,421.66	15.40%	8,478,849.52	86,281,205.92	11.42%	6,039,684.41
3 to 4 years	45,892,023.20	5.84%	3,671,361.86	77,846,425.30	10.30%	6,227,714.02
4 to 5 years	18,389,920.84	2.34%	1,838,992.08	24,506,023.20	3.24%	2,450,602.32
Over 5 years	25,652,601.54	3.26%	7,695,780.47	37,775,828.47	5.00%	11,332,748.54
	RMB786,308,435.67	100.00%	RMB46,554,776.33	RMB755,797,644.35	100.00%	RMB48,937,433.11

### Aging analysis of the company trade debtors are listed as follows:

	1999.12.31 31 December 1999			2000.12.31 31 December 2000		
	Amount	%	Provision for bad debts	Amount	%	Provision for bad debts
Within 1 year	RMB445,434,483.73	56.65%	RMB17,061,143.96	RMB378,081,809.21	49.73%	RMB13,764,057.50
1 to 2 years	129,812,984.70	16.51%	7,808,648.44	155,730,869.35	20.48%	9,343,852.16
2 to 3 years	121,126,421.66	15.40%	8,478,849.52	86,281,205.92	11.35%	6,039,684.41
3 to 4 years	45,892,023.20	5.84%	3,671,361.86	77,846,425.30	10.24%	6,227,714.02
4 to 5 years	18,389,920.84	2.34%	1,838,992.08	24,506,023.20	3.22%	2,450,602.32
Over 5 years	25,652,601.54	3.26%	7,695,780.47	37,775,828.47	4.98%	11,332,748.54
	RMB786,308,435.67	100.00%	RMB46,554,776.33	RMB760,222,161.45	100.00%	RMB49,158,658.95

### (2) The group's aging analysis of other debtors are listed as follows:

	1999.12.31 31 December 1999			2000.12.31 31 December 2000		
	Amount	%	Provision for bad debts	Amount	%	Provision for bad debts
Within 1 year	RMB44,717,417.35	23.65%	RMB8,943,483.47	RMB17,803,875.31	9.74%	RMB1,764,476.63
1 to 2 years	131,114,369.75	69.34%	26,222,873.95	4,778,958.06	2.62%	955,791.61
2 to 3 years	9,403,242.32	4.97%	1,880,648.46	3,826,089.46	2.09%	765,217.89
3 to 4 years	1,324,500.00	0.71%	264,900.00	8,596,879.61	4.70%	1,719,375.92
4 to 5 years	1,019,000.00	0.54%	203,800.00	145,519,171.67	79.64%	29,103,834.33
Over 5 years	1,498,055.59	0.79%	299,611.12	2,202,159.59	1.21%	440,431.92
	RMB189,076,585.01	100.00%	RMB37,815,317.00	RMB182,727,133.70	100.00%	RMB34,749,128.30

The company's aging analysis of other debtors are listed as follows:

	1999.12.31 31 December 1999			2000.12.31 31 December 2000		
	Amount	%	Provision for bad debts	Amount	%	Provision for bad debts
Within 1 year	RMB44,717,417.35	23.65%	RMB8,943,483.47	RMB16,564,923.62	9.13%	RMB1,516,686.29
1 to 2 years	131,114,369.75	69.34%	26,222,873.95	4,778,958.06	2.63%	955,791.61
2 to 3 years	9,403,242.32	4.97%	1,880,648.46	3,826,089.46	2.11%	765,217.89
3 to 4 years	1,324,500.00	0.71%	264,900.00	8,596,879.61	4.74%	1,719,375.92
4 to 5 years	1,019,000.00	0.54%	203,800.00	145,519,171.67	80.18%	29,103,834.33
Over 5 years	1,498,055.59	0.79%	299,611.12	2,202,159.59	1.21%	440,431.93
	RMB189,076,585.01	100.00%	RMB37,815,317.00	RMB181,488,182.01	100.00%	RMB34,501,337.97*

Therein RMB 8,981,492.16 of interest receivable for the time-deposit of the company had not accrued bad debts provision.

**(3) The group's trade debtors are analyzed as follows:**

	31 December 2000	Date of inception	Reasons
Amount due from related Parties	RMB92,836,707.81 *	1-5 年	應收貨款、價差收入、質量保證金
Import and Export company of mechanical equipment of Sichuen	RMB71,361,714.90	1-3 年	應收貨款、價差收入、質量保證金
The Upper Stream of Yellow River Hydroelectric Engineering Construction	RMB54,123,000.00	1-4 年	應收貨款、價差收入、質量保證金
Yunnan Electric Power Company	RMB42,000,000.00	1-2 年	應收貨款、價差收入、質量保證金
Sichuan Mingzhu Electric Power Stock Company	RMB27,640,000.00	1-2 年	應收貨款、價差收入、質量保證金
Sichuan Mahui Electric Power Stock Company	RMB26,625,000.00	1 年	應收貨款、質量保證金

The above are major items of trade debtors of the Company.

\* Details of amounts due from related parties are set out in Note 40(3)

**(4) The group's other debtors are analyzed as follows:**

	31 December 2000	Date of inception	Reasons
Chongqing Stallion Estate Company	RMB5,671,630.00 *	1998 年	Outstanding entrusted deposit
Chongqing Stallion Estate Company	RMB20,000,000.00 **	1998 年	Temporary advance
Chongqing Tangyi Automobile Company	RMB30,000,000.00 ***	1998 年	Temporary advance
Chongqing Yangguang Estate Company	RMB40,000,000.00 ****	1999 年	Temporary advance
China Huayang Finance Leasing Co., Ltd.	RMB25,900,000.00 *****	1999 年	Overdue deposit
Reserve Le Shan City Dongle Heavy	RMB25,765,055.70		Reserve borrowing by sub-plants and offices
Piece Handling Company	RMB12,000,000.00 *****	1999 年	Temporary advance

The above are major items of other debtors of the Company.

\* During the period from 10 January 1996 to 24 January 1997, the Company entered into seven deposit agreements (the "Deposit Agreements") with the Construction Bank of China, Chongqing Sub-Branch Luohuang Department ("Luohuang Department"). According to the terms of the Deposit Agreements, the Company would deposit with Luohuang Department totaling RMB 156,000,000.00 as a trust fund, which shall be directly remitted into the bank account of its designated fund user, the Chongqing Stallion Estate Company ("Stallion") (in an actual amount of RMB 127,965,430.00). Meanwhile the Company had obtained from Luohuang Department the fixed deposit slips with the same amount, RMB 156,000,000.00. As of 24 January 1998, the above trust fund became due and payable, however, the Company has not been able to recover the fund from the Luohuang Department.

The Company therefore instructed Guo Fang Law Firm of Beijing to commence civil proceedings to resolve the dispute arising from deposit receipts in the Chongqing City Higher People's Court against the Construction Bank of China, Chongqing Sub-branch (Luohuang Department is not qualified to be a party to the action, and therefore its senior level of organization is sued as defendant). The Company demands the defendant to repay the principal of RMB 156,000,000.00 and its interests and further bear the legal and related costs. On 14 April 1998, the Company received a notice from the Chongqing City Higher People's Court acknowledging its acceptance of the case and made the actual fund user, Stallion a third party of the case.

On 12 June 1998, Construction Bank of China, Chongqing Sub-branch, Stallion and the Company entered into a "Settlement Agreement" and a "Repayment Agreement" confirming that Stallion shall bear the responsibility for repayment and the ultimate risk, stated at the actual amount remitted with prevailing interest rate of banks (as of 31 May 1998). Stallion shall repay on installment to the Company RMB 141,471,630.00 and the last repayment

shall be made by 31 December 1998. Construction Bank of China, Chongqing Sub-branch shall bear the obligation of overseeing Stallion in its performance of the repayment agreement as agreed in the Agreement and assisting the Company in recovering gradually the above agreed amount from Stallion. On the same day, the Company withdrew the application from the Chongqing City Higher People's Court in accordance with the law and has been approved for the withdrawal by Civil Ruling No. (1998) Yu Gao Fa Jing Chu Zi 18.

Since the Company recovered RMB 101,000,000.00 of the above amount as scheduled with a balance of RMB 40,471,630.00 not yet recovered, the Company entered with Stallion into a mortgage contract ([Yu Fang 98] Mortgage No. 0217) and Change Agreement for the Mortgage Contract ([Yu Fang 98] Mortgage No. 0217 Attached No. [1]) for RMB 18,000,000.00 of its creditor's right on 17 June 1998 and 3 November 1999. Stallion would mortgage to the Company part of the estate Hui Yuan Building located in Chongqing City as a guarantee for its repayment of RMB 18,000,000.00. As of 31 December 2000 the above mortgage contracts had expired but the register to the Land and House Management Bureau is under process.

For RMB 22,471,630.00 and the interest at the prevailing rate of banks for the balance of the above amount from 1 June 1998 to the repayment date, the Company entered on 22 July 1998 and 28 July 1999 with Stallion and Qingdao Huangde Real Estate Development Co. Ltd ("Huangde", both are subsidiaries of Chongqing Youji Group) into a mortgage contract, where Huangde shall mortgage to the Company part of Huangde Beach Garden it owned as a guarantee for the repayment by Stallion of RMB 22,471,630.00.

\*\* On 11 August 1997, the Company entered into an agreement with Stallion for the purchase of a commercial property. According to that agreement, the Company would purchase level 1 to level 6 with an aggregate floor area of 6,000 square metre of the property currently under construction, Hui Yuan Building located at Chongqing City. The Company should pay to Stallion a purchase deposit of RMB 20,000,000.00 while Stallion agreed that the price of the property would not exceed RMB 4,000.00 per square meter and also committed that the title of the said property with satisfactory quality inspection would be passed to the Company no later than 31 May 1998. Failure to do so, Stallion should refund to the Company the purchase deposit of RMB 20,000,000.00 together with interest accrued thereon calculated at the prevailing interest rate of banks before 10 June 1998.

As of 31 May 1998, the Company had prepaid purchase deposit of RMB 20,000,000.00 however not been delivered the said property with satisfactory quality inspection. The Board of the Company resolved that no further formal sales and purchase contracts for commercial property shall be made with Stallion. Since Stallion failed to return the purchase deposit to the Company as scheduled, the two parties entered into "Refund Mortgage Agreement" and a mortgage contract ([Yu Fang 98] Mortgage No. 0299) and its Change Agreement ([Yu Fang 98] Mortgage No. 0299 Attached No. [1]) on 15 June 1998 and 3 November 1999 confirming that the purchase agreement for commercial property shall be dissolved voluntarily by the parties and Stallion shall refund the company the above purchase deposit together with interest accrued thereon calculated at the prevailing interest rate of banks by 31 October 1998, and Stallion shall voluntarily as an owner mortgage part



of its Hui Yuan Building located at Chongqing City to the Company as a guarantee for the its repayment of the above amount.

As of 31 December 2000 the above mortgage contracts had expired but the register to Land and House Management Bureau is under process.

\*\*\* On 16 October 1997, the Company entered into an agreement with Chongqing Tangyi Automobile Company ("Tangyi") for the purchase of a commercial property. According to that agreement, the Company would purchase level 1 to level 3 with an aggregate floor area of 15,000 square metre of the property currently under construction, namely "Tangyi Motor City" (named temporarily) located at Chongqing City Advanced Technology Development Zone. The Company should pay to Tangyi a purchase deposit of RMB 40,000,000.00 within 10 days from date of contract signing while Tangyi agreed that the price of the property would not exceed RMB 3,500.00 per square meter and also committed that the title of the said property with satisfactory quality inspection would be passed to the Company no later than 31 May 1998. Failure to do so, Tangyi should refund to the Company the purchase deposit together with interest accrued thereon calculated at the prevailing interest rate of banks before 10 June 1998. According to the instruction of Tangyi, the Company had paid the said deposit of RMB 40,000,000.00 directly to bank account of Stallion on 29 October 1997.

As of 31 May 1998, Tangyi had not delivered to the Company the said property with satisfactory quality inspection. The Board of the Company resolved that no further formal sales and purchase contracts for commercial property shall be made with Tangyi. Since Tangyi failed to return the purchase deposit to the Company as scheduled, the two parties and Stallion (Stallion and Tangyi are both subsidiaries of Chongqing Youji Group) entered into "Refund Mortgage Agreement" and a mortgage contract ([Yu Fang 98] Mortgage No. 0298) and its Change Agreement ([Yu Fang 98] Mortgage No. 0298 Attached No. [1]) on 15 June 1998 and 3 November 1999 confirming that the purchase agreement for commercial property shall be dissolved voluntarily by the parties and Tangyi shall refund the company the above purchase deposit together with interest accrued thereon calculated at the prevailing interest rate of banks by 31 October 1998, and Stallion shall voluntarily mortgage part of its Hui Yuan Building located at Chongqing City to the Company as a guarantee for the repayment of Tangyi for the above amount of RMB 15,000,000.00. As of 31 December 2000, the above mortgage contracts had expired but the register to Land and Housing Management Bureau is under process.

On 7 August 1998 and 6 August 1999, Tangyi, Chongqing Youji Group (parent company of Tangyi), Puling Zhongshan Estate Company ("Puling", this company and Tangyi are both subsidiaries of Chongqing Youji Group) entered with the Company into "Pledge Contract" where Chongqing Youji Group and Puling shall voluntarily pledge all the undisputed interests in Furongjiang Power Development Company to the Company as a guarantee for the repayment of Tangyi for the above RMB 15,000,000.00.

On 28 December 1998 and 5 December 2000, Tangyi, Chongqing Yangguang Estate Company ("Yangguang", this company and Tangyi are both subsidiaries of Chongqing Youji Group) entered with the Company into "Refund Mortgage Agreement" and a mortgage

contract ([Yu Fang 98] Mortgage No. 0526) and its change agreement([ Yu Fang 98] Mortgage No.0526 Attach No.[1]) where Yangguang shall voluntarily mortgage as an owner part of its Chongqing World Trade Center Building located at Chongqing City to the Company as a guarantee for the repayment of Tangyi for the above RMB 10,000,000.00.

\*\*\*\* To prevent the risk of mortgage devaluation thereby creating loss to the Company, Yangguang, Stallion entered with the Company on 17 June 1999 into an "Agreement on the Transfer of Creditor's Rights", where Stallion shall transfer to the Company its creditor's rights on Yangguang with no charges. On 22 September 1999, the three parties entered into an agreement where Yangguang shall sell to the Company in the form of buy-back after sales half a floor of each of floors from Floor 23 to 26 under construction and half a floor of each of floors from Floor 1 to Floor 4 (including floors in between) of Chongqing World Trade Center Building with an aggregate area of 5,838 square meters and a title valued RMB 30,000,000.00 as a guarantee for the repayment of Yangguang for its liabilities to the Company.

On 24 September 1999, Stallion, Yangguan entered with the company into an "Supplement Agreement on presale of the Chongqing World Trade Centre Building". According to the agreement, the mortgage guarantee of the repayment for the Stallion and the Tangyi will be changed separately from the original mortgage guarantee amount as (Dingdao huangde Beach Garden amounted to RMB 24,000,000.00; three parts of Huiyuan building totally amounted to RMB53,000,000.00; Furong Jiang Power Development Co.,Ltd amounted to RMB15,000,000.00 with stock in pledge; Chongqing World Trade Centre Building amounted to RMB10,000,000.00 to the reconstitute mortgage guarantee as following: (Dingdao huangde Beach Garden amounted to RMB 12,000,000.00; Huiyuan building totally amounted to RMB40,000,000.00; Furong Jiang Power Development Co.,Ltd amounted to RMB10,000,000.00 with stock in pledge; Chongqing World Trade Centre Building amounted to RMB10,000,000.00). The total discrepancy of two mortgage guarantee amounted to RMB30,000,000.00. That is a title value as repayment of yangguang with presale of half of each floor from No.23 to No.26 under construction and half of each floor of tower from No.1 to No.4 above the completed buildings (including interlayer) of Chongqing World Trade Centre Building. As of 31 December 2000, the above recognition mortgages' corresponding guarantee had not been modified for its register.

As Yangguang and Stallion have failed to assist the Company with the related pre-sales of the property, an obligation provided under the agreement, the Company filed a lawsuit at Chongqing First Middle Level People's Court on 31 October 1999. On 14 March 2000, Chongqing First Middle-level People's Court issued the (1999) Yu Yi Zhong Jing Chu Zi No.2915 Civil Judgement judging that the "Creditor's Right Transfer Agreement" and the "Agreement" signed between the Company and Yangguang, Stallion were valid and effective. Yangguang and Stallion shall, within five days after the judgement takes effect, mortgage to the Company their constructed half of each of Floor 1 to Floor 4 subtotalling 3,000 square meters, half of each of Floor 23 to Floor 26 under construction subtotalling 2,828 square meters, totaling 5,838 square meters (amounted to RMB 30,000,000.00) of the tower "Chongqing World Trade Center Building" facing Zou Rong Zhi Road located in Chongqing City.

On 25 April 2000, Tangyi, Yangguang Estate Company entered with the company into an Creditor Transfer Agreement. The agreement affirmed that part of the liability of Tangyi Company which mortgaged guarantee with Chongqing World Centre Building amounted to RMB10,000,000.00 will be transferred to Yangguan Estate company to perform the completed repayment responsibility.

On 11 August 2000, Stallion company, Huangde Estate company entered with the company into an "Agreement on disposal mortgage assets" about repayment with the gain from disposal of the mortgage assets. According to the agreement, three parts agreed to sell out Qingdao Huangde Beach Garden in term of transferring all the equity. The gain will repay to the company as no less than RMB8,000,000.00. If the difference between the pledge principle (RMB 12,000,000.00) and the interest is more than the earning from selling of Qingdao Huangde Beach Garden, the above disposal income of mortgage, including the shares of Huiyuan Building and Furong Electricity Development company, which would be compensated previously according to principle of that the negotiated adjustment was regulated among mortgages to approved valuation under the premise of invariable price, in recorded where the supplementary agreement of presale houses in the International Commercial Center Building of Chongqing.

As of 31 December 2000, Huangde Estate company has repaid the income from sold-out mortgage assets as the repayment for the above debts of Stallion Company correspondingly, which amounted to RMB4,800,000.00.

\*\*\*\*\* represents the savings of the Company at China Huayang Finance & Rent Co. Ltd. that are matured but not yet recovered. Details please refer to Note 44(2).

\*\*\*\*\* During the period between 17 September 1996 and 21 December 1998, the Company entered into 8 loan agreements with Le Shan City Chuanjiang Harbor Shipping Development Company in respect of prepayments, shipping charges and other payments at a total amount of RMB 12,000,000.00 for the purchase of Le Shan Heavy Piece Terminal 550/50/10T Crane by an associate of the Company, Le Shan Dongle Heavy Piece Handling Company and the accrued interest at the prevailing rate of banks.

On 9 April 1999, Le Shan City Chuanjiang Harbor Shipping Development Company, Le Shan Dongle Heavy Piece Handling Company and the Company entered into an "Agreement on the One-time Transfer of All the Loan Agreements in Respect of Le Shan Heavy Piece Terminal Crane Project" where all of the above loan of RMB 12,000,000.00 from the Company to Le Shan City Chuanjiang Harbor Shipping Development Company shall be changed to a loan from the Company to Le Shan Dongle Heavy Piece Handling Company and the ownership of the assets purchased with the loan shall be transferred to Le Shan Dongle Heavy Piece Handling Company.

## 9. PREPAYMENTS

### (1) Details of prepayments of the group are shown as follows:

	1999.12.31 31 December 1999		2000.12.31 31 December 2000	
	Amount	% of the account balance	Amount	% of the account balance
Within 1 year	RMB53,989,829.37	80.48%	RMB57,211,077.05	85.36%
1 - 2 years	10,973,672.52	16.35%	5,548,540.92	8.28%
2 - 3 years	3.16%	3,577,439.06	5.34%	
Over 3 years	4,652.06	0.01%	683,240.46	1.02%
	RMB67,085,327.21	100.00%	RMB67,020,297.49	100.00%

### (2) Principal prepayments are analyzed as follows:

	31 December 2000	Date of inception	Reason of borrowing
The R-R Company of UK	RMB8,308,145.53	2000.07	Material procurement
The Andrews Company of Austria	RMB7,421,485.39	2000.12	Material procurement
The GE Company of Canada	RMB6,540,000.00	2000.08	Material procurement
Wuyang Steel Plant	RMB5,562,436.00	2000.08	Material procurement
The ABB Company of Switzerland	RMB4,238,151.76	2000.08	Material procurement
China Electric Power Wuhan Company	RMB4,043,380.00	2000.07	Material procurement
Dongfang Insulation Company	RMB4,004,302.00	2000.01	Material procurement

## 10. OUTSTANDING PAYMENTS (PAYMENTS RECEIVED) ON COMPLETED (UNCOMPLETED) PROJECTS

The difference between the accrued costs incurred for the contract of the construction in progress and the confirmed amount that the gross profit is greater than the settled amount for the contract of the construction in progress is stated by the Company as a "completed but unsettled amount", a current asset in the balance sheet to reflect an account receivable of the Company from the client. The difference between the accrued costs incurred for the contract of the construction in progress and the confirmed amount that the gross profit is smaller than the settled amount for the contract of the construction in progress is stated by the Company as a "settled but uncompleted amount", a current liability in the balance sheet to reflect an unearned revenue of the Company which is to be repaid with service in the future.

Details of outstanding payments on completed projects and payments received on uncompleted projects are set out as follows:

	31 December 1999	31 December 2000
Accrued costs incurred	RMB230,429,028.50	RMB242,928,175.75
Accrued gross profit confirmed	22,025,616.85	37,503,069.88
Less: payment received	395,848,294.19	441,611,952.86
Outstanding payments (payments received) on completed (uncompleted) projects	RMB(143,393,648.84)	RMB(161,180,707.23)
Total amount for the construction contracts	RMB922,721,060.00	RMB550,668,680.00
	USD104,840,297.00	USD6,808,165.00

## 11. INVENTORIES AND PROVISIONS FOR DIMINUTION IN VALUE OF INVENTORIES

Inventories and provisions for diminution in value of inventories are listed as follows:

	1999.12.31 31 December 1999		2000.12.31 31 December 2000	
	Amount	Provision for diminution in value of inventories	Amount	Provision for diminution in value of inventories
Raw Material	RMB149,527,475.57	RMB —	RMB107,551,394.97	RMB484,150.00
Material in Transit	4,956,365.72	—	706,841.07	—
Consumables	1,916,093.30	—	1,678,647.72	—
Subcontracting Materials	1,242,902.72	—	844,724.05	—
Spare parts	4,930,771.43	—	4,767,349.01	—
Work in progress	97,883,131.57	—	89,298,962.52	—
Finished products	29,225,439.64	3,560,851.48	42,508,092.77	6,001,514.16
	RMB289,682,179.95	RMB3,560,851.48	RMB247,356,012.11	RMB6,485,664.16

Provisions for diminution in value of inventories are based on the lower of the book cost of the finished products as at 31 December 2000 and the net realisable net value.

## 12. DEFERRED EXPENSES

Deferred expenses are shown in detail as follows:

	1 January 2000	Increase this year	Amortization this year	31 December 2000
Charges for moulds	RMB2,425,396.52	RMB2,357,338.73	RMB4,008,451.48	RMB774,283.77

## 13. LONG TERM INVESTMENTS

(1) Long term investments are listed in detail as follows:

Item	1 January 2000	Increase this year	Decrease this year	31 December 2000
Long term investment in equity	RMB810,577.90	RMB—	RMB—	RMB810,577.90
including: Share investment	44,263.24	—	—	44,263.24
Other equity investment	766,314.66	—	—	766,314.66
Long term investment in bonus	54,698.75	67,180.75		121,879.50
	RMB865,276.65	RMB67,180.75	RMB—	RMB932,457.40

(2) Share investments are listed in detail as follows:

2000.12.31 31 December 2000		Quantity of shares	Ratio against the invested	Investment amount	Provision deraluation	Total market value
Invested Company	Category					
Chengdu Shudu Mansion Co. Ltd.	A shares	38,044 share	0.02%	RMB44,263.24	RMB—	RMB516,637.52

**(3) Other equity investments are listed in detail as follows:**

Invested company	Investment term	Investment amount	2000.12.31 31 December 2000			
			Ratio against the registered capital of the invested Co.	Equity increase (decrease) of the year	Accrued equity increase (decrease)	Provision for devaluation
Le Shan City Dongle Heavy Piece Handing Company	1997.07	RMB—	49.00%	RMB—	RMB(490,000.00)	RMB—
Southwest Production Materials Trade Company	1984.12	60,000.00	不詳	—	—	60,000.00
Deyang Import and Export Company of Mechancial and Electrical Equipment	1988.06	100,941.25	不詳	—	—	100,941.25
Wuxi Electrical Power Hotel	1988.07	150,000.00	2.30%	—	—	150,000.00
Chengdu Sandian Co., Ltd.	1992.09	455,373.41	0.62%	—	—	—
		RMB766,314.66		RMB—	RMB(490,000.00)	RMB310,941.25

**(4) Long term debt investments are listed in detail as follows:**

Category	Annual interest Face value	Purchasing rate	Interest price	Interest for this Due date	Interests receivable term	Provision for at term end	devaluation
Construction	RMB121,879.50	—	RMB304,698.75		1 August, 2002	RMB—	RMB—
Deberture							RMB—

**(5) Other equity investments of the Company are listed in detail as follows:**

Investment company	Investment term	2000.12.31 31 December 2000			
		Ratio against the registered capital of the invested Co.	Investment amount	增(減)額 Equity increase (decrease) of this year	增(減)額 Accrued equity increase (decrease)
Le Shan City Dongle Heavy Piece Handing Company	1997.07	49.00%	RMB—	RMB—	RMB(490,000.00)
Southwest Production Materials Trade Company	1984.12	不詳 no details	60,000.00	—	—
Deyang Import and Export Company of Mechancial and Electrical Equipment	1988.06	不詳 no details	100,941.25	—	—
Wuxi Electrical Power Hotel	1988.07	2.30%	150,000.00	—	—
Chengdo Sandian Co., Ltd.	1992.09	0.62%	455,373.41	—	—

DFEM Control Co., Ltd.	2000.5.18—2010.5.17	96.15%	12,074,056.90	(425,943.10)	(425,943.10)
DFEM A.C. & D.C. Co., Ltd.	2000.7.10—2010.7.09	98.00%	21,640,026.50	(2,859,973.50)	(2,859,973.50)
			RMB34,480,398.06	RMB(3,285,916.60)	RMB(3,775,916.60)

#### 14. FIXED ASSETS AND ACCUMULATED DEPRECIATION

Fixed assets and accumulated depreciation are listed in detail as follows:

	1 January 2000	Increase this year	Decrease this year	31 december 2000
Original price of the fixed assets:				
Buildings	RMB249,485,981.62	RMB12,843,553.39	RMB179,699.04	RMB262,149,835.97
Plant and machinery	351,938,626.77	52,072,401.59	35,351,515.49	368,659,512.87
Equipments	64,697,958.95	8,846,087.46	5,228,946.22	68,315,100.19
Motor vehicles	6,454,754.62	285,959.20	—	6,740,713.82
	672,577,321.96	74,048,001.64*	40,760,160.75*	705,865,162.85
Accumulated depreciation:				
Buildings	78,001,848.28	8,254,328.67	530,360.61	85,725,816.34
Plant and machinery	196,785,102.07	49,675,907.45	25,969,110.39	220,491,899.13
Equipment	36,346,281.06	9,832,302.29	2,547,207.82	43,631,375.53
Motor vehicles	4,569,069.56	871,544.52	—	5,440,614.08
	315,702,300.97	RMB68,634,082.93**	RMB29,046,678.82**	355,289,705.08
Net fixed assets	RMB356,875,020.99			RMB350,575,457.77

\* An increase of RMB 34,640,261.43 in the fixed assets of this year is transferred from construction in progress upon completion.

An increase of RMB 37,099,893.03 in the fixed assets of this year is injected into the DFEM Control Equipment Company Limited and DFEM Large and Medium Electrical Machinery Company by the Company. The decrease of the fixed assets also included the relevant amount that transferred out from the company.

\* An decrease of RMB 23,612,355.27 in the accumulated depreciation of the fixed assets of this year is the relevant accumulated depreciation of the fixed assets that the company transferred to the DFEM Control Equipment Company Limited and DFEM Large and Medium Electrical Machinery Company Limited. The increase of the accumulated depreciation also included the relevant amount that transferred in from the company.



## 15. CONSTRUCTION IN PROGRESS

Construction in progress are listed as follows:

Name of project	1 January 2000	Addition during the year	Transfer to fixed assets during the year	Reduction during the year	31 December 2000	Source of funding	Percentage of completion
1. Surfacing project	RMB2,520,616.76	RMB394,021.78	RMB—	RMB—	RMB2,914,638.54	Loans and listing proceeds	93%
Including interest capitalised	425,380.44	—	—	—	425,380.44		
2. Extension of workshops for coil production	1,221,951.45	—	931,525.11	290,426.34	—	Loans and listing proceeds	100%
Including interest capitalised	177,531.79	—	177,531.79	—	—		
3. Improvement of information system	1,163,151.74	417,100.00	—	—	1,580,251.74	Loans and listing proceeds	95%
Including interest capitalised	803,743.14	—	—	—	803,743.14		
4. Improvement of fourth power distribution station	385,221.16	—	385,221.16	—	—		100%
Including interest capitalised	66,546.74	—	66,546.74	—	—		
5. 22 metres digital control machine	21,660,779.50	6,626,565.25	—	—	28,287,344.75	Loans and listing proceeds	90%
Including interest capitalised	4,212,178.23	2,209,059.50	—	—	6,421,237.73		
6. 600KW steam generator test run station	11,995,842.15	—	—	324,046.45	11,671,795.70	Loans and listing proceeds	98%
Including interest capitalised	3,198,270.39	—	—	—	3,198,270.39		
7. Extension of cast steel factory	6,943,429.05	221,811.48	7,165,240.53	—	—	listing proceeds	100%
8. Industrial and commercial building	1,156,063.00	—	—	—	1,156,063.00 *	listing proceeds	20%
9. Remove burr machine	1,062,012.70	70,173.20	1,132,185.90	—	—	listing proceeds	100%

### 15. Construction in progress (continued)

Name of project	1 January 2000	Addition during the year	Transfer to fixed assets during the year	Reduction during the year	31 December 2000	Source of funding	Percentage of completion
10. Magnetic plate processing centre	1,453,748.83	415,230.15	1,868,978.98	—	—	Loans and listing proceeds	100%
Including interest capitalised	219,673.00	147,921.92	367,594.92	—	—		
11. Oxygen making station	1,789,739.97	484,635.64	2,323,973.59	11,020.02	(60,618.00)	Loans and listing proceeds	85%
Including interest capitalised	308,292.71	161,618.93	469,911.64	—	—		
12. Facilities of oxygen making	1,897,511.38	635,147.09	2,532,658.47	—	—	Loans and listing proceeds	100%
Including interest capitalised	284,773.22	184,024.84	468,798.06	—	—		
13. Insulation laboratory	1,284,000.81	1,819,261.68	3,103,262.49	—	—	Loans and listing proceeds	100%

	Including interest capitalised	118,784.94	349,740.23	468,525.17	—	—		
14.	Three Gorges software	2,714,669.51	601,673.07	—	—	3,316,342.58	Loans and listing proceeds	80%
	Including interest capitalised	523,300.27	278,676.91	—	—	801,977.18		
15.	Horizontal WSD210-III	1,079,486.03	874,363.50	—	—	1,953,849.53	Loans and listing proceeds	85%
	Including interest capitalised	59,486.03	103,755.36	—	—	163,241.39		
16.	boring machine	1,363,901.67	201,698.35	—	—	1,565,600.02	Loans and listing proceeds	90%
	Including interest capitalised	298,374.67	141,861.38	—	—	440,236.05		

15. Construction in progress (continued)

Percentage		Transfer to fixed		Reduction		Source of funding		of
Name of project completion	1 January 2000	Addition during the year	assets during the year	during the year	31 December 2000			
17. Improvement of boring and milling machine	3,464,028.38	837,711.00	—	—	4,301,739.38	Loans and listing proceeds		95%
	Including interest capitalised	421,990.86	356,380.00	—	778,370.86			
18. Premium for Bajiao Hydro-electric plant	3,001,440.00	—	—	—	3,001,440.00**	listing proceeds		40%
19. 800 punching machine	475,451.04	2,723,506.20	—	—	3,198,957.24	Loans and listing proceeds		90%
	Including interest capitalised	93,051.84	260,478.35	—	353,530.19			
20. Second improvement engineering of high platform	—	1,045,535.26	—	—	1,045,535.26	Loans and listing proceeds		15%
	Including interest capitalised	—	22,927.26	—	22,927.26			
21. Heavy span assemble and weld platform	604,102.08	2,372,130.63	—	—	2,976,232.71	Loans and listing proceeds		80%
	Including interest capitalised	49,839.63	69,929.00	—	119,768.63			
22. Second engineering of fifth power distribution station	259,687.85	1,096,315.73	—	—	1,356,003.58	Loans and listing proceeds		85%
	Including interest capitalised	16,018.45	135,711.66	—	151,730.11			
23. Photoelectricity theodolite	—	1,238,244.24	—	—	1,238,244.24	Loans and listing proceeds		90%
	Including interest capitalised	—	67,307.99	—	67,307.99			
24. Materials factory building project	—	1,120,218.00	—	—	1,120,218.00	Loans and listing proceeds		90%
	Including interest capitalised	—	38,912.01	—	38,912.01			

15. Construction in progress (continued)

Percentage		Transfer to fixed		Reduction		Source of funding		of
Name of project	1 January 2000	Addition during the year	assets during the year	during the year	31 December 2000			

completion

25.	Weld spray ball room	—	3,753,842.83	3,753,842.83	—	—	Loans and listing proceeds	100%
	Including interest capitalised	—	1,081,305.99	1,081,305.99	—	—		
26.	Improvement power wire	2,686,932.91	263,606.87	2,950,539.78	—	—	listing proceeds	100%
27.	First engineering of fifth power distribution station	1,274,962.46	14,957.81	—	—	1,289,920.27	listing proceeds	95%
28.	Test station of nuclear power	1,544,347.26	325,129.14	—	—	1,869,476.40	listing proceeds	75%
29.	Oil pressure machine of stator oil	896,299.14	1,321,705.33	—	—	2,218,004.47	listing proceeds	99%
30.	Improvement 2960 milling machine	—	1,003,894.72	—	—	1,003,894.72	listing proceeds	80%
31.	Others	16,524,360.46	7,939,056.32	8,492,832.59	741,329.09	15,229,255.10	Loans and listing proceeds	
	Including interest capitalised	—	58,510.32	(148,599.14)	8,604.69	198,504.77		
	Total	RMB90,423,737.29	RMB37,817,535.27	RMB34,640,261.43		RMB1,366,821.90	RMB92,234,189.23	
	Including interest capitalised	RMB11,277,236.35	RMB5,668,121.65	RMB2,951,615.17		RMB8,604.69	RMB13,985,138.14	

The building of Guanghan Gongmao was constructed in 1992 and the completed the civil construction amounted to RMB 1,156,063.00. However, since 1994, the construction has been shutdown. The company made a provision for construction in progress of 1999 amounting to RMB 1,156,063.00.

According to the Memorandum signed on 5 July 1994 by the Company, GE of Canada, Voest-Alpine and Elin of Austria about setting up a Sino-foreign joint venture in Deyang to produce hydro turbine generator sets, the company entered into an Agreement on Contract of demising Stated Owned Land Use Right with the Management Committee of Deyang Bajiao Industry District and the Company demised land use right of 80 MU amounting to RMB 7,197,920.00 for the first project of the joint venture. As of 31 December 1997, the Company had paid demised fee of land use right amounting to RMB 3,001,440.00. For the projects of setting up a joint venture were in arrearage, the Company made a provision for construction in progress of before 1999 amounted to RMB 3,001,440.00.

## 16. Intangible assets

Intangible assets are listed in detail as below:

Cetegory	Original amount	1 January 2000	Amortisation this year	31 December 2000	Remaining amortisation amount
Landuse right	RMB35,626,000.00*	RMB31,350,879.80	RMB653,143.37	RMB30,697,736.43	43 years

\* The reevaluated amount as of 31 December 1993 of the land use right of an area of 470,955.31 square meters injected into the Company by the Company's holding company DFEW on 28 January 1994 and confirmed by China Real Estate Construction Centre were RMB 108,319,712.00. By the approval documents Guo Tu Pi (1994) No. 31 of the State Land Administration and Guo Zi Qi Han Fa (1994) No.43 of SAAB, the land use right was

injected into the Company at a consideration of RMB 35,626,000.00 on 28 January 1994.

## 17. Long term deferred expenses

Long term deferred expenses are listed in detail as follows:

Category	1 January 2000	Increase this year	Amortisation this year	31 December 2000
Natural gas charges	RMB295,000.09	RMB—	RMB109,999.92	RMB185,000.17
Rental for Shanghai office	1,725,363.49	—	98,451.60	1,626,911.89
Software expense	713,049.69	RMB—	145,027.08	568,022.61
	RMB2,733,413.27	RMB—	RMB353,478.60	RMB2,379,934.67

## 18. Other long term assets

Other long term assets are listed in detail as follows:

	31 December 1999	31 December 2000
Deyang Shifang Power Plant	RMB725,000.00	RMB425,000.00*

On 18 April 1989, Deyang Shifang Power Plant entered into an agreement with the Company whereby the Company supplied two sets of steam turbine generators with a single unit capacity of 12,000 KW at an aggregate price of RMB 1,350,000.00 and allowed the former company to settle the amount bearing no interest in consideration of a stable power supply for a period of 20 years. As of 31 December 2000, the principal repaid by Deyang Shifang Power Plant amounted to RMB 925,000.00.

## 19. Short term borrowings

Short term borrowings are listed in detail as below:

Loan type	31 December 1999	31 December 2000
Loan by credit	RMB93,130,000.00	RMB113,130,000.00
Loan by pledge	—	50,000,000.00
	RMB93,130,000.00	RMB163,130,000.00

## 20. Notes payable

Notes payable are listed in detail as below:

Drawee	2000.12.31	Due date	Amount
	31 December 2000		
	Date of bill	Remark	
Chengdu Wuyang Iron and Steel Company	2000.10.11	2001.3.10	RMB6,722,864.12
		Bank acceptance bill	
China Electron Goods and Materials Company	2000.10.11	2001.1.10	3,543,380.00
		Bank acceptance bill	
Wuhan Iron and Steel Company	2000.10.16	2001.1.15	2,430,000.00
		Bank acceptance bill	
Chengdu Baogong Westsouth Trade Company	2000.10.11	2001.1.10	1,990,404.00
		Bank acceptance bill	
Chongqing Iron and Steel Company	2000.11.2	2001.2.01	1,175,000.00
		Bank acceptance bill	
Dongfang Jidian Keji Company	2000.12.26	2001.4.25	1,000,000.00
		Commercially	
		acceptance bill	
Dongdian Electrical Equipment Company	2000.11.22	2001.3.21	1,300,000.00
		Bank acceptance bill	
Notes payable to related parties	2000.11.22	2001.3.21	750,000.00
	*	Bank acceptance bill	
Sichuan Hanwang Energy Development Company	2000.11.10	2001.3.09	200,000.00
		Bank acceptance bill	
Sichuan Chuantou Changgang Stock Company	2000.11.22	2001.3.21	160,000.00
		Bank acceptance bill	
Hebei Juli Group Corporation	2000.11.10	2001.2.09	150,000.00
		Bank acceptance bill	
Dongdian Insulation Materials Plant	2000.11.22	2001.3.21	200,000.00
		Bank acceptance bill	
Chengdu Dongfang Value Company	2000.12.26	2001.4.25	150,000.00
		Commercially	
		acceptance bill	
Deyang Xietongda Rubber Plant	2000.12.26	2001.4.25	200,000.00
		Commercially	
		acceptance bill	
Sanxi Yuci Hydraulic Group	2000.12.26	2001.4.25	250,000.00
		Commercially	
		acceptance bill	

## 20. Notes payable

Notes payable are listed in detail as below:

Details of notes payable to related parties are listed in Note 43 (3).

## 21. Trade creditors

Trade creditors are listed in detail as below:

	31 December 1999	31 December 2000
Related creditors	RMB699,082.49	RMB704,553.49*
Huazhong Electric Power Materials Company	8,865,832.63	5,017,424.00
Second Heavy Group Co.	5,104,757.17	4,178,012.00
Huazhong Electric Power Materials Company	825,251.21	4,154,934.00
Dongdian Electrical Appliance Co.	—	1,228,000.00
Dongdian Electrical Equipment Company	362,000.00	1,201,381.00
Estimated material received	59,436,709.11	38,077,115.79
Others	4,051,189.67	18,778,261.43
	RMB79,344,822.28	RMB73,339,681.71

\* Details of the related creditors are listed in Note 43(3).

## 22. Receipts in advance

Receipts in advance are listed in detail as below:

	31 December 1999	31 December 2000
Related parties	RMB2,050,785.51	RMB895,674.25*
Yunnan Dachaoan Hydroelectric Company	5,672,276.83	—
Joint of Voith-GE-Siemens	4,180,000.00	—
Sichuan panlong Hydroelectric Company	4,130,000.00	—
Sichuan Jinpanzi Traffic Company	3,694,000.00	—
Xiaolangdi Manage Bureau of Water Conservancy Ministry	3,200,000.00	*-
Manage Bureau of Guizhou Electric Power Company	*-	9,150,000.00
Hebi Power Plant	*-	2,000,000.00
Tianjin Steel Pipe Company	*-	1,350,000.00
Kashi Electricity Generation Co., Ltd.	*-	2,139,000.00
Guangzhou Hengyun Heat and Power Plant Co., Ltd.	*-	1,584,000.00
Sanxi Machinery Equipment Import and Export Company	*-	1,294,241.74
Others	14,745,914.12	19,232,377.41

RMB37,672,976.46 RMB37,645,293.40

\* Details of the related parties for the receipts in advance are listed in Note 43(3).

## 23. Taxes payable

Details of taxes payable are listed as follows:

	31December 1999	31 December 2000
Product VAT	RMB201,690,754.59	RMB209,475,068.99
Sales tax	2,656,273.34	1,946,789.87
Urban development tax	20,634,367.65	21,268,940.97
Enterprise income tax	1,206,344.26	536,613.48
Real estate tax	1,640,966.14	2,017,055.22
Land use tax	265,146.39	516,322.55
Investment adjustment tax for fixed assets	11,316.15	—
Personal tax	1,002,547.32	188,392.21
	RMB229,107,715.84	RMB235,949,183.29

## 24. Other payables

Details of other payables are listed as follows:

	31December 1999	31 December 2000
Education surcharge	RMB10,624,386.38	RMB11,453,489.23

## 25. Other creditors

Details of others creditors are listed as follows:

	31 December 1999	31 December 2000	Description
Pension contributions	RMB16,332,518.02	RMB12,414,751.05	Individual contribution payable to the Social Security Bureau
Union expenses	2,130,307.12	1,983,641.04	—
Education expenses	2,206,832.47	2,752,252.90	—
Housing reserve	—	2,015,864.00	Housing fund payable to Deyang Municipal Housing fund of administration centre
Payables to the related parties	7,221,448.36	7,334,502.14 *	Service charges payable to DFEW
Others	5,313,394.41	4,159,519.25	Stamp duty, reward for earning foreign currencies payable, etc.

RMB33,204,500.38      RMB30,660,530.38

\* Details of current accounts with related parties are listed in Note 43(3).

## 26. Accruals

Details of accruals are listed as follows:

	31December 1999	31 December 2000
Installation cost for generator sets	RMB1,719,408.15	RMB5,310,533.74 *
Audit fee for the year	2,500,000.00	3,535,000.00
Provision for packing fee payable to DFEW	6,040,820.94	7,988,927.48
Provision for medical insurance and unemployment insurance	1,904,886.11	638,573.01 **
Additional cost for hydro power Products	11,150,342.82	16,943,767.44 ***
Loan interest	4,204,939.22	650,469.88 ****
Others	560,627.27	918,626.68
	RMB28,081,024.51	RMB35,985,898.23

\* represent costs accrued unsettled but for installation.

\*\* represent the medical insurance and unemployment insurance and other expenses provided in accordance with the regulations issued by the Department of Labor Protection and Insurance, Deyang.

\*\*\* represent the installation cost for hydro-power products provided according to standard cost specification.

\*\*\*\* represent the loan interest which remains unsettled with the Import and Export Bank of China and the loan interest accrued from 21 December 2000 to 31 December 2000.



## 27. Current portion of long term liabilities

Details of current portion of long term liabilities are as follows:

Loan type	31 December 1999	31 December 2000	Loan term	Annual interest rate
Bank loans				
Including: by credit	RMB3,000,000.00	RMB—		
	8,000,000.00	—		
	20,000,000.00	—		
	—	10,000,000.00	1998.4.30-2001.4.29	6.534%
	—	50,000,000.00	1998.10.29-2001.10.28	4.05%
By guarantee	1,036,000.00	1,036,000.00 *	1989.10.07-1995.12.30	5.9%
Accrued interest	1,872,071.52	322,582.00		
	RMB33,908,071.52	RMB61,358,582.00		

\* Extension for the loans has not been processed yet.

## 28. Long term loans

Details of long term loans are as follows:

Loan type	31 December 2000	Loan term	Annual interest rate	Conditions for loans
State Development Bank	RMB119,000,000.00	1997.12-2010.11	6.21	credit
State Development Bank	20,000,000.00	1997.12-2006.11.20	5.94	credit
Import & Export Bank of China	220,000,000.00	1998.10-2004.10	4.05	guarantee
Import & Export Bank of China	20,000,000.00	1998.10-2002.10	4.05	guarantee
	RMB379,000,000.00			

## 29. Long term payables

Details of long term payables are as follows:

	31 December 1999	31 December 2000
Special reserve fund	RMB685,252.84	RMB685,252.84*
Research and development fund	11,567,101.59	12,450,431.48**
Other provisions	—	850,000.00***
	RMB12,252,354.43	RMB13,985,684.32

\* represent the state special reserve fund

\*\* represent the government grant for Research and Development.

\*\*\* represent the compensation fund for environment Protection Arrangement granted by Bureau of environment Protection in accordance with the documents De Huan Fa [2000] No.095, De Huan Fa [2000] No.160 which issued by the Bureau of environment Protection, Deyang.

### 30. Share capital

Details of share capital increase or decrease are shown as follows:

	1 January 2000	Increase this year	31 December 2000
Non-circulating shares			
Promoter legal person shares			
Domestic promoter legal person shares	RMB220,000,000.00	RMB—	RMB220,000,000.00
Cirulating shares			
Overseas listed foreign investment shares (H shares)	170,000,000.00	—	170,000,000.00
Domestic listed Renminbi ordinary shares (A shares)	60,000,000.00	—	60,000,000.00
Total number of circulating shares	230,000,000.00	—	230,000,000.00
Total number of shares issued	RMB450,000,000.00	RMB—	RMB450,000,000.00

\* the above actual receipt of share capital has been audited by China registered accountants.

### 31. Capital reserve

Details of capital reserve increase or decrease are as follows:

	1 January 2000	Increase this year	Decrease this year	31 December 2000
Share capital premium	RMB522,548,287.37	RMB—	RMB—	RMB522,548,287.37
Provision for donation assets	323,000.00	—	—	323,000.00
Provision asset evaluation appreciation	78,725,613.50	1,710,158.37*	—	80,435,771.87
Other transfers to capital reserve	2,597,254.40	160,572.43**	—	2,757,826.83
	RMB604,194,155.27	RMB1,870,730.80	RMB—	RMB606,064,886.07

- \* represent asset evaluation appreciation amounting to RMB 1,710,158.37 in accordance with the documents Cai Ping Zi [2001] No.172 and Cai Ping Zi [2000] No.242 issued by the Finance Department. This parts of assets are the fixed assets which were contributed by the Company to set up the two subsidiaries - DFEM Control Equipment Company Limited; DFEM Large and Medium Machinery Company Limited.
- \*\* represent assets of the Company funded by Ministry of Machinery and others for the research and development of projects amounting to RMB 160,572.43.

### 32. Surplus reserve

Details of surplus reserve increase or decrease are as follows:

	1 January 2000	Increase this year	Decrease this year	31 December 2000
Statutory surplus reserve	RMB27,266,786.36	RMB325,907.61	RMB—	RMB27,592,693.97
Statutory public welfare fund	25,834,182.77	162,953.81	—	25,997,136.58
	RMB53,100,969.13	RMB488,861.42	RMB—	RMB53,589,830.55

### 33. Undistributed profit

- (1) The Board of Directors of the company recommended to the general meeting that after-tax profit of 2000 will not be distributed after the transfer 10% to the statutory surplus reserve and of 5% to statutory public welfare fund.

The statutory surplus reserve and statutory public welfare fund for the year 2000 are based on the net profit determined in the financial statements prepared in accordance with the "Accounting Regulation for Enterprises of the PRC", "Accounting Regulation for Joint Stock Limited Companies" and relevant supplementary rules on accounting treatments for joint stock limited companies listed in HongKong issued by Ministry of Finance of the PRC.

- (2) Details of undistributed profit are as follows:

	1999	2000
Undistributed profit at the beginning of the year	RMB50,092,623.79	RMB55,372,945.59
Add: Net profit for the year	6,212,143.30	2,309,672.09
Increase (decrease) of the undistributed profit at the beginning of the year	(18,623,376.54) *	(19,783,233.62)*
Increase (decrease) of net profit for the year	(1,364,537.75) **	—
Less: Increase (decrease) of transfer to statutory public welfare fund	(136,453.78) **	—
Increase (decrease) of transfer to		

statutory public welfare fund	(68,226.89) **	—
Less: Transfer to statutory surplus reserved	621,214.33	325,907.61
Transfer to statutory public welfare fund	310,607.17	162,953.80
Undistributed profit at the end of the year	RMB35,589,711.97	RMB37,410,522.65

\* The Company made the adjustment of reduction on undistributed profit to the opening of the year 1999, which amounted to RMB 18,623,376.54 during the year. Details are listed as the follows:

- (1) According to the Ministry of Finance Cai Qi [2000] 295, "Notice of Accounting Treatment for the State Housing Reform Policy" and Cai Qi [2000] 878, "Supplementary Notice of Accounting Treatment for the State Housing Reform Policy", which issued by the Ministry of Finance. The Company recognized loss from house of Tie Xi A district and Tie Xi C district which sold to employees (amounted to RMB 16,432,488.75).
- (2) As the project of energy and material saving had not been started up, the Company wrote off the capitalized interest of before 1999, which caused decreasing undistributed profit at the beginning of 1999 amounted to RMB 1,552,780.00.
- (3) As Note 2 (19) The Company adopted retroactive adjustment method for the devaluation of provision as the change of accounting policy for construction in progress to decrease distributed profit of 1999 to RMB 4,157,503.00.
- (4) As the above effect, the Company have retroactive the adjustment as follows: decreasing the income tax amounted to RMB 232,917.00; decreasing the statutory surplus reserve and statutory public welfare fund amount to RMB 2,190,985.47, which were over transferred in prior years before 1999.

\*\* The decreased net profit of 1999 in this year is RMB 1,364,537.75. Details as below:

- (1) As above stated, as the State Housing Reform Policy, they wrote off depreciation of 1999 amounted to RMB 466,438.37; as the energy and material saving project has not started up, they wrote off capitalized interest of 1999 amounted to RMB 1,452,217.00.
- (2) Pursuant to the Ministry of Finance Cai Ji Zi (1999) 956 and China Dongfang Electrical Machinery Corporation, Zi Cai Zi (2000) 123 "Letter for China Dongfang Electrical Machinery Corporation exchange government grant of loan to state capital", the Ministry of Finance authorized four subsidiaries of China Dongfang Electrical Machinery Corporation to exchange capital and interest of centralized government grant to loan into state capital of China Dongfang Electrical Machinery Corporation. The use of government grant to loan of the eighth five-plan from Dongfang Electrical Machinery Works by the Company amounted to RMB 4,549,489.52, therein, principal amounted to RMB 3,000,000, interest RMB 1,549,489.52. The company adjusted the above loans to current account with Dongfang Electrical Machinery Work and made up for the interest expenses of 1999

amounted to RMB 619,560.00.

- (3) Due to the effect of above accounting items the Company decreased income tax RMB 240,800.78, statutory surplus reserve of RMB 136,453.78 and statutory public welfare fund of RMB 68,226.89.

### 34. Profit (loss) from other operations

Details of profit (loss) from other operations are as follows:

	1999	2000
Income from other operations	RMB24,969,131.47	RMB33,228,730.53
Less: Expenses from other operations	17,778,312.27	29,933,490.38
Profit from other operations	RMB7,190,819.20	RMB3,295,240.15

- \* The decrease of profit from other operations by 54.17% is due to the decrease of the rental income for the year.

### 35. Financial expenses

Details of financial expenses are as follows:

	1999	2000
Interest expenses	RMB29,148,234.25	RMB24,734,401.42
Less: Interest income	(16,717,099.90)	(18,435,171.09)
Exchange loss	2,570,897.07	515,907.91
Less: Exchange gain	(10,732,670.05)	(114,831.90)
Others	479,839.37	355,196.61
	RMB4,749,200.74	RMB7,055,502.95

- \* The increase of financial expenses from the pervious year is due to the decrease in exchange gain for the year.

### 36. Investment income (loss)

Details of investment income (loss) from the subsidiaries are as follows:

	1999	2000
Investment in Bonds	RMB*-	RMB3,766,698.75*
Investment in Stock	*-	695,102.80
Others Investments	(195,025.04)	3,592,968.47
	**	

RMB(195,025.04) RMB8,054,770.02

\* According to the agreement and supplementary agreement of custody for government bonds signed by the Company and JinXin Investment and Trust Company, XinJiang (XJITC), the Company used working capital RMB 50,000,000.00 to assign XJITC to deal with the government bonds. The Company received investment income from the safekeeping amounting to RMB 3,000,000.00 during this year.

\*\* The company signed the Agreement Assets Management Deputation with GuoTai JunAn Securities Co (GTJA), Ltd in 19 June 2000. According to this agreement, the Company use working capital amounting to RMB 50,000,000.00 to assign GTJA for the assets management, the Company received investment income amounting to RMB3,592,968.47 during this year.

Details of investment income (loss) are as below:

	1999	2000
Investment in Bonds	RMB—	RMB3,574,518.00
Investment in Stocks	—	695,102.80
Others Investments	(195,025.04)	499,232.62
	RMB(195,025.04)	RMB4,768,853.42

### 37. Subsidy income

Details of subsidy income are as follows:

	1999	2000
Export sales tax refund for Jiang Ya No.1 and No. 2 hydro power sets	RMB6,721,370.87	RMB—
Er Tan Sets	-	18,016,094.02*
Jiang Ya No. 3 Sets	-	3,457,745.07
	**	
EZhou Project	-	2,676,000.00
	***	
	RMB6,721,370.87	RMB24,149,839.09

\* Pursuant to the document State Tax Bureau of Sichuan Province [1999] No.112, the Company was refunded Value Added Tax output amounting to RMB 18,016,094.02 in this year which was due to the sales of electrical machinery to Er Tan Electric Power Station in year 1998 and 1999.

\*\* Pursuant to the "Supplementary Agreement in Respect of Sharing the tax Refund for the Jiang Ya Hydro Power Sets" entered into Hunan Machinery and Equipment Import and Export Company and the Company, the export tax refund for the Jiang Ya

hydro power sets will be carried out by Human Machinery and equipment Import and Export Company by the local taxation authority. If the refund ratio is 11%, 70% of the refund goes to the Company. The Company received RMB 3,457,745.07 for the year from Hunan Machinery and Equipment Import and Export Company as the export tax refund for the Jiang Ya No.3 hydro power sets.

\*\*\* Pursuant to "Minutes for the Meeting about settlement of Er Zhou Contract works", both sides agreed to change the dividend ratio of refund tax to 5:9 for the Er Zhou Electric Power Plant No.2 sets. The Company received for the year RMB 2,676,000.00 from it.

### 38. Non-operating income

Details of non-operating income are as follows:

	1999	2000
Income from the disposition of fixed assets	RMB57,511.60	RMB244,067.26
Inventory gain of fixed assets	74,883.76	—
Indemnity income	5,200.00	—
Write-off of debts of over three years	—	292,101.03
Others	714,426.98	748,051.51
	RMB852,022.34	RMB1,284,219.80

### 39. Non-operating expenses

Details of non-operating expenses are as follows:

	1999	2000
Loss on the disposition of fixed assets	RMB154,254.53	RMB313,682.01
Penalty expenses	27,069.39	—
Inventory loss of fixed assets	12,636.52	37,233.22
Others	434,345.80	375,978.40
	RMB628,306.24	RMB726,893.63

#### 40. Cash paid on other operations

Details of cash paid on other operation are as follows:

2000

	RMB10,803,229.89
Unified fund, pension contribution, housing fund	37,361,127.44
Packaging charges	21,630,661.86
Business costs and travelling expenses	11,606,137.20
Office expenses	7,747,248.67
Business reception expenses	3,251,421.07
Others	16,614,478.98
	RMB109,014,305.11

#### 41. Segmental information

Details of segmental information of principal operations are as follows:

	1999 Income from	2000 principal operations	1999 Cost of principal	2000 operations Gross	1999 profit from principal operations	2000
Machinery manufacturing profession:						
Income from sales of generators and electric motors	RMB745,549,189.70	RMB583,598,854.09	RMB512,568,515.71	RMB451,045,344.66	RMB232,980,673.99	RMB132,553,509.43
Service income	4,935,583.13	29,725,853.87	1,622,167.27	16,845,149.94	3,313,415.86	12,880,703.93
Sales of accessories	6,644,513.68	31,092,251.24	28,295,266.81	19,095,387.18	(21,750,753.13)	11,996,864.06
	RMB757,129,286.51	RMB644,416,959.20	RMB542,585,949.79	RMB486,985,881.78	RMB214,543,336.72	RMB157,431,077.42

Details of principal operations are as follows:

	1999 Income from principal operations	2000	1999 Cost of principal operations	2000	1999 Gross profit from principal operations	2000
Machinery manufacturing profession:						
Income from sales of generators and electric motors	RMB745,549,189.70	RMB576,304,324.14	RMB512,568,515.71	RMB442,569,402.95	RMB232,980,673.99	RMB133,734,921.19
Service income	4,935,583.13	28,491,529.11	1,622,167.27	16,650,986.90	3,313,415.86	11,840,542.21
Sales of accessories	6,644,513.68	24,468,876.04	28,395,266.81	18,413,518.53	(21,750,753.13)	6,055,357.51
	RMB757,129,286.51	RMB629,264,729.29	RMB542,585,949.79	RMB477,633,908.38	RMB214,543,336.72	RMB151,630,820.91



## 42. Net assets recovery rate and earning per share

	Net asset recovery rate		Earnings per share	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from principal operations	13.31%	13.35%	0.3393	0.3393
Operating profit	(2.57%)	(2.58%)	(0.0656)	(0.0656)
Net profit	0.20%	0.20%	0.0051	0.0051
Net profit after extraordinary items	(1.95%)	(1.96%)	(0.0498)	(0.0498)

## 43. Relationships and transactions with related parties

(1) Relationships with related parties are shown as follows:

### A. Related parties with controlling relationship

Company name	Registered address	Principal activities	Relationship with the company	Corporate nature	Legal representative
DFEW	13 Huanghe Xi Road Deyang, Sichuan, PRC	Manufacturing and selling of power generating equipment, AC & DC motors	Parent company	State-owned	Si Zefu

The details of two subsidiaries are listed in Note 4 (1)

### B. Changes in registered capital of related parties with controlling relationship

Company name	1 January 2000	Increase during this year	Decrease during this year	31 December 2000
DFEW	RMB128,420,000.00	RMB—	RMB—	RMB128,420,000.00

### C. Shareholdings in the Company and its changes of related parties with controlling relationship

Company name	1 January 2000		Increase during the year		Decrease during this year		31 December 2000	
	Amount	%	Amount	%	Amount	%	Amount	%
DFEW	RMB220,000,000.00 48.89	48.89	RMB —	—	RMB—	—	RMB220,000,000.00	

D. Related parties without controlling relationship

Company name	Relationship with the Company
Le Shan City Dongle Heavy Piece handing Company	Associated company
China Dongfang Electric Corporation (“DFEC”)	Superior administrative organization of DEFW

(2) Related party transaction

- A. The Company pays interest to DFEC in respect of loans advanced to the Company which bear interest at floating rates as quoted by the State-owned banks and calculated on a monthly basis as follows:

	1999	2000
Interest expenses	RMB7,771,609.39	RMB7,753,640.40

- B. Under the agreement with DEFW, expenses paid or payable by the Company to DEFW are shown as follows:

	1999	2000
Staff quarter management fees	RMB1,583,101.00	RMB1,583,101.00
Product packing fees	20,442,505.73	16,990,147.69*
Environmental, hygiene, and greenery expenses	2,817,813.58	2,550,139.18
Catering and provision of health drinks to factory	1,957,874.95	2,330,412.50
Workers for prevention of heat-stroke during production		
Nursery service for children of employees	2,445,101.00	2,445,101.00
Staff retirement plan and expenses	19,791,112.93	25,345,743.32
	**	
Transportation and maintenance of vehicles	4,991,679.89	4,316,555.83
Professional and technical education for workers	5,792,840.75	5,953,169.63
Industrial safety devices and office expenses	3,795,390.98	5,394,930.25
Medical for staff and family	8,344,015.75	6,635,137.45
Use of service fee	1,524,505.55	—
Others	7,984,440.39	3,241,185.62
	RMB81,470,382.50	RMB76,785,623.47

\* under the agreement with DFEW, DFEW are responsible for receiving and checking the finished goods, arranging, packing and delivering these goods for the Company, DFEW receives 2.7% of the turnover of the Company as the packing income.

\*\* Under the agreement with DFEW, DFEW manages the retirement plan on the Company's behalf. According to the relevant provisions of the State about the retirement benefits, the Company paid to DFEW and DFEW disbursed to the retired staff and the relevant authority of Deyang City.

C. Under the agreement with DFEW, charges receivable by the Company from DFEW are shown in detail as follows:

	1999	2000
Utilities	RMB3,263,788.80	RMB2,818,478.81
Rental for office	25,920.00	25,920.00
Raw materials	5,560,877.74	3,799,884.69
Proceeds on sales of tools and parts	91,961.25	—
Others	715,974.38	62,630.61
	RMB9,658,522.17	RMB6,706,914.11

D. Income from sales handled by DFEC on behalf of the Company are shown as follows:

	1999	2000
Income from sales on behalf of the Company	RMB39,613,395.96	RMB12,641,025.64

E. Remuneration paid by the Company to senior management are shown as follows:

	1999	2000
Remuneration	RMB575,321.44	RMB406,366.26

(3) Current accounts with related parties are set out as follows:

Item	Name of the related party	31 December 1999		31 December 2000	
		balance	% to the account balance	Balance	% to the account balance
Trade debtors	DFEC	RMB71,219,164.04	9.06%	RMB68,324,261.27	9.04%
	DFEW	19,533,946.54	2.48%	24,512,446.54	3.24%
		RMB90,753,110.58	11.54%	RMB92,836,707.81	12.28%
Other debtors	Le Shan Heavy Piece Handling Co	RMB12,000,000.00	6.35%	RMB12,000,000.00	6.57%
Reception in advance	DFEC	RMB1,673,874.25	4.44%	RMB895,674.25	2.38%
	DFEW	376,911.26	1.00%	—	—
		RMB2,050,785.51	5.44%	RMB895,674.25	2.38%
Other creditors	DFEW	RMB7,221,448.36	16.09%	RMB7,334,502.14	23.89%
Accounts payable	DFEW	RMB699,082.49	0.88%	RMB478,031.00	0.65%
	DFEC	—	—	226,522.49	0.31%
		RMB699,082.49	0.88%	RMB704,553.49	0.96%
Notes payables	DFEW	RMB—	—	RMB750,000.00	3.38%
Prepayment	DFEC	RMB3,785,000.00	5.64%	RMB—	—

**44. Contingent Item**

- As of 31 December 2000, China Dongfang Power Station Equipment Co. Shenzhen Branch (hereafter " Dongfang Power Station Shenzhen Co.") defaulted the payment for goods amounted to RMB 7,480,000. In November 2000, Dongfang Power Station Shenzhen Co. applied for liquidation to Shenzhen City Middle-level People's Court. On 18 January, 2001, the Company submitted creditor application to the liquidation team of Dongfang Power Station Shenzhen Co.. Total amount of creditors applied included RMB 7,480,000.00 of principal, RMB 4,517,049.45 of interest and RMB 582,500.00 of penalty of default. In addition, the Company attended the 1st debtor congress. On 2 March, 2001 the liquidation team of Dongfang Power Station Shenzhen Co. confirmed RMB 7,480,000.00 of the principal of the applied debtors and so did the interest and the penalty of default.
- As of 31 December 2000 the savings of the Company at China Huayang Finance & Rent Co. Ltd. amounted to RMB 25,900,000.00. China Huayang Finance & Rent Co. Ltd. demanded for withdrawing and liquidation to People's Bank of China on 3 August 2000. The Company applied to Chengdu liquidation team of China Huayang Finance & Rent Co. Ltd. for debtors' application, including RMB 25,900,000.00 of principal and RMB 6,840,190.47 of interest up to announcement day of liquidation.

As of 31 December 2000, China Huayang Finance & Rent Co. Ltd was under liquidation.

- (3) On 24 January 2000, the Company filed a lawsuit to resolve a dispute arising from debt Jingyang Construct Materials Company of Deyang City demanding the defendant to repay a loan amounting to RMB 600,000.00, a indemnity of RMB 193,536.00 for loss and bear all legal costs. On 21 March 2000, Sichuan Deyang Middle-level People's Court issued (2000) De Jing Chu Zi No. 46 Civil Mediation, where through the mediation by the court,, the parties agreed to the following: The defendant shall repay the principal of RMB 600,000.00 and legal fee of RMB 15,000.00 by 7 April 2000, with repayment of RMB 120,000.00 by the 20th day of each month and of RMB 135,000.00 by 20 August. For failure of the defendant to repay as schedule, the Company may apply to the people's court for enforcement in respect to all of the remaining balance. The Company applies to people's court for enforcement in respect to all of the remaining balance on 25 April, 2000 for failure repayment as schedule of defendant. As of 31 December, 2000 the application was under process.
- (4) As of 31 December 2000, principal receivable from Ruixin Industry Co.Ltd amounted to RMB 9,400,000.00. On 16 January 2001, the Company filed a lawsuit to resolve a dispute against Ruixin Industry Co.Ltd at Sichuan Deyang Middle-level People's Court.
- (5) As of 31 December 2000, the Company had loan of RMB 600,000.00 receivable from China Commercial Bank of Deyang City Jingyang North City Branch. The Company sent a confirmation for that but not be confirmed yet.
- (6) As of 31 December 2000, the Company had debt of RMB 4,300,000.00 against Sichuan Huaxin Power Investment Co. (hereafter "Huaxin Power"). For there was dispute on the principal and interest between two companies, Huaxin Power just confirmed the debt of RMB 3,300,000.00. There still no agreement on the debt.

#### **45. Subsequent events after the date of the balance sheet**

- (1) On 5 July 1994, the Company signed a Memorandum of Understanding with GE of Canada, Voest-Alpine and Elin of Austria to set up a Sino-foreign joint venture in Deyang city to produce hydro turbine generator sets. The investment amount is USD 37,770,000.00 and registered capital of this joint venture is USD 30,000,000.00. The Company shall invest 45% of the registered capital. The parties of the joint venture made a proposal jointly which was formally approved by the State Planning Commission of the PRC by its approval document Ji Ji Qing (1996) No. 428 issued on 13 March 1996. The business registration procedure has not yet proceeded and the Company has not yet injected any capita into the Sino-foreign joint venture.
- (2) As at 31 December 2000, the Company had the following capital commitments approved which have to be paid within one year.

Approved and contracted	RMB16,026,760.00
	USD 840,000.00
Approved but not contracted	RMB36,459,800.00

#### 46. Subsequent events after the date of the balance sheet

- (1) On 25 August 2000, the Third Board of the Company, in their 6th meeting, approved the establishment of DFEM Instrument and Mould Company Limited. The proposed registered capital is RMB 14,600,000.00 and the Company is planned to contribute RMB 14,500,000.00 in the term of fixed assets and cash. The plan was approved by State Finance Department in accordance with document, which issued by Cai Qi Han [2000] No.445 "Agreement of Assets Evaluation project of DFEM Instrument and Mould Company Limited established by DFEM" on 2 November 2000. The contributed fixed assets have been evaluated by SSCPA according to the document Xin De Zi Ping Bao Zi [2000] No.26 "Report on Parts of Fixed Assets Evaluation report of DFEM" on 20 November 2000. Moreover, this report was approved by State Finance Department in accordance with document Cai Qi [2001] No.40 "Opinion about validity of Assets Evaluation for the establishment" on 17 January 2001. On 30 February 2001, the share capital of DFEM Instrument and Mould Company Limited was verified by SSCPA according to Xin De Shen Yan Zi Bao Zi [2001] No.4 "Verification Report". They obtained the "Operating License of Legal Entity" No. 5106001800079-7 on 13 March 2001.
- (2) As the Note 8(4), up to 31 December 2000 the un-received deputation deposit of Chongqing Stallion Estate Company (Black Horse) is RMB 5,671,630.00. On 20 January 2001, one mortgage guarantee of Black Horse - HuangDe Estate Company has sold the hostage - QingDao HuangDe Beach Garden Estate, Shi amounting to RMB 3,200,000 which was used to repay the arrears of the company for Black Horse Company.

On 29 March 2001, Black Horse, ShengYi Company, Sunshine Company and ChongQing YouJi (Group) Company limited expired with the company into an agreement on debtors' confirmation, which confirmed the debts of Black Horse, ShengYi Company and Sunshine Company. Meanwhile, the agreement confirmed that the debt of ChongQing YouJi (Group) is RMB 63,336,205.00, with undertaking implicate responsibility, and guarantee the register and signature for the presale of ChongQing World Trade Building amounting to RMB 30,000,000.00 as of when the agreement signed.

- (3) The Sino-foreign joint venture with Siemens Aktien Gessellschaft of Germany to produce steam turbine generators has been formally approved by the approval document Ji Ji Qing (1995) No.2282 of the State Planning Commission of the PRC on 18 December 1995. Total investment for this joint venture is approximately DM 33,900,000.00, the registered capital is DM 16,000,000.00, and the Company will invest 49% of the registered capital. The business registration procedure has not yet proceeded and the Company has not yet injected any capital into the proposed joint venture.

- (4) As of 31 December 2000 loans to Le Shan Dongle Heavy Piece Handling Company (Dongle) amounted to RMB 12,000,000.00. On 15 March 2001 DFEW , Dongle and DFEM entered into the agreement of " Specific guise of the treatment for price difference of heavy piece handling", which stipulated the Shan Dongle Heavy Piece Handling Company (Dongle) issued the 100 percentage invoices of the receivables as the heavy piece handling fee , including 60% burdened by the Company and the remainder for compensating the above debts.
- (5) On 16 January 2000, the Company filed a lawsuit to resolve a dispute arising from debt against Ruixin and Deyang LICC demanding the defendant to repay a loan amounting RMB 9,400,000.00, an indemnity of RMB 1,107,450.00 for loss, LICC for responsibility of fault and bear all legal costs. On 28 February 2001, Sichuan Deyang Middle-level People's Court issued (2001) De Jing Chu Zi No. 17 Civil Mediation, where through the mediation by the court, the parties agreed to the following: Ruixin shall repay the loan RMB 2,000,000.00 at once when the civil mediation gets into effect, with the repayment of RMB 2,800,000.00 by 25 April 2001, of RMB 6,400,000.00 by 31 May 2001 and of RMB 20,000.00 for loss. Deyang LICC should be responsible for two-third of remaining amount of Ruixin. The appellation fee of RMB 57,010.00 and other fee of RMB 14,250.00 total amounting to RMB 71,260.00 shall be borne by Ruixin and be paid directly to the Company. After the civil mediation was effective, Ruixin have paid RMB 200,000.00 to the Company.
- (6) On 26 April, 2000 DFEC agree to the report relating to withdraw the cooperation project of the Company and the Siemens of Germany according to Dong Si Zi Cai Zi(2000) No.47.

On 6 March, 2001 the temporary general meeting approved that the usage of the joint capital originally set for steam turbine authorized by to Dong Si Zi Cai Zi(2000) No.47, which amounted to RMB 60,000,000.00 and make up for the lack of operating capital.

#### **47. Comparative figures**

To be consistent, the Company has adjusted and reclassified certain comparative figures from the previous year in the financial statements.

#### **48. Approval of financial statements**

The financial statements were approved by the Board of Directors on 2 April 2001.