

7. FINANCIAL REPORT (UNAUDITED)

1. Financial statements and notes thereto prepared in accordance with PRC Accounting Standards

FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30TH JUNE 2002 (UNAUDITED)
DONGFANG ELECTRICAL MACHINERY COMPANY LIMITED AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

AS OF 30TH JUNE 2002

(Expressed in Renminbi)

	Note	As of 30th June 2002 (unaudited)	As of 31st December 2001 (audited)
ASSETS			
Current assets			
Cash and cash equivalents	4(1)	704,764,076.53	864,077,943.04
Short-term investments	4(2)	33,348,700.00	33,348,700.00
Notes receivable		10,378,000.00	18,165,416.29
Accounts receivable	4(3)	584,432,935.13	627,577,905.36
Other receivables	4(4)	86,241,932.06	84,576,233.26
Prepayments		130,727,877.90	101,308,405.09
Inventories		560,355,098.46	387,341,156.08
Deferred expenses		19,894.65	45,451.07
Construction contracts in progress		21,983,527.81	–
Total current assets		2,132,252,042.54	2,116,441,210.19
Long-term investments			
Long-term equity investments	4(5)	181,819.55	76,828.73
Including: consolidation price variance		(1,496,194.84)	(1,581,532.84)
Long-term debt investments	4(5)	60,939.75	60,939.75
Total long-term investments		242,759.30	137,768.48
Fixed assets			
Fixed assets, cost	4(8)	750,391,022.21	714,127,959.54
Less: accumulated depreciation	4(8)	(406,554,944.19)	(384,253,526.50)
Fixed assets, net		343,836,078.02	329,874,433.04
Construction materials	4(6)	32,343,802.57	31,476,794.82
Construction-in-progress	4(7)	56,567,622.00	64,336,222.60
Total fixed assets		432,747,502.59	425,687,450.46
Intangible assets and other assets			
Intangible assets		32,740,762.60	32,123,189.73
Long-term deferred expenditure	4(9)	3,048,065.07	3,433,613.48
Other long-term assets		200,000.00	200,000.00
Total intangible assets and other assets		35,988,827.67	35,756,803.21
Total assets		2,601,231,132.10	2,578,023,232.34

DONGFANG ELECTRICAL MACHINERY COMPANY LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEET *(continued)*

AS OF 30TH JUNE 2002

(Expressed in Renminbi)

	Note	As of 30th June 2002 <i>(unaudited)</i>	As of 31st December 2001 <i>(audited)</i>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short-term borrowings		282,100,000.00	327,100,000.00
Notes payable		74,369,491.48	93,983,877.28
Accounts payable		84,377,961.59	71,151,740.22
Advances from customers		388,664,732.21	165,925,412.10
Advances of uncompleted construction contracts		81,717,992.87	175,427,488.67
Salaries payable		18,765,795.04	26,210,254.52
Staff welfare payable		11,675,886.51	8,047,519.17
Taxes payable		141,158,007.56	175,143,061.96
Other unpaid amounts		10,044,931.28	11,400,785.64
Other payables		43,826,707.65	44,243,425.92
Accruals		37,722,467.21	34,010,818.44
Provision for estimated losses of construction contracts		150,540.56	1,633,445.87
Provisions		653,425.00	653,425.00
Long-term liabilities, current portion	4(10)	101,358,582.00	91,358,582.00
Total current liabilities		1,276,586,520.96	1,226,289,836.79
Long-term liabilities			
Long-term borrowings	4(10)	439,000,000.00	450,000,000.00
Long-term payables		685,252.84	685,252.84
Other long-term liabilities		27,461,634.66	14,338,634.66
Total long-term liabilities		467,146,887.50	465,023,887.50
Total liabilities		1,743,733,408.46	1,691,313,724.29
Minority interests		1,008,863.62	877,976.97
Shareholders' equity			
Share capital		450,000,000.00	450,000,000.00
Capital surplus		606,569,232.07	606,180,232.07
Statutory common reserve fund		53,589,830.54	53,589,830.54
Including: statutory public welfare fund		25,997,136.58	25,997,136.58
Retained earnings		(253,670,202.59)	(223,938,531.53)
Total shareholders' equity		856,488,860.02	885,831,531.08
Total liabilities and shareholders' equity		2,601,231,132.10	2,578,023,232.34

DONGFANG ELECTRICAL MACHINERY COMPANY LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED INCOME AND INCOME APPROPRIATIONS STATEMENTS
FOR THE THREE MONTHS AND THE SIX MONTHS ENDED 30TH JUNE 2002
(Expressed in Renminbi)

	Note	For the three months ended 30th June 2002 <i>(unaudited)</i>	For the six months ended 30th June 2002 <i>(unaudited)</i>	For the six months months ended 30th June 2001 <i>(unaudited)</i>
1. Revenue		170,982,789.01	252,482,083.89	177,293,796.43
Less: Cost of sales		(118,773,706.33)	(182,462,740.47)	(150,429,127.76)
Sales tax and surcharges		(293,875.99)	(376,416.98)	—
2. Profit from principal operations		51,915,206.69	69,642,926.44	26,864,668.67
Add: Other operating profit	4(11)	1,010,716.62	1,406,144.94	221,833.38
Less: Selling expenses		(6,762,367.12)	(12,858,506.82)	(12,883,635.41)
Administrative expenses		(35,839,966.42)	(72,774,174.62)	(75,431,731.90)
Financial expenses	4(12)	(13,460,150.46)	(14,600,447.11)	(10,112,657.43)
3. Operating profit		(3,136,560.69)	(29,184,057.17)	(71,341,522.69)
Add: Investment income		30,305.64	104,549.99	939,469.67
Subsidy income		140,000.00	140,000.00	—
Non-operating income		1,311,619.05	1,876,463.05	152,790.56
Less: Non-operating expenses		(2,395,411.28)	(2,537,740.28)	(281,861.26)
4. Total profit		(4,050,047.28)	(29,600,784.41)	(70,531,123.72)
Less: Income tax		—	—	—
Minority interests		(152,242.77)	(130,886.65)	22,339.99
5. Net profit		(4,202,290.05)	(29,731,671.06)	(70,508,783.73)
Add: Retained earnings, beginning of period		(249,467,912.54)	(223,938,531.53)	37,410,522.65
6. Distributable profits		(253,670,202.59)	(253,670,202.59)	(33,098,261.08)
Less: Profit appropriations				
- Statutory common reserve fund		—	—	—
- Statutory public welfare fund		—	—	—
7. Profit available for distribution to shareholders		<u>(253,670,202.59)</u>	<u>(253,670,202.59)</u>	<u>(33,098,261.08)</u>
8. Retained earnings, end of period		<u>(253,670,202.59)</u>	<u>(253,670,202.59)</u>	<u>(33,098,261.08)</u>

DONGFANG ELECTRICAL MACHINERY COMPANY LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2002

(Expressed in Renminbi)

	For the six months ended 30th June 2002 (unaudited)	For the six months ended 30th June 2001 (unaudited)
1. Cash Flows from Operating Activities:		
Cash received from sales of goods or rendering of services	402,845,575.72	371,516,050.66
Refund of tax	140,792.90	64,696.69
Other cash received relating to operating activities	69,526,419.42	52,050,887.80
Sub-total of cash inflows	472,512,788.04	423,631,635.15
Cash paid for goods and services	(338,584,725.96)	(270,201,296.79)
Cash paid to and on behalf of employees	(80,809,089.15)	(67,019,326.05)
Payments of all types of taxes	(35,812,089.84)	(29,372,453.05)
Other cash paid relating to operating activities	(87,679,720.31)	(90,974,899.97)
Sub-total of cash outflows	(542,885,625.26)	(457,567,975.86)
Net cash flows from operating activities	(70,372,837.22)	(33,936,340.71)
2. Cash Flows from Investing Activities:		
Cash received from return of investments	–	16,650,862.67
Other cash received relating to investing activities	9,403,865.24	195,567.35
Sub-total of cash inflows	9,403,865.24	16,846,430.02
Cash paid to acquire of fixed assets, intangible assets and other long-term assets	(13,245,616.46)	(13,459,588.74)
Cash paid to acquire investments	(9,398,645.24)	(81,200,000.00)
Other cash paid relating to investing activities	(2,298,256.17)	(15,000,000.00)
Sub-total of cash outflows	(24,942,517.87)	(109,659,588.74)
Net cash flows from investing activities	(15,538,652.63)	(92,813,158.72)

DONGFANG ELECTRICAL MACHINERY COMPANY LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENT *(continued)*

FOR THE SIX MONTHS ENDED 30TH JUNE 2002

(Expressed in Renminbi)

	For the six months ended 30th June 2002 <i>(unaudited)</i>	For the six months ended 30th June 2001 <i>(unaudited)</i>
3. Cash Flows from Financing Activities:		
Cash received from equity investment	–	100,000.00
Cash received from borrowings	181,100,000.00	231,500,000.00
Other proceeds relating to financing activities	8,622,481.49	–
Sub-total of cash inflows	189,722,481.49	231,600,000.00
Cash repayments of amounts borrowed	(227,100,000.00)	(106,500,000.00)
Cash payments for distribution of dividends or profits	(12,402,165.00)	(6,496,867.50)
Other cash payments relating to financing activities	(23,639,167.69)	–
Sub-total of cash outflows	(263,141,332.69)	(112,996,867.50)
Cash flows from financing activities	(73,418,851.20)	118,603,132.50
4. Effect of Foreign Exchange Rate Changes on Cash	16,474.54	–
5. Net Decrease in Cash and Cash Equivalents	(159,313,866.51)	(8,146,366.93)

DONGFANG ELECTRICAL MACHINERY COMPANY LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENT *(continued)*

FOR THE SIX MONTHS ENDED 30TH JUNE 2002

(Expressed in Renminbi)

	For the six months ended 30th June 2002 <i>(unaudited)</i>	For the six months ended 30th June 2001 <i>(unaudited)</i>
Supplemental Information		
1. Reconciliation of Net Profit to		
Cash Flows from Operating Activities		
Net profit	(29,731,671.06)	(70,508,783.73)
Add (less): Minority interests	130,886.65	(22,339.99)
Provision for impairment loss of assets	(1,072,545.01)	–
Depreciation of fixed assets	24,042,449.72	10,900,089.48
Amortisation of intangible assets	1,845,460.55	415,636.69
Amortisation of long-term deferred expenditure	385,548.41	176,739.30
Losses on disposal of fixed assets, intangible assets and other long- term assets	29,684.80	58,038.68
Financial expenses	14,132,535.22	15,806,576.08
(Gains) Losses arising from investments	(104,549.99)	939,469.67
Increase in inventories	(173,374,171.58)	(60,061,143.12)
Decrease (Increase) in operating receivables	(2,160,887.58)	(129,747,210.36)
Increase in operating payables	95,504,422.65	198,106,586.59
Net cash flows from operating activities	(70,372,837.22)	(33,936,340.71)
2. Net Decrease in Cash and		
Cash Equivalents		
Cash and cash equivalents, end of period	704,764,076.53	734,736,926.66
Less: Cash and cash equivalents, beginning of period	864,077,943.04	742,883,293.59
Net decrease in cash and cash equivalents	(159,313,866.51)	(8,146,366.93)

DONGFANG ELECTRICAL MACHINERY COMPANY LIMITED
BALANCE SHEET

AS OF 30TH JUNE 2002

(Expressed in Renminbi)

	Note	As of 30th June 2002 (unaudited)	As of 31st December 2001 (audited)
ASSETS			
Current assets			
Cash and cash equivalents	4(1)	679,923,547.30	830,326,690.28
Short-term investments	4(2)	33,348,700.00	33,348,700.00
Notes receivable		9,100,000.00	17,157,000.00
Accounts receivable	4(3)	549,295,760.73	639,429,447.37
Other receivables	4(4)	116,214,416.05	87,686,473.50
Prepayments		141,100,719.25	106,222,086.02
Inventories		488,973,375.72	339,789,149.65
Deferred expenses		12,394.65	43,451.07
Construction contracts in progress		21,983,527.81	—
Total current assets		2,039,952,441.51	2,054,002,997.89
Long-term investments			
Long-term equity investments	4(5)	61,681,570.41	48,862,139.40
Long-term debt investments	4(5)	60,939.75	60,939.75
Total long-term investments		61,742,510.16	48,923,079.15
Fixed assets			
Fixed assets, cost	4(8)	691,266,041.86	661,461,482.74
Less: accumulated depreciation	4(8)	(372,791,889.69)	(353,044,537.76)
Fixed assets, net		318,474,152.17	308,416,944.98
Construction materials	4(6)	32,343,802.57	31,476,794.82
Construction-in-progress	4(7)	56,519,707.52	63,910,131.82
Total fixed assets		407,337,662.26	403,803,871.62
Intangible assets and other assets			
Intangible assets		31,508,742.23	32,123,189.73
Long-term deferred expenditure	4(9)	2,425,930.95	2,673,227.36
Other long-term assets		200,000.00	200,000.00
Total intangible assets and other assets		34,134,673.18	34,996,417.09
Total assets		2,543,167,287.11	2,541,726,365.75

DONGFANG ELECTRICAL MACHINERY COMPANY LIMITED**BALANCE SHEET** *(continued)*

AS OF 30TH JUNE 2002

(Expressed in Renminbi)

	Note	As of 30th June 2002 <i>(unaudited)</i>	As of 31st December 2001 <i>(audited)</i>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short-term borrowings		282,100,000.00	327,100,000.00
Notes payable		74,369,491.48	93,983,877.28
Accounts payable		84,665,253.69	73,780,745.58
Advances from customers		345,503,094.33	141,721,986.43
Advances of uncompleted construction contracts		81,717,992.87	175,427,488.67
Salaries payable		18,436,375.04	25,571,891.89
Staff welfare payable		8,115,814.98	5,843,515.62
Taxes payable		141,973,544.67	175,318,940.24
Other unpaid amounts		9,882,814.32	11,243,973.74
Other payables		40,570,681.96	37,225,533.43
Accruals		25,299,236.11	28,671,572.99
Provision for estimated losses of construction contracts		150,540.56	1,633,445.87
Long-term liabilities, current portion	4(10)	101,358,582.00	91,358,582.00
Total current liabilities		1,214,143,422.01	1,191,606,553.74
Long-term liabilities			
Long-term borrowings	4(10)	439,000,000.00	450,000,000.00
Long-term payables		685,252.84	685,252.84
Other long-term liabilities		26,991,634.66	13,868,634.66
Total long-term liabilities		466,676,887.50	464,553,887.50
Total liabilities		1,680,820,309.51	1,656,160,441.24
Shareholders' equity			
Share capital		450,000,000.00	450,000,000.00
Capital surplus		606,569,232.07	606,180,232.07
Statutory common reserve fund		53,589,830.54	53,589,830.54
Including: statutory public welfare fund		25,997,136.58	25,997,136.58
Retained earnings		(247,812,085.01)	(224,204,138.10)
Total shareholders' equity		862,346,977.60	885,565,924.51
Total liabilities and shareholders' equity		2,543,167,287.11	2,541,726,365.75

DONGFANG ELECTRICAL MACHINERY COMPANY LIMITED
INCOME AND INCOME APPROPRIATIONS STATEMENTS
FOR THE THREE MONTHS AND THE SIX MONTHS ENDED 30TH JUNE 2002
(Expressed in Renminbi)

	Note	For the three months ended 30th June 2002 <i>(unaudited)</i>	For the six months ended 30th June 2002 <i>(unaudited)</i>	For the six months months ended 30th June 2001 <i>(unaudited)</i>
1. Revenue		147,080,330.26	223,121,800.83	163,139,399.37
Less: Cost of sales		(96,953,939.50)	(161,680,603.24)	(140,340,290.37)
2. Profit from principal operations		50,126,390.76	61,441,197.59	22,799,109.00
Add: Other operating profit	4(11)	(358,557.51)	(356,728.13)	(485,480.68)
Less: Selling expenses		(5,602,871.63)	(10,562,574.63)	(11,351,883.81)
Administrative expenses		(30,102,929.29)	(62,532,729.12)	(68,948,619.75)
Financial expenses	4(12)	(13,296,597.66)	(14,491,034.83)	(10,211,212.98)
3. Operating profit		765,434.67	(26,501,869.12)	(68,198,088.22)
Add: Investment income		3,261,992.91	3,420,344.94	316,745.14
Non-operating income		1,264,000.33	1,823,870.35	146,886.97
Less: Non-operating expenses		(2,207,964.06)	(2,350,293.08)	(281,861.26)
4. Total profit		3,083,463.85	(23,607,946.91)	(68,016,317.37)
Less: Income tax		—	—	—
5. Net profit		3,083,463.85	(23,607,946.91)	(68,016,317.37)
Add: Retained earnings, beginning of period		(250,895,548.86)	(224,204,138.10)	38,359,926.64
6. Distributable profits		(247,812,085.01)	(247,812,085.01)	(29,656,390.73)
Less: Profit appropriations				
– Statutory common reserve fund		—	—	—
– Statutory public welfare fund		—	—	—
7. Profit available for distribution to shareholders		<u>(247,812,085.01)</u>	<u>(247,812,085.01)</u>	<u>(29,656,390.73)</u>
8. Retained earnings, end of period		<u>(247,812,085.01)</u>	<u>(247,812,085.01)</u>	<u>(29,656,390.73)</u>

DONGFANG ELECTRICAL MACHINERY COMPANY LIMITED
CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2002

(Expressed in Renminbi)

	For the six months ended 30th June 2002 (unaudited)	For the six months ended 30th June 2001 (unaudited)
1. Cash Flows from Operating Activities:		
Cash received from sales of goods or rendering of service	335,751,337.94	335,317,791.09
Other cash received relating to operating activities	32,481,005.76	48,492,024.36
Sub-total of cash inflows	368,232,343.70	383,809,815.45
Cash paid for goods and service	(244,764,007.60)	(251,703,764.56)
Cash paid to and on behalf of employees	(70,025,474.63)	(61,209,011.11)
Payments of all types of taxes	(32,068,694.12)	(29,292,400.00)
Other cash paid relating to operating activities	(75,287,573.87)	(78,295,052.79)
Sub-total of cash outflows	(422,145,750.22)	(420,500,228.46)
Net cash flows from operating activities	(53,913,406.52)	(36,690,413.01)
2. Cash Flow from Investing Activities:		
Cash received from return of investments	–	16,650,862.67
Other cash received relating to investing activities	–	195,567.35
Sub-total of cash inflows	–	16,846,430.02
Cash paid to acquire of fixed assets, intangible assets and other long-term assets	(11,390,458.39)	(13,352,881.74)
Cash paid to acquire investments	(9,398,645.24)	(88,053,722.11)
Other cash paid relating to investing activities	(2,298,256.17)	(15,000,000.00)
Sub-total of cash outflows	(23,087,359.80)	(116,406,603.85)
Net cash flows from investing activities	(23,087,359.80)	(99,560,173.83)

DONGFANG ELECTRICAL MACHINERY COMPANY LIMITED**CASH FLOW STATEMENT** *(continued)*

FOR THE SIX MONTHS ENDED 30TH JUNE 2002

(Expressed in Renminbi)

	For the six months ended 30th June 2002 <i>(unaudited)</i>	For the six months ended 30th June 2001 <i>(unaudited)</i>
3. Cash Flows from Financing Activities:		
Cash received from borrowings	181,100,000.00	231,500,000.00
Other proceeds relating to financing activities	8,622,481.49	—
Sub-total of cash inflows	189,722,481.49	231,500,000.00
Cash payments of amounts borrowed	(227,100,000.00)	(106,500,000.00)
Cash payments for distribution of dividends or profits	(12,402,165.00)	(6,496,867.50)
Other cash payments relating to financing activities	(23,639,167.69)	—
Sub-total of cash outflows	(263,141,332.69)	(112,996,867.50)
Cash flows from financing activities	(73,418,851.20)	118,503,132.50
4. Effect of Foreign Exchange Rate Changes on Cash	16,474.54	—
5. Net Decrease in Cash and Cash Equivalents	(150,403,142.98)	(17,747,454.34)

DONGFANG ELECTRICAL MACHINERY COMPANY LIMITED

CASH FLOW STATEMENT *(continued)*

FOR THE SIX MONTHS ENDED 30TH JUNE 2002

(Expressed in Renminbi)

	For the six months ended 30th June 2002 <i>(unaudited)</i>	For the six months ended 30th June 2001 <i>(unaudited)</i>
Supplemental Information		
1. Reconciliation of Net Profit to Cash Flows from Operating Activities		
Net profit	(23,607,946.91)	(68,016,317.37)
Add (less): Provision for impairment loss of assets	(1,130,606.04)	–
Depreciation of fixed assets	21,424,425.73	20,115,064.20
Amortisation of intangible assets	614,447.50	415,636.69
Amortisation of long-term deferred expenditure	247,296.41	176,739.30
Losses on disposal of fixed assets, intangible assets and other long-term assets	29,684.80	58,038.68
Financial expenses	13,944,736.88	15,811,254.45
Gains arising from investment	(3,420,344.94)	(316,745.14)
Increase in inventories	(159,126,124.95)	(43,778,674.55)
Decrease (Increase) in operating receivables	22,390,182.66	(107,165,429.98)
Increase in operating payables	74,720,842.34	146,010,020.71
2. Net cash flows from operating activities	(53,913,406.52)	(36,690,413.01)
Cash and cash equivalents, end of period	679,923,547.30	702,362,500.90
Less: cash and cash equivalents, beginning of period	830,326,690.28	720,109,955.24
Net decrease in cash and cash equivalents	(150,403,142.98)	(17,747,454.34)

DONGFANG ELECTRICAL MACHINERY COMPANY LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

AS OF 30TH JUNE 2002

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

1. GENERAL INFORMATION

Dongfang Electrical Machinery Company Limited (the "Company") was incorporated on 28th December 1993 in the People's Republic of China ("PRC") as a joint stock company with limited liabilities. The Company and its subsidiaries (the "Group") are principally engaged in the production and sale of large-scale hydro turbine and steam turbine generators, A.C. and D.C. motors, control system, ordinary machinery and electrical machinery; technical reform and equipments installation for power plants; the exports of whole set of machine system and equipments and the related technology as well as the imports of materials, equipments, spare parts and technology for manufacturing use.

Pursuant to the approval document Tigaisheng (1994) No. 42 issued by State Economic System Reform Commission of the PRC on 12th April 1994, the Company issued 170,000,000 overseas listed foreign investment shares (the "H Shares") to the public in Hong Kong with par value of RMB1.00 per share on 31st May 1994. The H Shares have been listed on Hong Kong Exchanges and Clearing Limited since 6th June 1994. On 4th July 1995, the Company issued 60,000,000 domestically listed Renminbi ordinary shares (the "A Shares") with par value of RMB 1.00 per share in the PRC. The A Shares have been listed on the Shanghai Stock Exchange since 10th October 1995.

2. MAJOR ACCOUNTING POLICIES, ESTIMATIONS AND BASIS OF CONSOLIDATION

The financial statements as of, for the three months and six months ended 30th June 2002 of the Group and the Company (the "Interim Financial Statements") are prepared in accordance with relevant provisions of the Accounting Standards for Business Enterprises - Interim Reporting and Standard for Information Disclosure Contents and Formats of Companies with Publicly Issued Securities No. 3 - Half Year Reporting issued by China Securities regulatory Commission. The Interim Financial Statements have not been audited.

The accounting policies and methods of computation used in the preparation of the Interim Financial Statements are consistent with those used in the annual accounts for the year ended 31st December 2001.

The Group and the Company adopt Accounting Standards for Business Enterprises, Accounting Regulations for Business Enterprises and Temporary Provisions for Consolidated Financial Statements of the PRC (the "PRC GAAP") in preparing their financial statements.

The consolidated financial statements include financial statements of the Company and its consolidated subsidiaries. A subsidiary is: the Company (i) possesses, directly or indirectly, over 50% of the voting rights of the shares or equity interests, or (ii) can exercise dominant voting rights in the subsidiary's management committee or board of directors. Consolidated financial statements are prepared in accordance with the Temporary Provisions for Consolidated Financial Statements using the following methods:

- (i) The differences arising from the adoption of different accounting policies by a parent company and a subsidiary is adjusted;
- (ii) Internal transactions between a parent company and a subsidiary and among subsidiaries are eliminated;
- (iii) Investment income, current accounts and unrealised profits arising from internal transactions are eliminated.

The Interim Financial Statements of the Group comprise of the financial statements of the following consolidated subsidiaries:

Subsidiaries	Place of registration and date of establishment	Interest held	Registered capital <i>RMB '000</i>	Principal activities
DFEM Equipment Engineering Co., Ltd.	PRC 16th August 2001	97.04% (directly held) 2.17% (indirectly held)	13,500	Provision of repair and maintenance service of electrical engines
DFEM Power System Co., Ltd.	PRC 5th December 2000	98.55% (directly held)	34,399	Manufacture and sale AC and DC engines
DFEM Tooling & Moulding Co., Ltd.	PRC 13th March 2001	99.32% (directly held)	14,600	Manufacture and sale of tools and moulds
DFEM Control Equipment Co., Ltd.	PRC 18th May 2000	96.15% (directly held)	13,000	Manufacture and sale of control equipment to electricity generators

The basis of consolidation of the Interim Financial Statements is consistent with that of the annual accounts for the year ended 31st December 2001.

3. TAXATION

(1) Value-added tax ("VAT")

The Company and its subsidiaries are subject to VAT on its sales, which is charged on the selling price at a general rate of 17%. An input credit is available whereby VAT previously paid on purchases of raw materials, semi-finished products, etc., can be used to offset the VAT payable on sales to determine the net VAT payable.

(2) Sales tax and surcharges

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

- Business tax ("BT"), which is levied on the revenue from rendering consulting and other services at a rate of 5%;
- City Maintenance and Construction Tax, which is levied on the net amount of VAT payable and BT payable at a rate of 7%;
- Education surcharge, which is levied on the net amount of VAT payable and BT payable at a rate of 3%.

(3) Enterprise income tax ("EIT")

Pursuant to the Guoshuihanfa [1994] No. 62 Circular issued by the State Administration of Taxation, the Company is subject to EIT on its taxable income at a rate of 15%. According to the Temporary Provisions for Enterprise Income Tax of the PRC, the Company's subsidiaries are subject to EIT on their respective taxable income at a rate of 33%.

The Group and the Company adopt tax payable method in accounting for their income tax.

(4) Real estate tax ("RET")

RET is calculated and payable at a rate of 1.2% on the basis of 70% of the cost of the properties possessed by the Group.

(5) Land use tax

Land use tax is calculated and payable at a rate of RMB 1.00 per square metre per annum effective from 1st September 2000.

4. NOTES TO THE MAJOR ITEMS OF THE FINANCIAL STATEMENTS

(1) Cash and cash equivalents

The breakdown of the Group's cash and cash equivalents is listed as follows:

	30th June 2002 (unaudited)	31st December 2001 (audited)
Cash on hand	48,300.30	31,532.71
Cash at banks	565,278,052.47	726,944,358.02
Other monetary funds	139,437,723.76	137,102,052.31
Total	<u>704,764,076.53</u>	<u>864,077,943.04</u>

As of 30th June 2002, foreign currencies included in the Group's bank deposits are as follows:

Currency	Original currency	Exchange rate	RMB Equivalent
United States dollar ("USD")	32,852,034.95	8.2771	271,919,578.48
Hong Kong dollar ("HKD")	72.65	1.0606	77.05
Total			<u>271,919,655.53</u>

As of 30th June 2002, time deposits included in the Group's bank deposits amounted to RMB 263,994,496.23 (31st December 2001: RMB 352,869,783.83).

The breakdown of the Company's cash and cash equivalents is listed as follows:

	30th June 2002 (unaudited)	31st December 2001 (audited)
Cash on hand	7,861.04	10,927.45
Cash at banks	540,477,962.50	693,213,710.52
Other monetary funds	139,437,723.76	137,102,052.31
Total	<u>679,923,547.30</u>	<u>830,326,690.28</u>

As of 30th June 2002, foreign currencies included in the Company's bank deposits are as follows:

Currency	Original currency	Exchange rate	RMB Equivalent
United States dollar ("USD")	32,852,034.95	8.2771	271,919,578.48
Hong Kong dollar ("HKD")	72.65	1.0606	77.05
Total			<u>271,919,655.53</u>

As of 30th June 2002, time deposits included in the Company's bank deposits amounted to RMB 263,944,496.23 (31st December 2001: RMB 350,869,783.83).

(2) **Short-term investments**

The breakdown of the Group's short-term investments is listed as follows:

	30th June 2002 (unaudited)	31st December 2001 (audited)
Investment in securities	75,960.00	75,960.00
Other investments	40,000,000.00	40,000,000.00
Total	40,075,960.00	40,075,960.00
Less: Provision for impairment loss of short-term investments	(6,727,260.00)	(6,727,260.00)
Net	33,348,700.00	33,348,700.00

The breakdown of the Company's short-term investments is the same as the Group.

(3) Accounts receivable

Aging analysis of the Group's accounts receivable is listed as follows:

	30th June 2002 (unaudited)		31st December 2001 (audited)	
	Amount	Rate (%)	Amount	Rate (%)
Balance				
Within 1 year	257,641,679.08	40.76	277,850,960.74	41.15
1-2 years	126,096,625.70	19.95	121,319,825.71	17.97
2-3 years	101,976,022.37	16.14	113,792,522.37	16.85
3-4 years	65,449,708.90	10.35	68,619,708.90	10.16
4-5 years	38,894,598.26	6.15	42,580,636.02	6.31
Above 5 years	42,037,733.27	6.65	51,027,552.97	7.56
Total	<u>632,096,367.58</u>	<u>100.00</u>	<u>675,191,206.71</u>	<u>100.00</u>
Provision for bad debts				
Within 1 year	(7,419,490.70)		(7,312,729.04)	
1~2 years	(7,230,488.91)		(7,279,189.54)	
2~3 years	(7,965,476.57)		(7,965,476.57)	
3~4 years	(5,489,576.71)		(5,489,576.71)	
4~5 years	(4,258,063.60)		(4,258,063.60)	
Above 5 years	<u>(15,300,335.96)</u>		<u>(15,308,265.89)</u>	
Total	<u>(47,663,432.45)</u>		<u>(47,613,301.35)</u>	
Net	<u>584,432,935.13</u>		<u>627,577,905.36</u>	

The accounts receivable of the Group as of 30th June 2002 included retention money receivables of approximately RMB 268,283,000.00 (31st December 2001: approximately RMB 264,317,000.00).

Aging analysis of the Company's accounts receivable is listed as follows:

	30th June 2002 (unaudited)		31st December 2001 (audited)	
	Amount	Rate (%)	Amount	Rate (%)
Balance				
Within 1 year	224,655,493.73	37.60	291,129,190.83	42.34
1-2 years	124,502,586.50	20.83	120,508,148.51	17.52
2-3 years	101,976,022.37	17.07	113,792,522.37	16.55
3-4 years	65,449,708.90	10.95	68,619,708.90	9.98
4-5 years	38,894,598.26	6.51	42,580,636.02	6.19
Above 5 years	42,037,733.27	7.04	51,027,552.97	7.42
Total	<u>597,516,143.03</u>	<u>100.00</u>	<u>687,657,759.60</u>	<u>100.00</u>
Provision for bad debts				
Within 1 year	(7,976,440.55)		(7,976,440.55)	
1-2 years	(7,230,488.91)		(7,230,488.91)	
2-3 years	(7,965,476.57)		(7,965,476.57)	
3-4 years	(5,489,576.71)		(5,489,576.71)	
4-5 years	(4,258,063.60)		(4,258,063.60)	
Above 5 years	(15,300,335.96)		(15,308,265.89)	
Total	<u>(48,220,382.30)</u>		<u>(48,228,312.23)</u>	
Net	<u>549,295,760.73</u>		<u>639,429,447.37</u>	

The accounts receivable of the Company as of 30th June 2002 included retention money receivables of approximately RMB 268,283,000.00 (31st December 2001: approximately RMB 264,317,000.00).

(4) Other receivables

Aging analysis of the Group's other receivables is listed as follows:

	30th June 2002 (unaudited)		31st December 2001 (audited)	
	Amount	Rate (%)	Amount	Rate (%)
Balance				
Within 1 year	13,095,189.39	9.27	11,973,895.93	8.58
1-2 years	1,203,790.44	0.85	671,833.20	0.48
2-3 years	585,201.90	0.41	242,645.33	0.17
Above 3 years	126,404,376.94	89.47	126,734,485.41	90.77
Total	141,288,558.67	100.00	139,622,859.87	100.00
Provision for bad debts				
Within 1 year	(3,987,041.04)		(3,987,041.04)	
1-2 years	(268,733.28)		(268,733.28)	
2-3 years	(97,058.13)		(97,058.13)	
Above 3 years	(50,693,794.16)		(50,693,794.16)	
Total	(55,046,626.61)		(55,046,626.61)	
Net	86,241,932.06		84,576,233.26	

Aging analysis of the Company's other receivables is listed as follows:

	30th June 2002 (unaudited)		31st December 2001 (audited)	
	Amount	Rate (%)	Amount	Rate (%)
Balance				
Within 1 year	44,420,029.69	25.56	17,590,373.09	12.11
1-2 years	2,357,671.05	1.36	671,833.20	0.46
2-3 years	585,201.90	0.34	242,645.33	0.17
Above 3 years	126,404,376.94	72.74	126,734,485.41	87.26
Total	173,767,279.58	100.00	145,239,337.03	100.00
Provision for bad debts				
Within 1 year	(6,493,277.96)		(6,493,277.96)	
1-2 years	(268,733.28)		(268,733.28)	
2-3 years	(97,058.13)		(97,058.13)	
Above 3 years	(50,693,794.16)		(50,693,794.16)	
Total	(57,552,863.53)		(57,552,863.53)	
Net	116,214,416.05		87,686,473.50	

(5) Long-term investments

Long-term investments of the Group are listed as follows:

	30th June 2002 (unaudited)	31st December 2001 (audited)
Long-term equity investments	492,760.80	387,769.98
Including: Equity interest investments	44,263.24	44,263.24
Other equity investments	448,497.56	343,506.74
Long-term debt investments	60,939.75	60,939.75
Total	553,700.55	448,709.73
Less: Provision for impairment loss of long-term investments	(310,941.25)	(310,941.25)
Net	242,759.30	137,768.48

Long-term investments of the Company are listed as follows:

	30th June 2002 (unaudited)	31st December 2001 (audited)
Long-term equity investments	61,992,511.66	49,173,080.65
Including: Equity interest investments	44,263.24	44,263.24
Other equity investments	61,948,248.42	49,128,817.41
Long-term debt investments	60,939.75	60,939.75
Total	62,053,451.41	49,234,020.40
Less: Provision for impairment loss of long-term investments	(310,941.25)	(310,941.25)
Net	61,742,510.16	48,923,079.15

The difference between the fair value and the book value of the assets invested in DFEM Tooling and Moulding Company Limited, a subsidiary of the Company, by the Company in February 2001 was RMB1,082,220.62. According to the provisions of the Accounting Regulations for Business Enterprises, the difference in equity investment will be amortised in 10 years commencing from 1st February 2001. As of 30th June 2001, the accumulated amortisation amounted to RMB153,314.67. The remaining balance of the consolidation price variance amounted to RMB928,905.95 on the Group's consolidated financial statements.

The difference between the fair value and the book value of the assets invested in DFEM Equipment Engineering Company Limited, a subsidiary of the Company, by the Company in August 2001 was RMB624,538.25. According to the provisions of the Accounting Regulations for Business Enterprises, the difference in equity investment will be amortised in 10 years commencing from 1st August 2001. As of 30th June 2001, the accumulated amortisation amounted to RMB57,249.36. The remaining balance of the consolidation price variance amounted to RMB 567,288.89 on the Group's consolidated financial statements.

(6) Construction materials

For the six months ended 30th June 2002, movement in construction materials of the Group is as follows:

Name of project	For the six months ended 30th June 2002 (unaudited)			
	Beginning balance	Additions	Deductions	Ending balance
Hydro-generator reform project	27,390,763.60	4,110,786.96	(3,142,425.31)	28,359,125.25
Techniques reform	2,960,000.00	4,611,753.60	(4,608,753.60)	2,963,000.00
Machinery reform	775,871.66	473,816.10	(525,600.00)	724,087.76
Electronic equipment	246,300.00	2,255,578.50	(2,468,178.50)	33,700.00
Other projects	103,859.56	1,049,475.99	(889,445.99)	263,889.56
Total	<u>31,476,794.82</u>	<u>12,501,411.15</u>	<u>(11,634,403.40)</u>	<u>32,343,802.57</u>

During the six months ended 30th June 2002, movement in construction materials of the Company is the same as the Group.

(7) Construction-in-progress

For the six months ended 30th June 2002, movement in construction-in-progress of the Group is as follows:

Name of project	For the six months ended 30th June 2002 (unaudited)			
	Beginning balance	Additions	Deductions	Ending balance
600KW steam generator test run station	11,158,756.70	–	(29,188.46)	11,129,568.24
Second improvement engineering of high platform	1,622,051.04	102,232.58	(13,600.00)	1,710,683.62
Borer 260	460,247.58	60,821.51	–	521,069.09
22 metres digital control machine	13,236,216.50	1,286,417.35	–	14,522,633.85
CIMS system	444,399.32	387,612.99	–	832,012.31
16M Multit-horizontal	900,238.29	102,337.98	–	1,002,576.27
Digital control process centre	–	913,751.03	–	913,751.03
Borer 250	–	456,452.15	–	456,452.15
Other projects	40,671,816.17	19,721,145.68	(30,756,583.41)	29,636,378.44
Total	68,493,725.60	23,030,771.27	(30,799,371.87)	60,725,125.00
Less: Provision for impairment loss of construction-in-progress	(4,157,503.00)			(4,157,503.00)
Net	64,336,222.60			56,567,622.00
Including: interest capitalised	13,711,247.70	1,019,742.38	(2,060,256.26)	12,670,733.82

For the six months ended 30th June 2002, movement in construction-in-progress of the Company is as follows:

Name of project	For the six months ended 30th June, 2002 (unaudited)			
	Beginning balance	Additions	Deductions	Ending balance
600KW steam generator test run station	11,158,756.70	–	(29,188.46)	11,129,568.24
Second improvement engineering of high platform	1,622,051.04	102,232.58	(13,600.00)	1,710,683.62
Borer 260	460,247.58	60,821.51	–	521,069.09
22 metres digital control machine	13,236,216.50	1,286,417.35	–	14,522,633.85
CIMS system	444,399.32	387,612.99	–	832,012.31
16M Mult-horizontal	900,238.29	102,337.98	–	1,002,576.27
Digital control process centre	–	913,751.03	–	913,751.03
Borer 250	–	456,452.15	–	456,452.15
Other projects	40,245,725.39	20,011,780.83	(30,669,042.26)	29,588,463.96
Total	68,067,634.82	23,321,406.42	(30,711,830.72)	60,677,210.52
Less: Provision for impairment loss of construction-in-progress	(4,157,503.00)			(4,157,503.00)
Net	<u>63,910,131.82</u>			<u>56,519,707.52</u>
Including: interest capitalised	<u>13,711,247.70</u>	<u>1,019,742.38</u>	<u>(2,060,256.26)</u>	<u>12,670,733.82</u>

(8) Fixed assets

For the six months ended 30th June 2002, movement in fixed assets of the Group is listed as follows:

	For the six months ended 30th June 2002 (unaudited)				
	Buildings	Plant and Machinery	Equipments	Motor vehicles	Total
Cost					
Balance, beginning of period	261,787,607.66	375,575,068.39	69,853,221.51	6,912,061.98	714,127,959.54
Additions	11,552,906.21	21,326,000.59	4,617,818.62	589,153.99	38,085,879.41
Deductions	–	(1,271,336.32)	(551,480.42)	–	(1,822,816.74)
Balance, end of period	273,340,513.87	395,629,732.66	73,919,559.71	7,501,215.97	750,391,022.21
Accumulated depreciation					
Balance, beginning of period	91,652,496.86	238,272,605.40	48,605,971.65	5,722,452.59	384,253,526.50
Additions	4,065,084.45	15,855,395.16	3,928,819.15	193,150.96	24,042,449.72
Deductions	–	(1,191,552.33)	(549,479.70)	–	(1,741,032.03)
Balance, end of period	95,717,581.31	252,936,448.23	51,985,311.10	5,915,603.55	406,554,944.19
Net book value					
Balance, end of period	177,622,932.56	142,693,284.43	21,934,248.61	1,585,612.42	343,836,078.02
Balance, beginning of period	170,135,110.80	137,302,462.99	21,247,249.86	1,189,609.39	329,874,433.04

For the six months ended 30th June 2002, movement of the Company's fixed assets is listed as follows:

	For the six months ended 30th June 2002 (unaudited)				
	Buildings	Plant and Machinery	Equipments	Motor vehicles	Total
Cost					
Balance, beginning of period	259,821,935.57	330,902,372.40	64,179,453.55	6,557,721.22	661,461,482.74
Additions	9,000,000.00	18,321,765.99	4,182,377.09	59,274.55	31,563,417.63
Disposals	–	(1,271,336.32)	(487,522.19)	–	(1,758,858.51)
Balance, end of period	268,821,935.57	347,952,802.07	67,874,308.45	6,616,995.77	691,266,041.86
Accumulated depreciation					
Balance, beginning of period	91,621,899.74	209,932,085.90	45,843,454.87	5,647,097.25	353,044,537.76
Additions	4,005,548.62	13,770,504.69	3,501,454.46	146,917.96	21,424,425.73
Disposals	–	(1,191,552.33)	(485,521.47)	–	(1,677,073.80)
Balance, end of period	95,627,448.36	222,511,038.26	48,859,387.86	5,794,015.21	372,791,889.69
Net book value					
Balance, end of period	173,194,487.21	125,441,763.81	19,014,920.59	822,980.56	318,474,152.17
Balance, beginning of period	168,200,035.83	120,970,286.50	18,335,998.68	910,623.97	308,416,944.98

(9) Long-term deferred expenditure

For the six months ended 30th June 2002, movement of the Group's long- term deferred expenditure is listed as follows:

	For the six months ended 30th June 2002 (unaudited)			
	Beginning balance	Additions	Amortisation	Ending balance
Natural gas	75,000.25	–	(54,999.96)	20,000.29
Software	422,995.82	–	(72,513.83)	350,481.99
Rental for office	1,528,460.29	–	(49,225.80)	1,479,234.49
Construction of technical building	646,771.00	–	(70,556.82)	576,214.18
Special plastic for VIP facilities	760,386.12	–	(138,252.00)	622,134.12
Total	<u>3,433,613.48</u>	<u>–</u>	<u>(385,548.41)</u>	<u>3,048,065.07</u>

For the six months ended 30th June 2002, movement of the Company's long- term deferred expenditure is listed as follows:

	For the six months ended 30th June 2002 (unaudited)			
	Beginning balance	Additions	Amortisation	Ending balance
Natural gas	75,000.25	–	(54,999.96)	20,000.29
Software	422,995.82	–	(72,513.83)	350,481.99
Rental for office	1,528,460.29	–	(49,225.80)	1,479,234.49
Construction of technical building	646,771.00	–	(70,556.82)	576,214.18
Total	<u>2,673,227.36</u>	<u>–</u>	<u>(247,296.41)</u>	<u>2,425,930.95</u>

(10) Long-term borrowings

As of 30th June 2002, the breakdown of the Group's long-term borrowings are listed as follows:

Borrowing from	Amount	Term of loans	Interest rate per annum	Guarantee
State Development Bank	10,000,000.00	1997.12-2003.11	6.21%	Credit
State Development Bank	30,000,000.00	1997.12-2004.11	6.21%	Credit
State Development Bank	40,000,000.00	1997.12-2005.11	6.21%	Credit
State Development Bank	49,000,000.00	1997.12-2006.11	6.21%	Credit
The Import and Export Bank of China	20,000,000.00	1997.12-2006.11	5.94%	Credit
The Import and Export Bank of China	10,000,000.00	1998.10-2003.04	4.05%	Guaranteed by DFEW
The Import and Export Bank of China	21,358,582.00	1998.10-2002.10	4.05%	Guaranteed by DFEW
The Import and Export Bank of China	20,000,000.00	1998.10-2002.05	4.05%	Guaranteed by DFEW
The Import and Export Bank of China	20,000,000.00	1998.10-2002.08	4.05%	Guaranteed by DFEW
The Import and Export Bank of China	30,000,000.00	1998.10-2002.11	4.05%	Guaranteed by DFEW
The Import and Export Bank of China	30,000,000.00	1998.10-2003.07	4.05%	Guaranteed by DFEW
The Import and Export Bank of China	50,000,000.00	1998.10-2003.10	4.05%	Guaranteed by DFEW
The Import and Export Bank of China	60,000,000.00	1998.10-2003.12	4.05%	Guaranteed by DFEW
The Import and Export Bank of China	40,000,000.00	1998.10-2004.07	4.05%	Guaranteed by DFEW
The Import and Export Bank of China	40,000,000.00	1998.10-2004.04	4.05%	Guaranteed by DFEW
The Import and Export Bank of China	50,000,000.00	1998.10-2004.10	4.05%	Guaranteed by DFEW
China Construction Bank	1,000,000.00	2001.12-2003.12	5.94%	Guaranteed by DFEW
China Construction Bank	19,000,000.00	2002.10-2003.12	5.94%	Guaranteed by DFEW
Total	540,358,582.00			
Less: Current portion	(101,358,582.00)			
	<u>439,000,000.00</u>			

As of 30th June 2002, the breakdown of long-term borrowings of the Company is the same as the Group.

As of 31st December, 2001, the breakdown of the Group's long-term borrowings are listed as follows:

Borrowing from	Amount	Term of loans	Interest rate per annum	Guarantee
State Development Bank	10,000,000.00	1997.12-2003.11	6.21%	Credit
State Development Bank	30,000,000.00	1997.12-2004.11	6.21%	Credit
State Development Bank	40,000,000.00	1997.12-2005.11	6.21%	Credit
State Development Bank	49,000,000.00	1997.12-2006.11	6.21%	Credit
State Development Bank	20,000,000.00	1997.12-2006.11	5.49%	Credit
The Import and Export Bank of China	30,000,000.00	1998.10-2003.04	4.05%	Guaranteed by DFEW
The Import and Export Bank of China	21,358,582.00	1998.10-2002.10	4.05%	Guaranteed by DFEW
The Import and Export Bank of China	20,000,000.00	1998.10-2002.05	4.05%	Guaranteed by DFEW
The Import and Export Bank of China	20,000,000.00	1998.10-2002.08	4.05%	Guaranteed by DFEW
The Import and Export Bank of China	30,000,000.00	1998.10-2002.11	4.05%	Guaranteed by DFEW
The Import and Export Bank of China	30,000,000.00	1998.10-2003.07	4.05%	Guaranteed by DFEW
The Import and Export Bank of China	50,000,000.00	1998.10-2003.10	4.05%	Guaranteed by DFEW
The Import and Export Bank of China	60,000,000.00	1998.10-2003.12	4.05%	Guaranteed by DFEW
The Import and Export Bank of China	40,000,000.00	1998.10-2004.04	4.05%	Guaranteed by DFEW
The Import and Export Bank of China	40,000,000.00	1998.10-2004.07	4.05%	Guaranteed by DFEW
The Import and Export Bank of China	50,000,000.00	1998.10-2004.10	4.05%	Guaranteed by DFEW
China Construction Bank	1,000,000.00	2001.12-2003.12	5.94%	Guaranteed by DFEW
Total	541,358,582.00			
Less: Current portion	(91,358,582.00)			
	<u>450,000,000.00</u>			

As of 31st December 2001, the breakdown of long-term borrowings of the Company is the same as the Group.

(11) Other operating profit

Details of the Group's other operating profit are listed as follows:

	For the six months ended 30th June 2002 (unaudited)	For the six months ended 30th June 2001 (unaudited)
Income from sales of energy	(816,028.20)	(301,146.39)
Rental income	43,488.65	–
Income from sales of castings	(369,477.41)	(2,068,515.60)
Income from sales of materials	1,933,559.45	1,882,991.12
Others	614,602.45	708,504.25
Total	<u>1,406,144.94</u>	<u>221,833.38</u>

Details of the Company's other operating profit are listed as follows:

	For the six months ended 30th June 2002 (unaudited)	For the six months ended 30th June 2001 (unaudited)
Income form sales of energy	(816,028.20)	(301,146.39)
Rental income	43,488.65	1,190.19
Income from sales of castings	(369,477.41)	(2,068,515.60)
Income from sales of materials	170,686.38	1,882,991.12
Others	614,602.45	–
Total	<u>(356,728.13)</u>	<u>(485,480.68)</u>

(12) Financial expenses

Details of the Group's financial expenses are listed as follows:

	For the six months ended 30th June 2002 (unaudited)	For the six months ended 30th June 2001 (unaudited)
Interest expense	23,786,993.17	16,733,933.52
Interest income	(8,713,101.63)	(6,197,847.88)
Exchange loss	29,375.99	117,530.76
Exchange income	(53,620.02)	(69,433.22)
Others	570,541.98	455,831.69
Sub-total	15,620,189.49	11,040,014.87
Less: Interest capitalised	(1,019,742.38)	(927,357.44)
Total	14,600,447.11	10,112,657.43

Details of the Company's financial expenses are listed as follows:

	For the six months ended 30th June 2002 (unaudited)	For the six months ended 30th June 2001 (unaudited)
Interest expense	23,637,504.78	16,738,611.89
Interest income	(8,673,025.52)	(6,066,104.77)
Exchange loss	29,375.99	117,530.76
Exchange gain	(53,620.02)	(69,433.22)
Others	570,541.98	417,965.76
Sub-total	15,510,777.21	11,138,570.42
Less: Interest capitalised	(1,019,742.38)	(927,357.44)
Total	14,491,034.83	10,211,212.98

(13) **Related party transactions**

1) Information and relationship

(a) Related parties with controlling relationship

Company name	Registered address	Principal activities	Relationship with the company	Enterprise nature	Legal representative
Dongfang Electrical Machinery Works ("DFEW")	188 Huanghe Xi Road, Deyang, Sichuan, the PRC	Manufacturing and production of power equipment, industrial and mining equipment and spare parts	Parent company	State-owned enterprise	Si Zefu
DFEM Control Equipment Co., Ltd.	Economic and Technological Development Zone, Sheng Hu, Deyang	Control equipment	Subsidiary	Company Limited	Wu Jiandong
DFEM Power System Co., Ltd.	Economic and Technological Development Zone, Sheng Hu, Deyang	A.C. & D.C.	Subsidiary	Company Limited	Zhou Hongxi
DFEM Tooling and Moulding Co., Ltd.	Economic and Technological Development Zone, Sheng Hu, Deyang	Tool and Mould	Subsidiary	Company Limited	Liu Xianqiang
DFEM Equipment Engineering Co., Ltd.	Economic and Technological Development Zone, Sheng Hu, Deyang	Repair and Installation	Subsidiary	Company Limited	Ding Yihong

- (b) Paid-in capital and shareholding of related parties with controlling relationship are as follows:

Company name	Registered date	Paid-in Capital	Interest hold rate
DFEW	28th May 1958	128,420,000.00	–
DFEM Control Equipment Machinery Co., Ltd.	18th May 2000	13,000,000.00	96.15%
DFEM Power System Co., Ltd.	5th December 2000	34,398,645.24	98.55%
DFEM Tooling and Moulding Co., Ltd.	13th March 2001	14,600,000.00	99.32%
DFEM Equipment Engineering Co., Ltd.	16th August 2001	13,500,000.00	99.21%

As of 8th April 2002, the Company increased investment in DFEM Power System Co., Ltd. by RMB 9,398,645.24, which resulted in the rise in the equity interest holding rate from 98% to 98.55%. There is no change in the capital structure of other related parties above for the six months ended 30th June 2002.

2) Related parties transactions

- A. According to the agreement entered into between DFEW and the Company, the expenses payable by the Company to DFEW are shown as follows:

	For the six months ended 30th June 2002 (unaudited)	For the six months ended 30th June 2001 (unaudited)
Management expenses on staff quarters	956,476.00	791,550.50
Packing costs	5,103,467.20	4,365,311.48
Environmental, hygiene, and plantation cost	1,093,582.00	1,220,048.00
Staff meal and prevention of heat-stroke expenses	–	1,043,729.00
Kindergarten, primary and secondary education service fees	2,741,250.00	1,222,550.50
Pension and expenses for retired workers	659,829.00	1,733,176.91
Freight and maintenance costs	10,004,828.44	5,771,192.22
Staff education and training expenses	–	2,350,319.00
Labour protection costs and office expenses	–	1,217,233.50
Medical expense	795,332.50	–
Others	1,281,237.00	3,159,443.70
Total	<u>22,636,002.14</u>	<u>22,874,554.81</u>

- B. According to the agreement with DFEW, details of expenses paid or payable by DFEW to the Company are listed as follows:

	For the six months ended 30th June 2002 (unaudited)	For the six months ended 30th June 2001 (unaudited)
Materials solds by sales department	462,486.58	1,531,390.14
Sales of utilities	2,457,691.18	1,925,087.56
Sales of products	980,806.31	1,205,128.21
Others	104,961.31	193,190.46
Total	4,005,945.38	4,854,796.37

- C. Purchase of raw materials from DFEW and its subsidiaries is as follows:

	For the six months ended 30th June 2002 (unaudited)	For the six months ended 30th June 2001 (unaudited)
Purchase of raw materials	33,450,000.00	16,060,000.00

- D. Income from sales handled by China Dongfang Electric Corporation (managing company of DFEW) on behalf of the Company is as follows:

	For the six months ended 30th June 2002 (unaudited)	For the six months ended 30th June 2001 (unaudited)
Income from sales on behalf of the Company	8,590,000.00	727,000.00

(14) Impacts of Hong Kong Statement of Standard Accounting Practice ("SSAP") adjustments on net profit and shareholders' equity

	Net profit for the six months ended 30th June 2002 (unaudited)	Shareholder's equity as of 30th June 2002 (unaudited)
As reported in accordance with SSAP	(28,971,579.24)	855,002,222.20
Impact of adjustments, net		
– difference in the valuation of net assets contributed by DFEW	–	–
– unrealised gain on transfers of plant and machinery within the Group	–	1,835,383.85
– others	(760,091.82)	(348,746.03)
As restated in accordance with PRC GAAP	<u>(29,731,671.06)</u>	<u>856,488,860.02</u>

(15) Contingent items

- (a) As of 15th November 2001, Dongfang Turbine Company Limited and the Company entered into a "Mutual Guarantee Agreement", in which both parties provide guarantee to each other for RMB 100,000,000 for the period from 15th November 2001 to 14th November 2002.
- (b) By the end of 30th June 2002, the Company has provided guarantee for USD166,863 for the performance guarantee offered by Shaanxi Machinery Equipment Import and Export Company Limited. The guarantee is effective from the validation date to the expiring date of the performance guarantee.

2. Condensed financial statements and notes thereto prepared in accordance with accounting principles generally accepted in Hong Kong

**DONGFANG ELECTRICAL MACHINERY COMPANY LIMITED AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED INCOME STATEMENT**

FOR THE SIX MONTHS ENDED 30TH JUNE 2002

		For the six months ended 30th June	
	<i>Notes</i>	2002 (unaudited) RMB'000	2001 (unaudited) RMB'000
Revenue, net	3	252,106	177,218
Cost of sales		(182,463)	(150,354)
Gross profit	3	69,643	26,864
Other operating profit		9,987	7,413
Distribution and administrative expenses		(85,262)	(89,014)
Loss from operations	4	(5,632)	(54,737)
Finance cost		(23,314)	(15,839)
Share of profits of associated companies		105	–
Loss before taxation		(28,841)	(70,576)
Income tax expense	5	–	–
Loss after taxation		(28,841)	(70,576)
Minority interests		(131)	22
Net loss for the period		(28,972)	(70,554)
Dividends	6	–	–
Loss per share	7		
– Basic		RMB (0.064)	RMB (0.157)
– Diluted		Not applicable	Not applicable

DONGFANG ELECTRICAL MACHINERY COMPANY LIMITED AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
AS OF 30TH JUNE 2002

	Notes	As of 30th June 2002 (unaudited) RMB'000	As of 31st December 2001 (audited) RMB'000
Intangible assets		3,104	2,170
Fixed assets	8	372,960	358,685
Construction-in-progress	8	88,911	63,938
Interests in associated companies		178	159
Investment securities		1,995	1,538
Current assets			
Inventories		560,355	388,101
Construction contracts in progress		21,983	10,920
Trade receivables	9	594,811	616,482
Prepayments and other receivables		206,446	232,061
Due from an associate		10,888	10,888
Investment securities		33,349	33,349
Bank deposits with maturity over three months		270,794	423,648
Cash on hand and bank deposits		433,970	440,427
		<u>2,132,596</u>	<u>2,155,876</u>
Current liabilities			
Advances of uncompleted construction contracts		82,522	187,980
Trade payables	10	158,747	162,435
Current portion of long-term borrowings	11	101,359	91,359
Advances, accruals and other payables		510,700	303,491
Taxes payable		141,158	175,149
Short-term borrowings		282,100	327,100
		<u>1,276,586</u>	<u>1,247,514</u>
Net current assets		<u>856,010</u>	<u>908,362</u>
Total assets less current liabilities		<u><u>1,323,158</u></u>	<u><u>1,334,852</u></u>

DONGFANG ELECTRICAL MACHINERY COMPANY LIMITED AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

AS OF 30TH JUNE 2002

	Notes	As of 30th June 2002 (unaudited) RMB'000	As of 31st December 2001 (audited) RMB'000
Financed by:			
Share capital	12	450,000	450,000
Reserves	13	689,651	689,651
Retained earnings		(284,649)	(255,677)
Shareholders' funds		855,002	883,974
Minority interests		1,009	878
Non-current liabilities			
Long-term borrowings	11	439,000	450,000
Other long-term liabilities		28,147	—
		1,323,158	1,334,852

DONGFANG ELECTRICAL MACHINERY COMPANY LIMITED AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30TH JUNE 2002

	For the six months ended 30th June	
	2002	2001
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Net cash outflow from operating activities	(70,372)	(54,610)
Net cash inflow/(outflow) from investing activities	137,318	(69,342)
Net cash (outflow)/inflow from financing activities	(73,419)	133,751
(Decrease) Increase in cash and cash equivalents	(6,473)	9,799
Cash and cash equivalents, beginning of period	440,427	296,393
Effect of foreign exchange rate changes	16	–
Cash and cash equivalents, end of period	433,970	306,192

DONGFANG ELECTRICAL MACHINERY COMPANY LIMITED AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30TH JUNE 2002

From 1st January 2002 to 30th June 2002 (unaudited)						
	Share capital	Capital reserve	Statutory common reserve funds	Statutory common welfare funds	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 12)	(Note 13)	(Note 13)	(Note 13)	(Note 13)	
Balance, beginning of period	450,000	636,061	27,592	25,998	(255,677)	883,974
– Net loss for the period	–	–	–	–	(28,972)	(28,972)
Balance, end of period	<u>450,000</u>	<u>636,061</u>	<u>27,592</u>	<u>25,998</u>	<u>(284,649)</u>	<u>855,002</u>

From 1st January 2002 to 30th June 2001 (unaudited)						
	Share capital	Capital reserve	Statutory common reserve funds	Statutory common welfare funds	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 12)	(Note 13)	(Note 13)	(Note 13)	(Note 13)	
Balance, beginning of period	450,000	636,061	27,592	25,998	6,408	1,146,059
– Net loss for the period	–	–	–	–	(70,554)	(70,554)
Balance, end of period	<u>450,000</u>	<u>636,061</u>	<u>27,592</u>	<u>25,998</u>	<u>(64,146)</u>	<u>1,075,505</u>

DONGFANG ELECTRICAL MACHINERY COMPANY LIMITED AND ITS SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30TH JUNE 2002

1. ACCOUNTING POLICIES AND BASIS OF PREPARATION

The unaudited consolidated condensed financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants.

The condensed financial statements should be read in conjunction with the 2001 annual financial statements.

The accounting policies and methods of computation used in the preparation of the condensed financial statements are consistent with those used in the annual accounts for the year ended 31st December 2001.

The basis of accounting differs from that used in the preparation of the Group's statutory accounts which are prepared in accordance with Accounting Standards for Enterprises and the Accounting Regulations of the People's Republic of China (the "PRC") for Business Enterprises ("Statutory Accounts"). The adjustments made to conform the Statutory Accounts of the Group to SSAP are shown in Note 15.

Cost that incur unevenly during the financial year are anticipated or deferred in the interim report only if it would be also appropriate to anticipate or defer such costs at the end of the financial year.

2. PRINCIPLES AND BASIS OF CONSOLIDATION

The accompanying condensed consolidated financial statements include the accounts of Dongfang Electrical Machinery Company Limited (the "Company") and its consolidated subsidiaries (hereinafter together with the Company referred to as the "Group").

All significant intercompany balances and transactions, including intercompany profits and losses and resulting unrealised profits and losses are eliminated on consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

A subsidiary is a company over which the Company can exercise control. Control exists when the Company has the power to govern the financial and operating policies of the subsidiary so as to obtain benefits from its activities.

Details of the Group's consolidated subsidiaries as of 30th June 2002 were as follows:

Name of subsidiaries	Country of incorporation and date of incorporation	Company's equity interest	Registered capital	Principal activities
<i>RMB'000</i>				
DFEM Equipment Engineering Company Limited 東方電機設備工程 有限公司	PRC 16th August, 2001	97.04% (directly held) 2.17% (indirectly held)	13,500	Provision of repair and maintenance service of electrical engines
DFEM Power System Company Limited 東方電機動力設備 有限公司	PRC 5th December, 2000	98.55% (directly held)	34,399	Manufacture and sale of AC and DC engines
DFEM Tooling and Moulding Company Limited 東方電機工模具 有限公司	PRC 13th March, 2001	99.32% (directly held)	14,600	Manufacture and sale of tools and moulds
DFEM Control Equipment Company Limited 東方電機控制設備 有限公司	PRC 18th May, 2000	96.15% (directly held)	13,000	Manufacture and sale of control equipment to electricity generators

3. SEGMENT INFORMATION

The Group is principally engaged in the manufacturing and sale of hydro turbine generator, steam turbine generator, A.C. and D.C. motors and provision of related construction and engineering services.

An analysis of the Group's revenue and results for the period by business segments is as follows:

Six months ended 30th June 2002 (unaudited)					
	Hydro turbine generator RMB'000	Steam turbine generator RMB'000	A.C. and D.C. motor RMB'000	Others RMB'000	Total RMB'000
Revenue	<u>110,018</u>	<u>98,250</u>	<u>22,451</u>	<u>21,387</u>	<u>252,106</u>
Segment results	<u>22,084</u>	<u>31,399</u>	<u>2,446</u>	<u>13,714</u>	69,643
Unallocated costs					(75,275)
Operating loss					(5,632)
Finance costs					(23,314)
Share of profits of associated companies					105
Loss before taxation					(28,841)
Taxation					–
Minority interests					(131)
Loss attributable to shareholders					<u>(28,972)</u>

	Six months ended 30th June 2001 (unaudited)				
	Hydro turbine generator RMB'000	Steam turbine generator RMB'000	A.C. and D.C. motor RMB'000	Others RMB'000	Total RMB'000
Revenue	<u>114,898</u>	<u>15,162</u>	<u>10,263</u>	<u>36,895</u>	<u>177,218</u>
Segment results	<u>21,336</u>	<u>2,174</u>	<u>(3,540)</u>	<u>6,894</u>	26,864
Unallocated costs					(81,601)
Operating loss					(54,737)
Finance costs					(15,839)
Share of profits of associated companies					—
Loss before taxation					(70,576)
Taxation					—
Minority interests					22
Loss attributable to shareholders					<u>(70,554)</u>

During the current and the prior interim reporting period, the Group's substantial revenue is derived from the PRC and revenue derived outside the PRC is insignificant.

4. LOSS FROM OPERATIONS

Loss from operations is stated after charging the following:

	For the six months ended 30th June	
	2002	2001
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Depreciation of fixed assets	24,595	20,115
Amortisation of goodwill	41	–
Amortisation of intangible assets	624	1,113
Loss on disposal of fixed assets	30	617
Write-down of inventories to net realisable value	360	5,028

5. TAXATION

Pursuant to Guoshuihanfa [1994] 062 Circular, Enterprise Income Tax ("EIT") is provided at rate of 15% on taxable income of the Company determined according to the PRC tax laws. The Company incurred loss in the current period and no EIT was provided. EIT is provided at rate of 33% of taxable income of subsidiaries within the Group.

There is no Hong Kong profits tax liability as of 30th June 2002 as the Group did not earn any income subject to Hong Kong profits tax.

As of 30th June 2002, there was no material unprovided deferred tax.

6. DIVIDENDS

During this interim reporting period, there is no dividend declared by the Company for 2001 (corresponding period of 2001: nil).

The directors do not recommend any interim dividend for the six months ended 30th June 2002 (corresponding period of 2001: nil).

7. LOSS PER SHARE

The calculation of basic loss per share was based on the unaudited consolidated net loss of approximately RMB 28,972,000 for the six months ended 30th June 2002 (corresponding period of 2001: approximately RMB 70,554,000) divided by the weighted average number of 450,000,000 ordinary shares (corresponding period of 2001: 450,000,000 shares) in issue during the period.

The diluted loss per share was not calculated, because no potential shares existed.

8. CAPITAL EXPENDITURE

	Six months ended 30th June 2002 (unaudited)		
	RMB'000		
	Fixed assets	Construction-in-progress	Total
Balance, beginning of period	358,685	63,938	422,623
Additions	8,152	55,772	63,924
Transfer from construction-in-progress	30,799	–	30,799
Disposal	(81)	–	(81)
Transfer to fixed assets	–	(30,799)	(30,799)
Depreciation	(24,595)	–	(24,595)
Balance, end of period	<u>372,960</u>	<u>88,911</u>	<u>461,871</u>

9. TRADE RECEIVABLES

	As of 30th June 2002 (unaudited) RMB'000	As of 31st December 2001 (audited) RMB'000
Accounts receivable	632,096	672,612
Bank acceptance notes receivable	10,378	18,165
	642,474	690,777
Less: provision for doubtful debts	(47,663)	(74,295)
	594,811	616,482

Aging analysis of trade receivables is as follows:

	As of 30th June 2002 (unaudited) RMB'000	As of 31st December 2001 (audited) RMB'000
Aging		
— within 1 year	268,020	301,729
— 1-2 years	126,096	120,508
— 2-3 years	101,976	113,792
— beyond 3 years	146,382	154,748
	642,474	690,777

The balance of trade receivables as of 30th June 2002 included retention money receivables of approximately RMB 268,283,000 (31st December 2001: approximately RMB 264,317,000).

10. TRADE PAYABLES

Aging analysis of trade payables is as follows:

	As of 30th June 2002 (unaudited) RMB'000	As of 31st December 2001 (audited) RMB'000
Aging		
— within 1 year	156,850	159,755
— 1-2 years	1,147	1,209
— 2-3 years	227	616
— beyond 3 years	523	855
	158,747	162,435

11. LONG-TERM BORROWINGS

	As of 30th June 2002 (unaudited) RMB'000	As of 31st December 2001 (audited) RMB'000
Loans, unsecured	540,359	541,359
Current portion of long-term liabilities	(101,359)	(91,359)
	439,000	450,000

As of 30th June 2002, the Group's long-term borrowings were repayable as follows:

	As of 30th June 2002 (unaudited) RMB'000	As of 31st December 2001 (audited) RMB'000
Within one year	101,359	91,359
In the second year	210,000	181,000
In the third to fifth year	229,000	269,000
	540,359	541,359

12. SHARE CAPITAL

The details of share capital are as follows:

	Number of shares ('000)		Amount(RMB'000)	
	As of 30th June 2002 (unaudited)	As of 31st December 2001 (audited)	As of 30th June 2002 (unaudited)	As of 31st December 2001 (audited)
Registered, issued and fully paid				
– State-owned legal person shares with par value of RMB 1.00 each	220,000	220,000	220,000	220,000
– A shares with par value of RMB 1.00 each	60,000	60,000	60,000	60,000
– Overseas public shares with par value of RMB 1.00 each ("H shares")	170,000	170,000	170,000	170,000
	<u>450,000</u>	<u>450,000</u>	<u>450,000</u>	<u>450,000</u>

State-owned legal person shares, A shares and H shares rank pari passu in all respects, except that state-owned legal person shares and A shares are owned by PRC nationals and legal persons, while H shares are owned and traded by overseas investors; and dividends on state-owned shares and A shares are payable in RMB, while dividends on H shares are payable in Hong Kong dollars.

13. RESERVES

(a) Capital reserve

	As of 30th June 2002 (unaudited) RMB'000	As of 31st December 2001 (audited) RMB'000
Share premium (i)	522,548	522,548
Revaluation surplus	113,190	113,190
Donations	323	323
	636,061	636,061

- (i) The share premium represented net assets acquired from Dongfang Electrical Machinery Works (the "parent company") in excess of par value of state owned shares issued and proceeds from the issuance of A shares and H shares in excess of their par value, net of expenses relating to the listing of the shares such as underwriting commissions, organisation expenses, fees for professional advisors and promotional expenses.

(b) Statutory Common Reserve Funds

In accordance with the PRC Company Law and the Company's articles of association, the Company and its subsidiaries are required to appropriate 10 per cent of their annual statutory net profit (after offsetting any prior years' losses) to statutory common reserve funds ("SCR") respectively. When the balance of such reserve reaches 50 per cent of each entity's share capital, any further appropriation is optional. SCR can be utilized to offset prior years' losses or to increase share capital. However, SCR must be maintained at a minimum of 25 per cent of share capital after such usage.

(c) Statutory Common Welfare Funds

In accordance with relevant financial regulations of the PRC and the Company's articles of association, the Company and its subsidiaries are required to appropriate 5 to 10 per cent of their statutory net profit (after offsetting any prior years' losses) to statutory common welfare funds ("SCW") to be utilized for collective staff benefits, such as dormitories and other facilities for the Company and its subsidiaries' employees, and can not be used to pay for staff welfare expenses. Titles of these capital items will remain with the Company and its subsidiaries.

(d) Retained earnings

Pursuant to the Notice [1995] 31 issued by Ministry of Finance on 24th August, 1995, the amount of profit available for distribution to the shareholders will be determined based on the lower of unappropriated profits determined in accordance with (i) PRC accounting standards and regulations, and (ii) SSAP.

There is no appropriation of net profit to SCR and SCW during the six months ended 30th June 2002 (corresponding period of 2001: nil).

14. RELATED PARTY TRANSACTIONS

Details of transactions between the Group and the parent company and its subsidiaries, which were carried out in the normal course of the Group's business, are as follows:

	For the six months ended 30th June	
	2002	2001
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Expenditure:		
— Management expenses on staff quarters	956	792
— Packing costs	5,103	4,365
— Environmental hygiene and plantation cost	1,093	1,220
— Staff meal and prevention of heat-stroke expenses	—	1,043
— Kindergarten, primary and secondary education service fees	2,741	1,223
— Pension and expenses for retired workers	660	1,733
— Freight and maintenance costs	10,005	5,771
— Staff education and training expenses	—	2,350
— Labour protection costs and office expenses	—	1,217
— Medical expenses	795	—
— Purchase of materials	33,450	16,060
— Others	1,281	3,159
Total	56,084	38,933
Revenue:		
— Sales of power	2,457	1,926
— Sales of products	981	1,205
— Sales of materials	462	1,531
— Others	105	193
Total	4,005	4,855

Income from sales handled by China Dongfang Electric Corporation (managing company of the Company's parent company) on behalf of the Company is as follows:

Income from sales on behalf of the Company	8,590	727
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15. IMPACT OF SSAP ADJUSTMENTS ON NET PROFIT AND NET ASSETS

	Net profit for the six months ended 30th June		Net assets as of 31st	
	2002 (unaudited) RMB'000	2001 (unaudited) RMB'000	30th June 2002 (unaudited) RMB'000	December 2001 (audited) RMB'000
As reported in the Group's statutory accounts	(29,732)	(70,509)	856,489	885,832
Impact of adjustment:				
— difference in the valuation of net assets contributed by the parent company	—	—	—	951
— unrealised gain on transfers of plant and machinery within the Group	—	—	(1,835)	(1,835)
— others	760	(45)	348	(974)
As restated in the Group's financial statements under SSAP	(28,972)	(70,554)	855,002	883,974

16. COMMITMENTS

(a) Capital commitments

Capital commitments relating to purchases of machinery and equipment for production purposes as of 30th June 2002 were as follows:

	As of 30th June 2002 (unaudited) RMB'000	As of 31st December 2001 (audited) RMB'000
Contracted but not provided for	96,924	24,775
Authorised but not contracted for	37,000	60,225
	133,924	85,000

(b) Operating lease commitment

The Group has no material operating lease commitment as of 30th June 2002.

17. CONTINGENT LIABILITIES

(1) Guarantee contracts

On 15th November 2001, the Company and Dongfang Steam Turbine Machinery Work entered into a cross-guarantee whereby both parties give each other a line of credit of RMB100 million for the period from 15th November 2001 to 14th November 2002.

- (2) As of 30th June 2002, the Company provided a counter-guarantee (USD\$166,863) for the guarantee undertaken by Shanxi Machinery and Equipment Import and Export Company with effect from the effective date of the guarantee and would elapse automatically upon the expiration of such guarantee.