

# Report of the International Auditors

TO THE SHAREHOLDERS OF

**DONGFANG ELECTRICAL MACHINERY COMPANY LIMITED**

*(incorporated in the People's Republic of China with limited liability)*

We have audited the financial statements on pages 29 to 55 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

## Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

## Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

## Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2002 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**

Certified Public Accountants

Hong Kong, 1 April 2003

# Consolidated Profit and Loss Account

For the year ended 31 December 2002  
(prepared under Accounting Principles Generally Accepted in Hong Kong)

	Note	2002 RMB'000	2001 RMB'000
Turnover	3	<b>918,184</b>	369,738
Cost of sales		<b>(698,039)</b>	(336,338)
Gross profit		<b>220,145</b>	33,400
Other revenue	3	<b>16,884</b>	15,844
Other operating income	4	<b>31,015</b>	934
Distribution costs		<b>(30,721)</b>	(31,916)
Administrative expenses		<b>(162,168)</b>	(245,895)
Operating profit/(loss)	5	<b>75,155</b>	(227,633)
Finance costs	6	<b>(40,001)</b>	(34,565)
Shares of results of associates		<b>8</b>	(41)
Profit/(loss) before taxation		<b>35,162</b>	(262,239)
Taxation	7(a)	<b>(552)</b>	(97)
Profit/(loss) after taxation		<b>34,610</b>	(262,336)
Minority interests		<b>130</b>	251
Profit/(loss) attributable to shareholders		<b>34,740</b>	(262,085)
Basic earnings/(loss) per share	9	<b>RMB0.077</b>	(RMB0.582)
Diluted earnings/(loss) per share		<b>Not applicable</b>	Not applicable

# Consolidated Balance Sheet

As at 31 December 2002

(prepared under Accounting Principles Generally Accepted in Hong Kong)

	Note	2002 RMB'000	2001 RMB'000
<b>Non-current assets</b>			
Intangible assets	12	2,833	2,170
Fixed assets	13	432,459	358,685
Construction in progress	14	88,648	63,938
Interests in associated companies	16	167	159
Non-trading securities	17	1,499	1,538
		<b>525,606</b>	426,490
<b>Current assets</b>			
Inventories	18	553,693	388,101
Due from customers on construction contracts	19	33,047	10,920
Trade and other receivables	20	885,272	848,543
Trading securities		62	33,349
Due from associated companies		10,888	10,888
Bank deposits with maturity over three months		413,112	476,569
Other bank balances and cash		354,827	387,506
		<b>2,250,901</b>	2,155,876
<b>Current liabilities</b>			
Trade and other payables	21	391,304	300,611
Advances from customers		416,744	165,315
Due to customers on construction contracts	19	104,922	187,980
Taxes payable	22	161,975	175,149
Current portion of long-term liabilities	23	140,000	91,359
Short-term bank loans, unsecured		262,100	327,100
		<b>1,477,045</b>	1,247,514
Net current assets		<b>773,856</b>	908,362
<b>Total assets less current liabilities</b>		<b>1,299,462</b>	1,334,852
<b>Financed by:</b>			
Share capital	24	450,000	450,000
Reserves	25	468,714	433,974
Shareholders' funds		<b>918,714</b>	883,974
Minority interests		<b>748</b>	878
<b>Non-current liabilities</b>			
Long-term liabilities	23	380,000	450,000
		<b>1,299,462</b>	1,334,852

Approved by the board of directors on 1 April 2003 and signed on behalf of the board by:

  
**ZHU YUANCHAO**  
Chairman

  
**GONG DAN**  
Director

# Balance Sheet

As at 31 December 2002  
(prepared under Accounting Principles Generally Accepted in Hong Kong)

	Note	2002 RMB'000	2001 RMB'000
<b>Non-current assets</b>			
Intangible assets	12	1,679	2,170
Fixed assets	13	408,367	340,645
Construction in progress	14	88,517	63,910
Interests in subsidiaries	15	57,529	49,115
Interests in associated companies	16	167	200
Non-trading securities	17	1,499	1,538
		<b>557,758</b>	457,578
<b>Current assets</b>			
Inventories	18	493,370	339,789
Due from customers on construction contracts	19	33,047	10,920
Trade and other receivables	20	823,265	826,032
Trading securities		62	33,349
Due from subsidiaries		23,740	24,609
Due from associated companies		10,888	10,888
Bank deposits with maturity over three months		410,163	470,569
Other bank balances and cash		335,760	359,757
		<b>2,130,295</b>	2,075,913
<b>Current liabilities</b>			
Trade and other payables	21	327,472	268,355
Advances from customers		386,458	141,722
Due to customers on construction contracts	19	104,922	187,980
Taxes payable	22	161,153	175,323
Current portion of long-term liabilities	23	140,000	91,359
Short-term bank loans, unsecured		262,100	327,100
		<b>1,382,105</b>	1,191,839
Net current assets		<b>748,190</b>	884,074
<b>Total assets less current liabilities</b>		<b>1,305,948</b>	1,341,652
<b>Financed by:</b>			
Share capital	24	450,000	450,000
Reserves	25	475,948	441,652
Shareholders' funds		<b>925,948</b>	891,652
<b>Non-current liabilities</b>			
Long-term liabilities	23	380,000	450,000
		<b>1,305,948</b>	1,341,652

Approved by the Board of Directors on 1 April 2003 and signed on behalf of the board by:

  
**ZHU YUANCHAO**  
Chairman

  
**GONG DAN**  
Director

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2002

(prepared under Accounting Principles Generally Accepted in Hong Kong)

	2002 RMB'000	2001 RMB'000
Total equity as at 1 January	883,974	1,146,059
Net profit/(loss) for the year	34,740	(262,085)
Total equity as at 31 December	918,714	883,974

# Consolidated Cash Flow Statement

For the year ended 31 December 2002  
(prepared under Accounting Principles Generally Accepted in Hong Kong)

	Note	2002 RMB'000	2001 RMB'000
Net cash inflow/(outflow) from operations	27(a)	<b>118,351</b>	(27,771)
Interest paid		<b>(42,249)</b>	(36,352)
Net cash inflow/(outflow) from operating activities		<b>76,102</b>	(64,123)
Investing activities			
Sale of fixed assets		<b>747</b>	48
Purchase of fixed assets		<b>(10,650)</b>	(3,539)
Expenditure on construction in progress		<b>(122,255)</b>	(35,452)
Decrease/(increase) in bank deposits with maturity over three months		<b>63,460</b>	(44,191)
Purchase of intangible asset		<b>(1,339)</b>	(2,553)
Investment in an associated company		—	(200)
Interest received		<b>12,081</b>	15,393
Purchase of a business, net of cash acquired	27(c)	<b>(7,042)</b>	—
Sale of trading securities		<b>42,537</b>	83,721
Sale of non-trading securities		<b>39</b>	—
Purchase of trading securities		—	(123,161)
Net cash outflow from investing activities		<b>(22,422)</b>	(109,934)
Net cash inflow/(outflow) before financing		<b>53,680</b>	(174,057)
Financing activities			
New bank loans and other loans raised		<b>282,100</b>	548,100
Repayments of amounts borrowed		<b>(368,459)</b>	(283,130)
Capital contribution by minority shareholders of subsidiaries		—	200
Net cash (outflow)/inflow from financing	27(b)	<b>(86,359)</b>	265,170
(Decrease)/increase in cash and cash equivalents		<b>(32,679)</b>	91,113
Cash and cash equivalents at 1 January		<b>387,506</b>	296,393
Cash and cash equivalents at 31 December		<b>354,827</b>	387,506
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		<b>354,827</b>	387,506

# Notes to the Financial Statements

For the year ended 31 December 2002  
(prepared under Accounting Principles Generally Accepted in Hong Kong)

## 1 Organisation and operations

Dongfang Electrical Machinery Company Limited (the "Company") was established on 28 December 1993 in Deyang City, Sichuan Province, the People's Republic of China (the "PRC") as a joint stock limited company. Dongfang Electrical Machinery Works ("DFEW") injected its assets and liabilities in relation to manufacture and sales of generators, electrical motors and their respective auxiliary parts to the Company on the same day.

The Company and its subsidiaries (the "Group") are principally engaged in the business of production and sale of hydro power generators, steam power generators, AC/DC electrical motors, controlling equipment, normal machinery, electrical machinery and oxygen as well as provision of various kinds of services as capacity expansion of power station, equipment instalment for power station and the export of self-produced machinery and electric appliances, sets of equipment and related technologies and the import of materials, equipment, devices, spare parts and technologies used in the production and research and development.

On 9 May 1994, the Company placed and issued 170,000,000 overseas listed foreign investment shares (the "H shares") to the public in Hong Kong and the H shares have been listed on the Stock Exchange of Hong Kong Limited since 6 June 1994. On 4 July 1995, with the approval of the relevant authorities including the Securities Regulatory Commission of the PRC, the Company issued 60,000,000 domestic listed RMB ordinary shares (the "A shares") in the PRC. The A shares have been listed on the Stock Exchange of Shanghai since 10 October 1995.

## 2 Principal accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

### (a) Basis of preparation

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention except that as disclosed in the accounting policies below, certain investment in securities are stated at fair value.

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAP") issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2002:

SSAP1 (revised):	Presentation of financial statements
SSAP11 (revised):	Foreign currency translation
SSAP15 (revised):	Cash flow statements
SSAP33:	Discontinuing operations
SSAP34 (revised):	Employee benefits

The adoption of the above SSAPs has no significant effect on the Group's financial statements as at 31 December 2002.

### (b) Group accounting

#### (i) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

# Notes to the Financial Statements *(continued)*

For the year ended 31 December 2002  
(prepared under Accounting Principles Generally Accepted in Hong Kong)

## 2 Principal accounting policies *(continued)*

### (b) Group accounting *(continued)*

#### (ii) Associated companies

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and goodwill (net of accumulated amortisation) on acquisition.

In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

#### (iii) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling on the first day of the month in that transactions take place. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

### (c) Intangibles

#### (i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired business at the date of acquisition.

Goodwill on acquisitions is included in intangible assets and is amortised using the straight-line method over its estimated useful life of 5 years.

#### (ii) Technology know-how

Expenditure on acquired technology know-how is capitalised and amortised using the straight-line method over their useful lives of 5 years. Technology know-how is not revalued as there is no active market for these assets.

#### (iii) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development have been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than 5 years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

#### (iv) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset including the reserved accountable goodwill are assessed and written down immediately to its recoverable amount.



# Notes to the Financial Statements *(continued)*

For the year ended 31 December 2002  
(prepared under Accounting Principles Generally Accepted in Hong Kong)

## 2 Principal accounting policies *(continued)*

### (d) Fixed assets

#### (i) Fixed assets

Fixed assets, comprising land use rights, buildings, plant and machinery, furniture, fixture and equipment and motor vehicles are stated at cost less accumulated depreciation and accumulated impairment losses.

#### (ii) Depreciation

Land use rights are depreciated over the period of their useful lives while other fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis.

The principal annual rates are as follows:

Land use rights	2%
Buildings	3%
Plant and machinery	11%
Furniture, fixture and equipment	16%
Motor vehicles	16%

#### (iii) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are used to assess whether there is any indication that assets included in fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

### (e) Construction in progress

Construction in progress represents capital assets under construction or being installed and is stated at cost. Cost comprises original cost of plant and equipment, installation, construction and other direct costs which includes interest costs on specific borrowings used to finance the capital assets, prior to the date of reaching the expected usable condition. Construction in progress is transferred to the fixed assets account and depreciation commences when the asset has been substantially completed and reaches the status for intended use.

### (f) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

### (g) Investments in securities

#### (i) Non-trading securities

Non-trading securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

# Notes to the Financial Statements *(continued)*

For the year ended 31 December 2002  
(prepared under Accounting Principles Generally Accepted in Hong Kong)

## 2 Principal accounting policies *(continued)*

### (g) Investments in securities *(continued)*

#### (ii) Trading securities

Trading securities are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities are recognised in the profit and loss account. Profits or losses on disposal of trading securities, representing the difference between the net sale proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

### (h) Inventories

Inventories comprise stocks and work in progress and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sale proceeds less estimated selling expenses.

### (i) Construction contracts

When the outcome of a construction contract can be estimated reliably, contract costs are charged to the profit and loss account by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that costs incurred to date bear to estimated total costs for the contract.

When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When a contract covers a number of assets, the construction of each asset is treated as a separate contract when separate proposals have been submitted for each asset, each asset has been separately negotiated and the costs and revenues of each asset can be separately identified. A group of contracts, performed concurrently or in a continuous sequence, is treated as a single construction contract when they were negotiated as a single package and are so closely inter-related that they constitute a single project with an overall profit margin.

Where contract costs incurred to date plus recognised profit less recognised losses exceed progress billings, the surplus is shown as an amount due from customers on construction contracts. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as an amount due to customers on construction contracts. Amounts received before the related work is commenced are included in the balance sheet, as a liability, as advances from customers. Amounts billed for work performed but not yet paid by the customer are included in the balance sheet under trade receivables.

### (j) Accounts receivables

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

### (k) Cash and cash equivalents

Cash and cash equivalents are carried at cost in the balance sheet. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

### (l) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

# Notes to the Financial Statements *(continued)*

For the year ended 31 December 2002

(prepared under Accounting Principles Generally Accepted in Hong Kong)

## 2 Principal accounting policies *(continued)*

### (m) Employment benefits

The Group participates in employee social security plans, including pension, housing and other welfare benefits, organised by the government authorities in accordance with relevant regulations. Except for the above social security benefits, the Group has no additional commitment to other employee welfare benefits.

According to the relevant regulations, premium and welfare benefit contributions are payable to the social welfare authorities and are calculated based on percentages of the total salary of employees, subject to a certain ceiling. Contributions to the plans are dealt with in the profit and loss account as incurred.

### (n) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

### (o) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

### (p) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

When the outcome of a construction contract can be estimated reliably, revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion that costs incurred to date bear to estimated total costs for each contract. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

The amount of price compensation which the Group is entitled to receive for increases in the cost of production can be ascertained with reasonable certainty only after negotiation with customers and approved by the relevant government authority. Revenue from price compensation is recognised as income upon receipt of approval documents from the government and when the collectibility is ascertained.

Revenue from rendering services is recognised when services are provided.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

### (q) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

## Notes to the Financial Statements *(continued)*

For the year ended 31 December 2002  
(prepared under Accounting Principles Generally Accepted in Hong Kong)

### 3 Turnover, revenue and segment information

The Group is principally engaged in the production and sale of hydro and steam power generators, AC/DC electrical motors and the provision of repair, upgrade, maintenance and other services. Revenues recognised during the year are as follows:

	2002 RMB'000	2001 RMB'000
Turnover		
Hydro power generators	394,171	224,117
Steam power generators	325,777	53,905
AC/DC electrical motors	59,764	25,483
Accessories	98,998	57,978
Rendering of repair, upgrade, maintenance and other services	39,474	8,255
	<b>918,184</b>	369,738
Other revenue		
Interest income	12,081	15,393
Other income	4,803	451
	<b>16,884</b>	15,844
	<b>935,068</b>	385,582

The directors are of the opinion that different products manufactured and sold by the Group are subject to common risks and returns and consequently do not reflect distinct business segments under SSAP 26. All of the Group's products are manufactured and sold in the PRC, therefore no geographical segment information is presented.

### 4 Other operating income

	2002 RMB'000	2001 RMB'000
Tax refund *	21,765	—
Gain on disposal of trading securities	9,250	934
	<b>31,015</b>	934

\* Pursuant to Guo Shui Han (2002) No. 185 Circular issued by the State Administration of Taxation on 5 March 2002, the Company is entitled to value added tax refund for the sale of hydro power generators derived from international bidding.

## Notes to the Financial Statements *(continued)*

For the year ended 31 December 2002  
(prepared under Accounting Principles Generally Accepted in Hong Kong)

### 5 Operating profit/(loss)

Operating profit/(loss) is stated after charging/(crediting) the following:

	2002 RMB'000	2001 RMB'000
Depreciation of fixed assets	<b>35,565</b>	46,804
Staff costs (including directors' emoluments) (Note 10)	<b>168,955</b>	175,709
Write-down of inventories to net realisable value	<b>925</b>	6,739
Provision for doubtful debts	—	18,167
Unrealised loss on investment in trading securities	—	6,727
Loss on disposals of fixed assets	—	133
Auditors' remuneration	<b>1,070</b>	1,420
Research and development costs **	<b>28,269</b>	23,086
Freight	<b>29,758</b>	4,161
Packaging costs (Note 28 (b))	<b>15,935</b>	9,052
Environmental hygiene and staff welfare expenditure (Note 28 (b))	<b>14,486</b>	26,202
Amortisation of intangible assets		
– Goodwill	<b>164</b>	—
– Technology know-how	<b>512</b>	383
Gain on disposals of fixed assets	<b>(119)</b>	—
Write-back of provision for doubtful debts	<b>(8,492)</b>	—

\*\* Included in the research and development costs are staff costs and depreciation of fixed assets of RMB19,389,000 and RMB4,703,000, respectively, which have not been included in "staff costs" and "depreciation of fixed assets" as disclosed above.

### 6 Finance costs

	2002 RMB'000	2001 RMB'000
Interest on bank loans, wholly repayable within 5 years	<b>33,050</b>	27,774
Interest on other loans, wholly repayable within 5 years	<b>9,199</b>	8,578
Total borrowing costs	<b>42,249</b>	36,352
Less: interest capitalised in construction in progress	<b>(2,248)</b>	(1,787)
	<b>40,001</b>	34,565

# Notes to the Financial Statements *(continued)*

For the year ended 31 December 2002  
(prepared under Accounting Principles Generally Accepted in Hong Kong)

## 7 Taxation

### (a) Enterprise income taxes ("EIT")

Pursuant to Guo Shui Han Fa (1994) No. 62 Circular issued by the State Administration of Taxation, the Company is subject to EIT at the rate of 15%.

The subsidiaries of the Company are subject to EIT at the rate of 33%.

There were no Hong Kong profits tax liabilities as the Group did not earn any income subject to Hong Kong profits tax.

The amount of taxation charged to the consolidated profit and loss account represents:

	2002 RMB'000	2001 RMB'000
Current taxation	552	97
Deferred taxation	—	—
	<b>552</b>	<b>97</b>

### (b) Value added tax ("VAT")

The Group's revenue from sale of self-manufactured products and construction contracts is subject to VAT. The applicable tax rate is 17%. Input VAT from purchase of raw materials and other production materials can be netted off against output VAT from sale.

### (c) Business tax ("BT")

Revenue derived from provision of consulting services is subject to business tax at the rate of 5% on gross service income.

### (d) Tax surcharges

Individual companies within the Group are subject to the following surtaxes:

- City construction tax, a tax levied at 7% of net VAT payable and BT payable;
- Education surcharge, a tax levied at 3% of net VAT payable and BT payable.

## 8 Profit/(loss) attributable to shareholders

The profit/(loss) attributable to shareholders is dealt with in the financial statements of the Company to the extent of profit of RMB34,296,000 (2001: loss of RMB257,557,000).

## 9 Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the Group's profit attributable to shareholders of RMB34,740,000 (2001: basic loss per share is based on the Group's loss attributable to shareholders of RMB262,085,000) and the number of 450,000,000 ordinary shares (2001: 450,000,000 shares) in issue throughout the year.

No diluted earnings per share are calculated as there were no potentially dilutive equities outstanding.

# Notes to the Financial Statements *(continued)*

For the year ended 31 December 2002  
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## 10 Staff costs

	2002 RMB'000	2001 RMB'000
Wages and salaries	<b>124,207</b>	125,064
Pension	<b>17,856</b>	13,191
Housing fund	<b>7,044</b>	6,504
Other staff welfare	<b>39,237</b>	30,950
	<b>188,344</b>	175,709

Directors' and supervisors' emoluments are included in the above staff costs.

## 11 Directors' and senior management's emoluments

### (a) Directors' and supervisors' emoluments

The aggregate amounts of emoluments payable to directors and supervisors of the Company during the year are as follows:

	2002 RMB'000	2001 RMB'000
Fees	—	—
Other emoluments:		
— basic salaries and allowances		
executive directors	<b>347</b>	161
non-executive directors	<b>54</b>	40
independent non-executive directors	<b>14</b>	14
supervisors	<b>89</b>	37
	<b>504</b>	252
— bonuses		
executive directors	<b>6</b>	29
non-executive directors	—	6
supervisors	<b>3</b>	6
	<b>9</b>	41
— contributions to pension schemes		
executive directors	<b>20</b>	43
non-executive directors	<b>4</b>	10
supervisors	<b>7</b>	10
	<b>31</b>	63
	<b>544</b>	356

Directors' other emoluments disclosed above include RMB14,000 (2001: RMB14,000) paid to independent non-executive directors.

In addition to the directors' and supervisors' emoluments disclosed above, certain directors and supervisors of the Company receive emoluments from the holding company, DFEW, which totals RMB158,000, part of which is in respect of their services to the Company and its subsidiaries. No apportionment has been made as the directors and supervisors consider it is impractical to apportion this amount between their services to the Group and their services to the Company's holding company.

# Notes to the Financial Statements *(continued)*

For the year ended 31 December 2002  
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## 11 Directors' and senior management's emoluments *(continued)*

### (a) Directors' and supervisors' emoluments *(continued)*

The emoluments of the directors fell within the following bands:

	<b>Number of individuals</b>	
	<b>2002</b>	<b>2001</b>
Emolument bands		
RMBnil - RMB1,000,000	<b>10</b>	<b>10</b>

The executive directors received individual emoluments for the year ended 31 December 2002 of RMB68,000 (2001: RMB33,000), RMB56,000 (2001: RMB32,000), RMB55,000 (2001: RMB32,000), RMB58,000 (2001: RMB34,000), RMB56,000 (2001: RMB29,000), RMB40,000 (2001: RMB38,000) and RMB40,000 (2001: RMB35,000), respectively.

No directors waived any emolument during the year. No emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office.

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year are all directors whose emoluments are reflected in the analysis presented above.

## 12 Intangible assets

	<b>Goodwill</b> RMB'000	<b>Group Technology know-how</b> RMB'000	<b>Total</b> RMB'000
Year ended 31 December 2002			
Opening net book amount	—	2,170	2,170
Goodwill recognised on acquisition of a business (Note 27 (c))	1,228	—	1,228
Acquisition of technology know-how	—	111	111
Amortisation charge	(164)	(512)	(676)
Closing net book amount	<b>1,064</b>	<b>1,769</b>	<b>2,833</b>
As at 31 December 2002			
Cost	1,228	2,664	3,892
Accumulated amortisation	(164)	(895)	(1,059)
Net book amount	<b>1,064</b>	<b>1,769</b>	<b>2,833</b>
As at 31 December 2001			
Cost	—	2,553	2,553
Accumulated amortisation	—	(383)	(383)
Net book amount	<b>—</b>	<b>2,170</b>	<b>2,170</b>



# Notes to the Financial Statements (continued)

For the year ended 31 December 2002  
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## 12 Intangible assets (continued)

	<b>Company Technology know-how</b> RMB'000
Year ended 31 December 2002	
Opening net book amount	2,170
Amortisation charge	(491)
	<hr/> 1,679 <hr/>
Closing net book amount	<hr/> 1,679 <hr/>
As at 31 December 2002	
Cost	2,553
Accumulated amortisation	(874)
	<hr/> 1,679 <hr/>
Net book amount	<hr/> 1,679 <hr/>
As at 31 December 2001	
Cost	2,553
Accumulated amortisation	(383)
	<hr/> 2,170 <hr/>
Net book amount	<hr/> 2,170 <hr/>

## 13 Fixed assets

	<b>Land use rights</b> RMB'000	<b>Buildings</b> RMB'000	<b>Plant and machinery</b> RMB'000	<b>Group Furniture, and fixture and equipment</b> RMB'000	<b>Motor vehicles</b> RMB'000	<b>Total</b> RMB'000
Cost:						
At 1 January 2002	35,626	264,341	385,469	72,685	6,801	764,922
Additions	—	10,502	93,586	9,993	589	114,670
Disposals	—	(597)	(2,503)	(1,397)	(63)	(4,560)
	<hr/> 35,626 <hr/>	<hr/> 274,246 <hr/>	<hr/> 476,552 <hr/>	<hr/> 81,281 <hr/>	<hr/> 7,327 <hr/>	<hr/> 875,032 <hr/>
At 31 December 2002	<hr/> 35,626 <hr/>	<hr/> 274,246 <hr/>	<hr/> 476,552 <hr/>	<hr/> 81,281 <hr/>	<hr/> 7,327 <hr/>	<hr/> 875,032 <hr/>
Accumulated depreciation and impairment:						
At 1 January 2002	5,700	94,224	251,183	49,245	5,885	406,237
Charge for the year	713	3,758	27,228	8,185	384	40,268
Written back on disposals	—	(422)	(2,035)	(1,379)	(96)	(3,932)
	<hr/> 5,700 <hr/>	<hr/> 94,224 <hr/>	<hr/> 251,183 <hr/>	<hr/> 49,245 <hr/>	<hr/> 5,885 <hr/>	<hr/> 406,237 <hr/>
At 31 December 2002	<hr/> 6,413 <hr/>	<hr/> 97,560 <hr/>	<hr/> 276,376 <hr/>	<hr/> 56,051 <hr/>	<hr/> 6,173 <hr/>	<hr/> 442,573 <hr/>
Net book value:						
At 31 December 2002	<hr/> 29,213 <hr/>	<hr/> 176,686 <hr/>	<hr/> 200,176 <hr/>	<hr/> 25,230 <hr/>	<hr/> 1,154 <hr/>	<hr/> 432,459 <hr/>
At 31 December 2001	<hr/> 29,926 <hr/>	<hr/> 170,117 <hr/>	<hr/> 134,286 <hr/>	<hr/> 23,440 <hr/>	<hr/> 916 <hr/>	<hr/> 358,685 <hr/>

# Notes to the Financial Statements *(continued)*

For the year ended 31 December 2002  
(prepared under Accounting Principles Generally Accepted in Hong Kong)

## 13 Fixed assets *(continued)*

	Land use rights RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Company Furniture, fixture and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost:						
At 1 January 2002	35,626	262,054	326,559	69,601	6,295	700,135
Additions	—	12,162	90,146	9,141	59	111,508
Disposals	—	(8,685)	(2,155)	(1,330)	—	(12,170)
At 31 December 2002	35,626	265,531	414,550	77,412	6,354	799,473
Accumulated depreciation and impairment:						
At 1 January 2002	5,700	93,734	206,815	47,587	5,654	359,490
Charge for the year	713	8,123	23,228	7,231	260	39,555
Written back on disposals	—	(4,666)	(1,989)	(1,284)	—	(7,939)
At 31 December 2002	6,413	97,191	228,054	53,534	5,914	391,106
Net book value:						
At 31 December 2002	29,213	168,340	186,496	23,878	440	408,367
At 31 December 2001	29,926	168,320	119,744	22,014	641	340,645

## 14 Construction in progress

	Group 2002 RMB'000	2001 RMB'000	Company 2002 RMB'000	2001 RMB'000
As at 1 January	63,938	47,396	63,910	46,677
Additions	122,255	35,452	122,152	35,169
Capitalisation of interest expenses	2,248	1,787	2,248	1,787
	188,441	84,635	188,310	83,633
Transfer to fixed assets	(99,793)	(20,697)	(99,793)	(19,723)
As at 31 December	88,648	63,938	88,517	63,910

# Notes to the Financial Statements *(continued)*

For the year ended 31 December 2002

(prepared under Accounting Principles Generally Accepted in Hong Kong)

## 15 Interests in subsidiaries

	<b>Company</b>	
	<b>2002</b>	2001
	<b>RMB'000</b>	<b>RMB'000</b>
Investments at cost:		
Unlisted shares	<b>82,354</b>	64,600
Provision for impairment losses	<b>(24,825)</b>	(15,485)
	<b>57,529</b>	49,115

The Company increased its investment in one of its subsidiaries, DFEM Power Equipment Co., Ltd. ("DFEM Power") in 2002. The increased investment amounted to RMB17,754,000, of which RMB9,399,000 and RMB8,355,000 were contributed by cash and fixed assets, respectively. After the injection, the registered capital of DFEM Power increased to RMB42,754,000, which has been verified by a PRC certified public accountants.

The following is a list of the Company's subsidiaries as at 31 December 2002:

<b>Name</b>	<b>Place of registration and kind of legal entity</b>	<b>Percentage of equity interests owned by the Company</b>	<b>Registered capital</b> RMB'000	<b>Business scope</b>
DFEM Equipment Engineering Co., Ltd. ("DFEM Engineering")	PRC, limited liability company	97.04% (direct) 2.22% (indirect)	13,500	Provision of services of repair and upgrade of electrical machinery equipment in the PRC
DFEM Power	PRC, limited liability company	98.83% (direct)	42,754	Production and sale of AC/DC electrical motors in the PRC
DFEM Tooling and Moulding Co., Ltd. ("DFEM Tooling")	PRC, limited liability company	99.32% (direct)	14,600	Production and sale of tools and moulds in the PRC
DFEM Control Equipment Co., Ltd. ("DFEM Control")	PRC, limited liability company	96.15% (direct)	13,000	Production and sale of control equipment of power generators in the PRC

## 16 Interests in associated companies

	<b>Group</b>	
	<b>2002</b>	2001
	<b>RMB'000</b>	<b>RMB'000</b>
Investments at cost:		
Unlisted shares	<b>690</b>	690
Share of post acquisition reserves	<b>(523)</b>	(531)
	<b>167</b>	159

# Notes to the Financial Statements *(continued)*

For the year ended 31 December 2002  
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## 16 Interests in associated companies *(continued)*

	<b>Company</b>	
	<b>2002</b>	<b>2001</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Investments at cost:		
Unlisted shares	<b>690</b>	690
Provision for impairment losses	<b>(523)</b>	(490)
	<b>167</b>	200

The following is a list of the Company's associated companies as at 31 December 2002:

<b>Name</b>	<b>Place of registration and kind of legal entity</b>	<b>Percentage of equity interests owned by the Company</b>	<b>Registered capital</b> RMB'000	<b>Business scope</b>
Leshan Dongle Heavy Piece Handling Co., Ltd.	PRC, limited liability company	49%	1,000	Provision of services of transportation and warehousing in the PRC
Sichuan Dongfang Jiaxin Construction Supervising Co., Ltd.	PRC, limited liability company	40%	500	Provision of services of construction supervision in the PRC

## 17 Non-trading securities

	<b>Group and Company</b>	
	<b>2002</b>	<b>2001</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Unlisted equity shares, at cost	<b>1,499</b>	1,538

## 18 Inventories

	<b>Group</b>		<b>Company</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Raw materials	<b>235,831</b>	193,889	<b>215,817</b>	178,540
Work in progress	<b>269,494</b>	127,273	<b>237,491</b>	96,149
Finished goods	<b>46,433</b>	62,630	<b>38,127</b>	62,044
Spare parts and consumables	<b>1,935</b>	4,309	<b>1,935</b>	3,056
	<b>553,693</b>	388,101	<b>493,370</b>	339,789

As at 31 December 2002, the carrying amount of inventories of the Group and the Company that are carried at net realisable value amounted to RMB23,675,000 (2001: RMB20,459,000).

# Notes to the Financial Statements *(continued)*

For the year ended 31 December 2002

(prepared under Accounting Principles Generally Accepted in Hong Kong)

## 19 Construction contracts

	<b>Group and Company</b>	
	<b>2002</b>	<b>2001</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Contract costs incurred plus attributable profits less foreseeable losses to date	<b>185,023</b>	216,481
Less: progress billings to date	<b>(256,898)</b>	(393,541)
	<b>(71,875)</b>	(177,060)
Included in current (liabilities)/assets under the following captions:		
Due from customers on construction contracts	<b>33,047</b>	10,920
Due to customers on construction contracts	<b>(104,922)</b>	(187,980)
	<b>(71,875)</b>	(177,060)

As at 31 December 2002, retentions held by customers for contract work included in trade receivables of the Group and the Company under Note 20 amounted to RMB271,277,000 (2001: RMB264,317,000).

As at 31 December 2002, advances received from customers for contract work included in advances from customers of the Group and the Company amounted to RMB9,076,000 (2001: RMB26,581,000).

## 20 Trade and other receivables

	<b>Group</b>		<b>Company</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Trade receivables (a)	<b>733,583</b>	648,176	<b>692,501</b>	634,626
Other receivables (b)	<b>65,066</b>	77,434	<b>54,560</b>	68,355
Prepayments	<b>86,623</b>	122,933	<b>76,204</b>	123,051
	<b>885,272</b>	848,543	<b>823,265</b>	826,032

The Group offers credit terms generally accepted in the generator manufacturing industry to its customers, which vary on the size of contract, credibility and reputation of the customers.

(a) As at 31 December 2002, the ageing analysis of the trade receivables were as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Within 1 year	<b>449,284</b>	301,729	<b>417,360</b>	292,164
1 - 2 years	<b>61,022</b>	120,508	<b>48,652</b>	120,508
2 - 3 years	<b>63,448</b>	113,792	<b>63,050</b>	113,792
More than 3 years	<b>217,725</b>	154,748	<b>217,725</b>	149,925
	<b>791,479</b>	690,777	<b>746,787</b>	676,389
Less: provision for doubtful debts	<b>(57,896)</b>	(42,601)	<b>(54,286)</b>	(41,763)
	<b>733,583</b>	648,176	<b>692,501</b>	634,626

## Notes to the Financial Statements *(continued)*

For the year ended 31 December 2002  
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### 20 Trade and other receivables *(continued)*

(b) As at 31 December 2002, the other receivables were analysed as follows:

	Group		Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Other receivables	100,368	136,523	92,661	128,282
Less: provision for doubtful debts	(35,302)	(59,089)	(38,101)	(59,927)
	<b>65,066</b>	77,434	<b>54,560</b>	68,355

### 21 Trade and other payables

	Group		Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Trade payables (a)	206,056	162,435	169,726	143,243
Other payables	128,242	104,165	116,777	96,440
Accruals	57,006	34,011	40,969	28,672
	<b>391,304</b>	300,611	<b>327,472</b>	268,355

(a) As at 31 December 2002, the ageing analysis of the trade payables were as follows:

	Group		Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Within 1 year	203,455	159,755	168,950	141,189
1 - 2 years	1,751	1,209	249	583
2 - 3 years	626	616	324	616
More than 3 years	224	855	203	855
	<b>206,056</b>	162,435	<b>169,726</b>	143,243

### 22 Taxes payable

	Group		Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
VAT	137,961	152,927	138,164	153,362
BT	1,227	1,064	1,137	1,055
EIT	1,054	633	537	537
Other taxes	21,733	20,525	21,315	20,369
	<b>161,975</b>	175,149	<b>161,153</b>	175,323

## Notes to the Financial Statements (continued)

For the year ended 31 December 2002  
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### 23 Long-term liabilities

	<b>Group and Company</b>	
	<b>2002</b>	<b>2001</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Bank loans, unsecured	<b>371,000</b>	392,359
Other loans, unsecured	<b>149,000</b>	149,000
	<b>520,000</b>	541,359
Current portion of long-term liabilities	<b>(140,000)</b>	(91,359)
	<b>380,000</b>	450,000
The analysis of the above is as follows:		
Wholly repayable within five years		
Bank loans	<b>230,000</b>	301,000
Other loans	<b>149,000</b>	149,000
	<b>379,000</b>	450,000
Not wholly repayable within five years		
Bank loans	<b>1,000</b>	—
	<b>380,000</b>	450,000

Other loans wholly repayable within five years bear interest rates ranging from 5.94% to 6.21% per annum.

As at 31 December 2002, the Group's and the Company's loans were repayable as follows:

	<b>Bank loans</b>		<b>Other loans</b>		<b>Total</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Within one year	<b>110,000</b>	91,359	<b>30,000</b>	—	<b>140,000</b>	91,359
In the second year	<b>225,000</b>	171,000	<b>30,000</b>	30,000	<b>255,000</b>	201,000
In the third to fifth year	<b>35,000</b>	130,000	<b>89,000</b>	119,000	<b>124,000</b>	249,000
After the fifth year	<b>1,000</b>	—	<b>—</b>	—	<b>1,000</b>	—
	<b>371,000</b>	392,359	<b>149,000</b>	149,000	<b>520,000</b>	541,359

### 24 Share capital

	<b>Number of shares</b>		<b>Amount</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
	<b>'000</b>	<b>'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
<u>Registered, issued and fully paid</u>				
Legal person shares with par value of RMB1 each	<b>220,000</b>	220,000	<b>220,000</b>	220,000
A shares with par value of RMB1 each	<b>60,000</b>	60,000	<b>60,000</b>	60,000
H shares with par value of RMB1 each	<b>170,000</b>	170,000	<b>170,000</b>	170,000
	<b>450,000</b>	450,000	<b>450,000</b>	450,000

# Notes to the Financial Statements *(continued)*

For the year ended 31 December 2002  
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## 25 Reserves

	Capital surplus RMB'000	Statutory surplus reserve RMB'000	Group Statutory public welfare fund RMB'000	Discretionary surplus reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2001	636,061	27,592	25,998	—	6,408	696,059
Net loss for the year	—	—	—	—	(262,085)	(262,085)
At 31 December 2001	636,061	27,592	25,998	—	(255,677)	433,974
Net profit for the year	—	—	—	—	34,740	34,740
Appropriations from retained earnings	—	49	24	—	(73)	—
At 31 December 2002	636,061	27,641	26,022	—	(221,010)	468,714

	Capital surplus RMB'000	Statutory surplus reserve RMB'000	Company Statutory public welfare fund RMB'000	Discretionary surplus reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2001	636,061	27,592	25,998	—	9,558	699,209
Net loss for the year	—	—	—	—	(257,557)	(257,557)
At 31 December 2001	636,061	27,592	25,998	—	(247,999)	441,652
Net profit for the year	—	—	—	—	34,296	34,296
At 31 December 2002	636,061	27,592	25,998	—	(213,703)	475,948

### (a) Statutory reserves

In accordance with the relevant laws and regulations in the PRC and the Company's and its subsidiaries' articles of association, the Company and its subsidiaries are required to appropriate 10% and 5% of their annual statutory net profit, after offsetting any prior years' losses, to the statutory surplus reserve and statutory public welfare fund. When the balance of the statutory surplus reserve reaches 50% of the Company's share capital, any further appropriation is optional. The statutory surplus reserve can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholding or by increasing the par value of the shares currently held by them, provided that the remaining balance of the statutory surplus reserve after such issue is not less than 25% of share capital. The statutory public welfare fund can only be utilised on capital items for the collective benefits of the Company and its subsidiaries employees such as construction of dormitories, canteen and other staff welfare facilities, with the title of these capital items remain with the Company and its subsidiaries. This fund is non-distributable other than in liquidation.

As the Company's net profit in 2002 was not sufficient to cover the accumulated losses brought forward from previous years, the board of directors made the resolution on 1 April 2003 that no statutory reserve was appropriated from the net profit of 2002.



# Notes to the Financial Statements *(continued)*

For the year ended 31 December 2002  
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## 25 Reserves *(continued)*

### (b) Discretionary surplus reserve

As stated in the Company's and its subsidiaries' articles of association, the Company and its subsidiaries can appropriate their annual statutory net profit to the discretionary surplus reserve fund after the appropriation of statutory surplus reserve fund and statutory public welfare fund.

As the Company's net profit in 2002 was not sufficient to cover the accumulated losses brought forward from previous years, the board of directors made the resolution on 1 April 2003 that no discretionary surplus reserve was appropriated from the net profit of 2002.

## 26 Deferred taxation

Deferred tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefits through the future taxable profits is probable. The Group has unrecognised tax losses of RMB202,051,000 (2001: RMB204,572,000) to carry forward against future taxable income; these tax losses will expire in 2006.

The directors are of the opinion that it is not probable for the Group to realise the unrecognised tax losses in the foreseeable future. Thus, no deferred tax assets are recognised.

There are no material unprovided deferred taxation liabilities at the year end.

## 27 Consolidated cash flow statement

### (a) Reconciliation between profit/(loss) before taxation and net cash flows from operations

	2002 RMB'000	2001 RMB'000
Profit/(loss) before taxation	35,162	(262,239)
Share of results of associated companies	(8)	41
Interest income	(12,081)	(15,393)
Interest expense	40,001	34,565
Depreciation of fixed assets	40,268	46,804
Amortisation of intangible assets	676	383
(Write-back of provision)/provision for doubtful debts	(8,492)	18,167
Write-down of inventories to net realisable value	925	6,739
Provision for amount due from an associated company	—	970
Provision for unrealised losses on trading securities	—	6,727
Net realised gain on disposal of trading securities	(9,250)	(934)
(Gain)/loss on disposal of fixed assets	(119)	133
Operating profit/(loss) before working capital changes	87,082	(164,037)
(Increase)/decrease in net construction contracts in progress	(105,185)	15,879
Increase in inventories	(151,254)	(153,970)
(Increase)/decrease in trade and other receivables	(9,993)	117,071
Decrease in amounts due from associated companies	—	142
Increase in advances from customers	251,429	127,670
Increase in trade and other payables	58,099	90,183
Decrease in taxes payable	(11,827)	(60,709)
	<b>118,351</b>	<b>(27,771)</b>

# Notes to the Financial Statements *(continued)*

For the year ended 31 December 2002  
(prepared under Accounting Principles Generally Accepted in Hong Kong)

## 27 Consolidated cash flow statement *(continued)*

### (b) Analysis of changes in financing during the year

	Share capital		Minority interests		Loans	
	2002	2001	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	<b>450,000</b>	450,000	<b>878</b>	929	<b>868,459</b>	603,489
Capital contributed by minority shareholders	—	—	—	200	—	—
Minority interests' share of losses	—	—	<b>(130)</b>	(251)	—	—
Loans raised	—	—	—	—	<b>282,100</b>	548,100
Repayments of amounts borrowed	—	—	—	—	<b>(368,459)</b>	(283,130)
At 31 December	<b>450,000</b>	450,000	<b>748</b>	878	<b>782,100</b>	868,459

### (c) Purchase of a business

Deyang Dong Dian Electrical Machinery Manufacturing Co., Ltd. ("DDEM") is a company registered in Deyang, Sichuan Province, the PRC. Its shareholders were Deyang Dong Dian Electrical Appliances Co., Ltd. and Deyang Dong Dian Machinery and Electric Set Co., Ltd. which owned 96.25% and 3.75% of its equity interests, respectively. Zhou Hongxi was DDEM's legal representative. DDEM was principally engaged in the production and sale of small to medium sized hydro power generator.

Pursuant to the approval of the board of directors of DFEM Power and DDEM and the acquisition agreement entered into by the two parties on 29 March 2002, DFEM Power acquired the business and all the related assets and liabilities of DDEM as at 31 December 2001 with a fair value of RMB8,171,000 at a consideration of RMB9,399,000. Zhou Hongxi was also appointed as the legal representative of DFEM Power in December 2001. DDEM has been dissolved after DFEM Power's acquisition of its business and net assets. The amount of the consideration in excess of the fair value of the net assets acquired is accounted for as goodwill and is amortised using straight-line method in a period of 5 years. Details of the net assets acquired are as follows:

	RMB'000
Net assets acquired	
Fixed assets	4,227
Inventories	15,263
Trade and other receivables	18,244
Taxation recoverable	674
Bank balances and cash	2,357
Trade and other payables	(32,594)
	8,171
Goodwill	1,228
	<u>9,399</u>
Satisfied by	
Cash	<u>9,399</u>
Analysis of the net cash outflow on respect of the purchase of the net assets:	
Cash consideration	9,399
Bank balances and cash on hand acquired	(2,357)
Net cash outflow in respect of the purchase of net assets	<u>7,042</u>

# Notes to the Financial Statements *(continued)*

For the year ended 31 December 2002  
(prepared under Accounting Principles Generally Accepted in Hong Kong)

## 28 Related party transactions

Significant related party transactions, which were carried out in the normal course of the Group's business, are as follows:

### (a) Transactions with China Dongfang Electric Corporation ("DFEC"), superior administrative organisation of DFEW:

	2002 RMB'000	2001 RMB'000
Expenses		
- Interest paid and payable	<b>9,199</b>	8,687
Income		
- Sales	<b>27,947</b>	1,594
Loans from DFEC included in bank loans and other loans	<b>149,000</b>	149,000
Amounts due to DFEC included in advances from customers	<b>8,267</b>	7,882
Amounts due by DFEC included in trade and other receivables	<b>34,093</b>	31,746
Bank balances deposited in DFEC Finance Company (subsidiary of DFEC) included in other bank balances and cash	<b>53,785</b>	13,500

### (b) Transactions with DFEW:

	2002 RMB'000	2001 RMB'000
Expenses		
- Environmental hygiene and staff welfare expenditure (including hospitals, schools and kindergartens, staff canteens and maintenance of staff quarters)	<b>14,486</b>	26,202
- Packaging costs	<b>15,935</b>	9,052
- Freight	<b>29,758</b>	3,624
- Purchase of raw materials	<b>16,626</b>	—
Income		
- Water, electricity and gas supplied	<b>8,450</b>	4,017
- Proceeds on sales of raw materials	<b>693</b>	3,071
- Others	<b>941</b>	380
Amounts due to DFEW included in trade and other payables	<b>34,354</b>	27,673
Amounts due by DFEW included in trade and other receivables	<b>851</b>	19,599
Guarantees given by DFEW in respect of banking facilities utilised by the Group	<b>418,100</b>	458,100

In the opinion of the directors, the above transactions have been entered into in accordance with the terms of the agreements governing these transactions or, if there are no such agreements, on terms being no less favourable than those terms available to/from independent third parties.

## Notes to the Financial Statements *(continued)*

For the year ended 31 December 2002  
(prepared under Accounting Principles Generally Accepted in Hong Kong)

### 29 Contingent liabilities

As at 31 December 2002, the Company provided cross guarantee to Shaanxi Machinery Equipment Import and Export Company Limited (a third party) for fulfilment of contract for an amount of USD 167,000 (approximately RMB1,380,000).

### 30 Commitments

Capital commitments for fixed assets and construction in progress

	2002 RMB'000	2001 RMB'000
Contracted but not provided for	15,902	24,775
Authorised but not contracted	61,850	60,225
	<b>77,752</b>	85,000

As at 31 December 2002, the Group had no significant operating lease commitments.

### 31 Ultimate holding company

The directors regard DFEW, a state-owned enterprise established in the PRC which is managed by DFEC, as being the ultimate holding company.

### 32 Approval of accounts

The accounts were approved by the board of directors on 1 April 2003.

# Report of the Auditors

[English translation for reference only]

**PwC Shen Zi (2003) No. 1158**

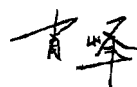
To the shareholders of

## **Dongfang Electrical Machinery Company Limited**

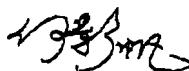
We have accepted the appointment to audit the balance sheets of Dongfang Electrical Machinery Company Limited (the "Company") and its subsidiaries (the "Group") as at 31 December 2002, the Company's and the Group's profit and loss accounts, profit appropriation statements and cash flow statements for the year then ended. The Company and the Group are responsible for the financial statements. Our responsibility is to express an audit opinion on the financial statements. Our audit was conducted in accordance with China Certified Public Accountants' Independent Auditing Standards and consequently included such auditing procedures as were considered necessary and appropriate to the Company's and the Group's circumstances, including examination, on a test basis, of the Company's and the Group's transactions and accounting records.

In our opinion, the financial statements of the Company and the Group present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2002 and their results of operations and cash flows for the year then ended in accordance with the Accounting Standards for Business Enterprises and the Accounting System for Business Enterprises of the People's Republic of China. The accounting policies used in the preparation of the financial statements for the year are consistent with those used in the preceding year.

## **PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd.**



Certified Public Accountant  
**Xiao Feng**



Certified Public Accountant  
**He Yingfan**

1 April 2003

# Balance Sheet

At 31 December 2002  
(prepared under PRC Accounting Standards)  
[English translation for reference only]

In RMB Yuan

	Notes	31 December 2002 Group	31 December 2001 Group	31 December 2002 Company	31 December 2001 Company
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and bank	5(1)	767,939,260	864,077,943	745,923,359	830,326,690
Short-term investments	5(2)	62,100	33,348,700	62,100	33,348,700
Notes receivable	5(3)	6,556,629	18,165,416	6,156,629	17,157,000
Accounts receivable	5(4), 6(1)	733,582,932	627,577,906	694,893,838	639,429,447
Other receivables	5(4), 6(1)	54,510,716	84,576,233	96,436,996	87,686,474
Prepayment to suppliers	5(5)	86,623,427	101,308,405	97,124,673	106,222,086
Inventories	5(6)	553,692,913	387,341,156	493,370,351	339,789,150
Due from customers on construction contracts	5(7)	33,046,946	12,401,858	33,046,946	12,401,858
Deferred expenses		159,632	45,451	134,076	43,451
Total current assets		2,236,174,555	2,128,843,068	2,167,148,968	2,066,404,856
<b>Long-term investments</b>					
Long-term equity investments	5(8), 6(2)	(4,218,527)	76,829	53,797,577	48,862,139
Long-term debt investments	5(8)	—	60,940	—	60,940
Total long-term investments		(4,218,527)	137,769	53,797,577	48,923,079
Including: Consolidation variances	5(8)	(5,885,000)	(1,581,532)	—	—
<b>Fixed assets</b>					
Fixed assets – cost		829,017,552	714,127,960	760,799,782	661,461,483
Less: Accumulated depreciation		(419,733,431)	(384,253,527)	(383,536,324)	(353,044,538)
Fixed assets – net		409,284,121	329,874,433	377,263,458	308,416,945
Fixed assets – net book value	5(9), 6(3)	409,284,121	329,874,433	377,263,458	308,416,945
Construction materials		2,534,334	31,476,794	4,026,255	31,476,795
Construction in progress	5(10)	37,913,584	64,336,223	37,783,183	63,910,132
Total fixed assets		449,732,039	425,687,450	419,072,896	403,803,872
<b>Intangible assets and other assets</b>					
Intangible assets	5(11)	32,046,262	32,123,190	30,891,957	32,123,190
Long-term deferred expenditures	5(12)	2,821,540	3,433,613	2,213,635	2,673,227
Other long-term assets	5(13)	48,400,000	200,000	48,400,000	200,000
Total intangible assets and other assets		83,267,802	35,756,803	81,505,592	34,996,417
<b>Total assets</b>		<b>2,764,955,869</b>	<b>2,590,425,090</b>	<b>2,721,525,033</b>	<b>2,554,128,224</b>

# Balance Sheet (continued)

At 31 December 2002

(prepared under PRC Accounting Standards)

[English translation for reference only]

In RMB Yuan

	Notes	31 December 2002 Group	31 December 2001 Group	31 December 2002 Company	31 December 2001 Company
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
<b>Current liabilities</b>					
Short-term loans	5(14)	262,100,000	327,100,000	262,100,000	327,100,000
Notes payable	5(15)	124,221,641	93,983,877	124,571,709	93,983,877
Accounts payable	5(16)	81,834,280	71,151,740	67,107,580	73,780,746
Advances from customers	5(16)	416,745,317	165,925,412	386,458,100	141,721,986
Salaries payable		30,788,232	26,210,254	28,808,481	25,571,892
Welfare payable		14,903,503	8,047,520	10,467,450	5,843,516
Taxes payable	5(17)	161,975,096	175,143,062	161,152,832	175,318,940
Other unpaid amount		8,630,078	11,400,786	8,465,143	11,243,974
Other payables	5(16)	45,196,006	44,243,426	41,263,972	39,950,533
Accrued expenses	5(18)	57,006,422	34,010,817	71,095,652	28,671,572
Provisions for expected loss		1,387,569	1,633,446	1,387,569	1,633,446
Provisions for foreseeable liabilities		—	653,425	—	—
Long-term liabilities – current portion	5(19)	140,000,000	91,358,582	140,000,000	91,358,582
Due to customers on construction contracts	5(7)	103,534,225	187,829,347	103,534,225	187,829,347
Total current liabilities		1,448,322,369	1,238,691,694	1,406,412,713	1,204,008,411
<b>Long-term liabilities</b>					
Long-term loans	5(19)	380,000,000	450,000,000	380,000,000	450,000,000
Long-term payables		685,253	685,253	685,253	685,253
Grants payable	5(20)	28,038,634	14,338,635	27,471,634	13,868,635
Total long-term liabilities		408,723,887	465,023,888	408,156,887	464,553,888
<b>Total liabilities</b>		<b>1,857,046,256</b>	<b>1,703,715,582</b>	<b>1,814,569,600</b>	<b>1,668,562,299</b>
<b>Minority interests</b>		<b>748,938</b>	<b>877,977</b>	<b>—</b>	<b>—</b>
<b>Shareholders' equity</b>					
Share capital	5(21)	450,000,000	450,000,000	450,000,000	450,000,000
Capital surplus	5(22)	607,497,970	606,180,232	607,497,970	606,180,232
Statutory surplus reserve funds	5(23)	53,663,085	53,589,831	53,589,831	53,589,831
Including: Statutory public welfare fund	5(23)	26,021,555	25,997,137	25,997,137	25,997,137
Accumulated deficit	5(24)	(204,000,380)	(223,938,532)	(204,132,368)	(224,204,138)
<b>Total shareholders' equity</b>		<b>907,160,675</b>	<b>885,831,531</b>	<b>906,955,433</b>	<b>885,565,925</b>
<b>Total liabilities and shareholders' equity</b>		<b>2,764,955,869</b>	<b>2,590,425,090</b>	<b>2,721,525,033</b>	<b>2,554,128,224</b>

The accompanying notes from an integral part of these financial statements.

Legal  
representative

Person in-charge  
of accounting function

Person in-charge  
of accounting department

# Profit and Loss Account

For the year ended 31 December 2002  
(prepared under PRC Accounting Standards)  
[English translation for reference only]

In RMB Yuan

Item	Notes	2002 Group	2001 Group	2002 Company	2001 Company
<b>1. Revenue from main operations</b>	5(25), 6(4)	<b>920,904,570</b>	370,292,656	<b>837,682,772</b>	335,279,500
Less: Cost of main operations	5(25), 6(4)	<b>(698,038,939)</b>	(336,337,800)	<b>(646,309,441)</b>	(308,078,172)
Taxes and surcharges on main operations		<b>(2,720,631)</b>	(554,709)	<b>(1,686,039)</b>	—
<b>2. Gross profit</b>		<b>220,145,000</b>	33,400,147	<b>189,687,292</b>	27,201,328
Add: Other operating income, net	5(26)	<b>2,957,706</b>	(2,045,574)	<b>5,517,924</b>	(4,032,303)
Less: Selling expenses		<b>(30,720,791)</b>	(28,255,098)	<b>(24,495,837)</b>	(23,462,894)
General and administrative expenses		<b>(160,803,375)</b>	(235,817,449)	<b>(132,076,135)</b>	(220,563,616)
Expected loss on construction contracts		<b>(1,387,569)</b>	(1,633,446)	<b>(1,387,569)</b>	(1,633,446)
Financial expenses	5(27)	<b>(28,606,967)</b>	(20,528,573)	<b>(27,633,126)</b>	(20,934,130)
<b>3. Operating profit / (loss)</b>		<b>1,584,004</b>	(254,879,993)	<b>9,612,549</b>	(243,425,061)
Add: Investment income	5(28), 6(5)	<b>9,530,560</b>	(5,709,588)	<b>1,007,013</b>	(18,238,361)
Subsidy income	5(29)	<b>8,170,000</b>	—	<b>8,030,000</b>	—
Non-operating income	5(30)	<b>3,190,796</b>	268,865	<b>3,041,209</b>	265,295
Less: Non-operating expenses	5(30)	<b>(2,040,479)</b>	(1,178,290)	<b>(1,619,001)</b>	(1,165,938)
<b>4. Profit / (loss) before tax</b>		<b>20,434,881</b>	(261,499,006)	<b>20,071,770</b>	(262,564,065)
Less: Enterprise income tax		<b>(552,514)</b>	(96,649)	<b>—</b>	—
Minority interests		<b>129,039</b>	246,601	<b>—</b>	—
<b>5. Net profit / (loss)</b>		<b>20,011,406</b>	(261,349,054)	<b>20,071,770</b>	(262,564,065)

The accompanying notes from an integral part of these financial statements.

Legal  
representative

Person in-charge  
of accounting function

Person in-charge  
of accounting department



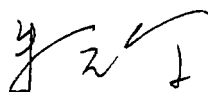
# Profit Appropriation Statement

For the year ended 31 December 2002  
(prepared under PRC Accounting Standards)  
[English translation for reference only]

In RMB Yuan

Item	Notes	2002 Group	2001 Group	2002 Company	2001 Company
<b>1. Net profit / (loss)</b>		<b>20,011,406</b>	(261,349,054)	<b>20,071,770</b>	(262,564,065)
Add: (Accumulated deficit) / Retained earnings – beginning of year		<b>(223,938,532)</b>	37,410,522	<b>(224,204,138)</b>	38,359,927
<b>2. Accumulated deficit to be recovered</b>		<b>(203,927,126)</b>	(223,938,532)	<b>(204,132,368)</b>	(224,204,138)
Less: Statutory surplus reserve fund	5(23), 5(24)	<b>(48,836)</b>	—	—	—
Statutory public welfare fund	5(23), 5(24)	<b>(24,418)</b>	—	—	—
<b>3. Accumulated deficit – ending of year</b>		<b>(204,000,380)</b>	(223,938,532)	<b>(204,132,368)</b>	(224,204,138)

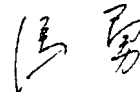
The accompanying notes from an integral part of these financial statements.



Legal  
representative



Person in-charge  
of accounting function



Person in-charge  
of accounting department

# Cash Flow Statement

For the year ended 31 December 2002  
(prepared under PRC Accounting Standards)  
[English translation for reference only]

Unit: RMB

Items	Notes	Group	Company
<b>1. Cash flows from operating activities</b>			
Cash received from sale of goods and rendering of services		1,149,979,009	1,108,343,723
Refunds of taxes		8,170,000	8,030,000
Other cash received relating to operating activities	5(31)	15,194,470	15,097,470
<b>Sub-total of cash inflows</b>		1,173,343,479	1,131,471,193
Cash paid for goods and services		(801,616,606)	(756,601,597)
Cash paid to and on behalf of employees		(175,591,169)	(150,284,050)
Payments of all types of taxes		(76,038,506)	(69,010,910)
Other cash paid relating to operating activities	5(32)	(98,889,388)	(119,218,715)
<b>Sub-total of cash outflows</b>		(1,152,135,669)	(1,095,115,272)
<b>Net cash flows from operating activities</b>		21,207,810	36,355,921
<b>2. Cash flows from investing activities</b>			
Cash received from disposals of investments		42,661,715	42,661,715
Cash received from disposals of fixed assets, intangible assets and other long-term assets		5,008,777	993,438
Other cash received relating to investing activities	5(33)	93,966,038	93,580,318
<b>Sub-total of cash inflows</b>		141,636,530	137,235,471
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(69,163,639)	(57,927,970)
Cash paid for investments	5(34)	—	(9,398,645)
<b>Sub-total of cash outflows</b>		(69,163,639)	(67,326,615)
<b>Net cash flows from investing activities</b>		72,472,891	69,908,856
<b>3. Cash flows from financing activities</b>			
Cash received from borrowings		282,100,000	282,100,000
<b>Sub-total of cash inflows</b>		282,100,000	282,100,000
Repayments of loans		(368,458,582)	(368,458,582)
Cash payments for distribution of dividends, profits or interests		(40,000,809)	(40,000,809)
<b>Sub-total of cash outflows</b>		(408,459,391)	(408,459,391)
<b>Net cash flows from financing activities</b>		(126,359,391)	(126,359,391)
<b>4. Effect of foreign exchange rate changes on cash</b>		—	—
<b>5. Net increase in cash and cash equivalents</b>		(32,678,690)	(20,094,614)

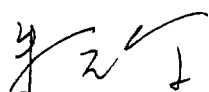
# Cash Flow Statement *(continued)*

For the year ended 31 December 2002  
(prepared under PRC Accounting Standards)  
[English translation for reference only]

In RMB Yuan

Items	Group	Company
<b>SUPPLEMENTARY INFORMATION</b>		
<b>1. Reconciliation of net profit to cash flows from operating activities</b>		
Net profit	20,011,406	20,071,770
Add: Minority interests	(129,039)	—
Reversal of provision of assets impairment	(9,436,590)	(13,413,397)
Depreciation of fixed assets	43,655,055	38,430,562
Amortisation of intangible assets	1,419,559	1,228,482
Amortisation of long-term deferred expenditures	770,263	459,593
Decrease in deferred expenses (deduct: increase)	(114,180)	(90,626)
Increase in accrued expenses (deduct: decrease)	22,995,603	42,424,079
Loss on disposals of fixed assets, intangible assets and other long-term assets (less: gain)	(3,435,792)	(3,506,259)
Financial expenses (deduct: income)	27,920,140	28,205,860
Loss on investments (less: gain)	(9,530,560)	(1,007,013)
Decrease in inventories (deduct: increase)	(136,588,982)	(123,120,004)
Decrease in operating receivables (deduct: increase)	15,025,416	23,987,686
Increase in operating payables (deduct: decrease)	48,645,511	22,685,188
<b>Net cash flows from operating activities</b>	<b>21,207,810</b>	<b>36,355,921</b>
<b>2. Investing and financing activities that do not involve cash receipts and payments</b>		
Conversion of debt into capital	—	—
Convertible bonds due within one year	—	—
Fixed assets acquired under finance leases	—	—
<b>3. Net decrease in cash and cash equivalents</b>		
Cash and cash equivalents at end of year	354,827,417	335,760,240
Less: Cash and cash equivalents at beginning of year	(387,506,107)	(355,854,854)
Net decrease in cash and cash equivalents	(32,678,690)	(20,094,614)

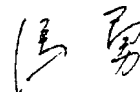
The accompanying notes from an integral part of these financial statements.



Legal  
representative



Person in-charge  
of accounting function



Person in-charge  
of accounting department

# Notes to the Financial Statements

For the year ended 31 December 2002  
(prepared under PRC Accounting Standards)  
(amounts expressed in Renminbi Yuan unless otherwise stated)  
(English translation for reference only)

## 1. COMPANY BACKGROUND AND PRINCIPAL ACTIVITIES

Pursuant to the circular of Ti Gai Sheng (1992) No. 67 issued by the State Economy Reform Commission on 11 September 1992 and Guo Zi Qi Han Fa (1993) No. 100 issued by the State Administration Bureau of State Owned Assets on 31 August 1993, Dongfang Electrical Machinery Works ("DFEW"), the sole promoter, established Dongfang Electrical Machinery Company Limited (the "Company") as a joint stock limited company in Deyang City, Sichuan Province, the People's Republic of China (the "PRC").

Pursuant to the circular of Ti Gai Sheng (1993) No. 214 issued by the State Economy Reform Commission on 17 December 1993, the Company was approved to be established as a wholly owned subsidiary of DFEW, and formally established on 28 December 1993 by obtaining the business license on that date. The Company was principally engaged in the production and sale of hydro power generators, steam power generators, AC/DC electrical motors, controlling equipment, normal machinery, electrical machinery and oxygen as well as the provision of various kinds of services as capacity expansion of power station, equipment instalment for power station and the export of self-produced machinery and electric appliances, sets of equipment and related technologies and the import of materials, equipment, devices, spare parts and technologies used in the production and research and development.

As approved by the State Economy Reform Commission by the circular of Ti Gai Sheng (1994) No. 42, the Company publicly issued overseas listed foreign investment shares ("H shares") in Hong Kong on 31 May 1994. The H shares were subsequently listed and traded in the Stock Exchange of Hong Kong Limited from 6 June 1994. The Company publicly issued domestic listed ordinary shares ("A shares") in the PRC on 4 July 1995. The A shares were subsequently listed and traded in the Stock Exchange of Shanghai from 10 October 1995.

On 25 May 2001, the expansion of business scope was approved by the Company's annual general meeting of 2000. The expanded business scope mainly includes: contracting outbound power generating equipment, machinery and electric appliances and sets of projects, domestic international bidding; provision of labouring services for the aforesaid business; production and sale of wind-driven power generating equipment and insulated products. The Company obtained the new business license on 15 August 2001.

## 2. PRINCIPAL ACCOUNTING POLICIES, ESTIMATES AND METHOD ADOPTED IN PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

### (1) Basis of presentation of the financial statements

The financial statements have been prepared in accordance with the Accounting Standards for Business Enterprises and the Accounting System for Business Enterprises and the relevant regulations as promulgated by the Ministry of Finance of the PRC.

### (2) Accounting period

The Company's accounting year starts on 1 January and ends on 31 December.

### (3) Reporting currency

The Company uses Renminbi ("RMB") Yuan as its reporting currency.

### (4) Basis of accounting and measurement bases

The Company uses the accrual method as its basis of accounting. Assets are initially recorded at their acquired costs. Subsequently, if they are impaired, impairment provision is provided accordingly.

# Notes to the Financial Statements *(continued)*

For the year ended 31 December 2002  
(prepared under PRC Accounting Standards)  
(amounts expressed in Renminbi Yuan unless otherwise stated)  
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## 2. PRINCIPAL ACCOUNTING POLICIES, ESTIMATES AND METHOD ADOPTED IN PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### (5) Foreign currency translation

Transactions denominated in foreign currencies are translated into RMB at the exchange rates published by the People's Bank of China prevailing on the first day of that month in which the transactions take place. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into RMB at the exchange rates published by the People's Bank of China at the balance sheet date. Exchange differences arising from these translations are taken to the profit and loss account.

### (6) Cash and cash equivalents

For the purposes of the cash flow statement, cash refers to all cash on hand and deposits held at call with banks. Cash equivalents refer to hold within three months, highly liquidable investments that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

For the purposes of the cash flow statement, cash with restricted usage, including time deposits with maturity over three months and deposits that have been restricted are not included in cash and cash equivalents.

### (7) Short-term investments

Short-term investments, comprising debentures, bonds and fund investments, are those investments that the Group does not have the intention to hold for more than one year and can be readily convertible into cash. The initial cost of an investment is recorded at the actual incurred investment cost after deduction of cash dividends which have been declared but unpaid at the time of acquisition or unpaid interest on bonds which has been due for payment. Cash dividends or interest on short-term investments, other than those recorded as receivables, are offset against the carrying amount of investments upon receipt. Short-term investments are carried at the lower of cost and market value at the period end. If market value is lower than cost, the deficiency is recorded as impairment provision for short-term investments.

### (8) Receivables and provision for doubtful debts

Receivables comprise of accounts receivable and other receivables.

Provision for doubtful debts of the Group is provided for using the "allowance method".

Based on the assessment of the collectibility of accounts receivable, a general provision is normally set against the balances according to their ageing using the respective percentages as follows:

Ageing	Percentage
Within 1 year	5%
1-2 years	6%
2-3 years	7%
3-4 years	8%
4-5 years	10%
Over 5 years	30%

Provision for doubtful debts for other receivables is made after assessing their collectibility.

For receivables where there is evidence that cannot be recovered (the debtor has been liquidated, declared bankruptcy, liabilities higher than assets, or significant cash flow shortage), doubtful debts are recognised and the balances are written off against the provision.

## Notes to the Financial Statements *(continued)*

For the year ended 31 December 2002  
(prepared under PRC Accounting Standards)  
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(English translation for reference only)

### 2. PRINCIPAL ACCOUNTING POLICIES, ESTIMATES AND METHOD ADOPTED IN PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

#### (9) Inventories

Inventories include raw materials, work in process, self-produced semi-finished goods, consigned goods, finished goods, low value consumables and spare parts and are initially recorded at cost. The cost of raw materials consumed and the sale of finished goods are calculated using standard cost method and individually identification method, respectively. Low value consumables and spare parts are expensed when consumed. The costs of finished goods, work in process and self-produced semi-finished goods comprise raw material costs, direct labour cost, an appropriate allocation of raw material price variances and an appropriate allocation of all production overhead expenditures based on normal operating capacity.

Inventories are presented at lower of cost and net realisable value at end of period. If the inventory cost is higher than the net realisable value, provision for net realisable value will be provided. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated selling expenses and taxes.

#### (10) Construction contracts

Construction contracts in progress are presented at actual costs and accumulated gross profit (loss) less settled amounts. Costs of construction contracts are accounted for on actual basis, including direct material cost, direct labour cost, other direct costs and related indirect costs. The amount of accumulated costs and accumulated profit (loss) that has been recognised in excess of the settled amounts of individual construction contract is presented as due from customers on construction contracts and included as current assets. The amount of settled amounts in excess of the accumulated costs of individual construction contract and accumulated profit (loss) that has been recognised is presented as due to customers on construction contracts and included as current liabilities.

If the outcome of a construction contract cannot be reliably estimated, treatment varies as follows:

- (i) If the costs of a construction contract are recoverable, contract revenue is recognised to the extent of recoverable amount while actual construction costs are recognised as expenses in the period in which they are incurred;
- (ii) If the costs of a construction contract are not recoverable, the costs are recognised as expenses in the period in which they are incurred and no revenue is recognised.

#### (11) Long-term investments

Long-term investments comprise investments in stock, other equity investments and debt investments that the Company intends to hold for over one year.

Long-term equity investments are recorded at the initial acquisition cost or the book value of non-monetary assets invested plus related taxes. When the Group owns an interest with voting rights of 20% or over 20% or below 20% but has the ability to exercise significant influence over the financial and operational decisions, these investments are accounted for using the equity method of accounting. When the Group owns an interest with voting rights of less than 20% or 20% or over 20% but does not have the ability to exercise significant influence over the financial and operational decisions, these investments are accounted for using the cost method of accounting.

## Notes to the Financial Statements *(continued)*

For the year ended 31 December 2002  
(prepared under PRC Accounting Standards)  
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### 2. PRINCIPAL ACCOUNTING POLICIES, ESTIMATES AND METHOD ADOPTED IN PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

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

When long-term equity investments are accounted for using the equity method of accounting, the difference between the initial costs on acquisition and the proportionate share of the net assets of the investee is accounted for as an "equity investment difference" and are amortised on a straight-line basis over 10 years.

Investments in subsidiaries and associated companies are accounted for using equity method. A subsidiary is a company that the Company owns directly or indirectly over 50% of its voting rights equity, or less than 50% of its voting rights equity but has the ability to decide its operating and financial policies to gain economic benefits. An associated company is a company in which the Company has significant influence.

#### (12) Fixed assets and depreciation

Fixed assets comprise of buildings, plant and other equipment held for use in production or supply of goods or services, or for administrative purposes with useful lives over 1 year and relatively high unit price.

Fixed assets purchased or newly constructed by the Company are initially recorded at cost. Fixed assets revalued during the Company's restructuring were recorded at the revalued amount which were approved by the State Administration of State Owned Assets.

Depreciation of fixed assets is calculated on a straight-line basis to write off the cost of each asset to its residual value over its estimated useful life. If provision for impairment loss is made, depreciation is calculated based on the cost after impairment loss provision and the revised depreciation rate over the remaining useful life.

Subsequent expenditures on significant restructure, upgrade and improvement are capitalised. Subsequent expenditures on maintenance and repairs are recognised as expenses when incurred.

The estimated useful lives, residual values and annual depreciation rates are as follows:

	Estimated useful life	Estimated residual value	Annual depreciation rate
Buildings and plant	30-35 years	3%	2.77%-3.23%
Machinery and equipment	9 years	3%	10.78%
Instruments and devices	6 years	3%	16.17%
Motor vehicles	6 years	3%	16.17%

#### (13) Construction in progress

Construction in progress represents capital assets under construction or being installed and is stated at cost. Cost comprises construction cost and other direct costs, original cost of plant and equipment, installation expenses and interest costs on specific borrowings used to finance the capital assets prior to the date of reaching the status of its intended use. Construction in progress is transferred to fixed assets when the asset reaches the status for its intended use.

## Notes to the Financial Statements *(continued)*

For the year ended 31 December 2002  
(prepared under PRC Accounting Standards)  
(amounts expressed in Renminbi Yuan unless otherwise stated)  
(English translation for reference only)

### 2. PRINCIPAL ACCOUNTING POLICIES, ESTIMATES AND METHOD ADOPTED IN PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

#### (14) Borrowing costs

Interest, ancillary costs and exchange differences incurred in connection with specific borrowings obtained for the acquisition or construction of fixed assets are capitalised as costs of the assets beginning when the capital expenditures and borrowing costs have been incurred and the activities to enable the assets to reach the status of its intended use have commenced. The capitalisation of borrowing costs ceases when the construction in progress is ready for intended use. Borrowing costs incurred thereafter are recognised as expenses in the period in which they are incurred.

Capitalised interest expense included in the borrowing costs for certain period is calculated by taking into account the weighted average capital expenditure on fixed assets acquisition and construction and the weighted average interest rate within the scope of total interest expense actually incurred.

Other borrowing costs are directly charged to profit and loss account as incurred.

#### (15) Intangible assets and amortisation

Intangible assets comprise of land use rights, technology know-how, goodwill and purchased computer software.

##### Land use rights

The land use rights injected by DFEW were recorded at the value approved by the State Land Administration Bureau. The land use rights are amortised on a straight-line basis over the useful lives of the land use rights of 50 years.

##### Technology know-how

Technology know-how is recorded at actual cost and amortised on a straight-line basis over a period of 5 years.

##### Goodwill

Goodwill is recognised based on the amount paid in excess of the fair value of net assets acquired of which the company is dissolved after the acquisition, and amortised using straight-line method over its estimated beneficial period. After taking into consideration of market share, future growth and other potential factors, management estimates the beneficial period of the goodwill by assessing the condition of the acquired company at the acquisition date. Self-generated goodwill is not recognised.

##### Purchased computer software

Purchased computer software is recorded at actual cost and amortised on a straight-line basis over a period of 5 years.

#### (16) Long-term deferred expenditures

Long-term deferred expenditures include improvement cost on leased fixed assets, leasehold improvements and other long-term expenditures that should be amortised for more than 1 year (exclusive).

Long-term deferred expenditure is amortised on a straight-line method over the expected beneficial period of the asset.

If long-term deferred expenditure does not bring any economic benefits in subsequent periods, the remaining balance of the long-term deferred expenditure is charged to profit and loss account.



# Notes to the Financial Statements *(continued)*

For the year ended 31 December 2002  
(prepared under PRC Accounting Standards)  
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## 2. PRINCIPAL ACCOUNTING POLICIES, ESTIMATES AND METHOD ADOPTED IN PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### (17) Assets impairment

Except the recognition of impairment provisions against short-term investments, accounts receivable and inventories are described in their respective accounting policies, when events or changes in circumstances indicate that the carrying values of other assets are higher than their recoverable amounts, tests for impairment are undertaken. If the carrying amount is higher than the recoverable amount, then the excess is recognised as an impairment provision and taken into the profit and loss account.

The recoverable amount of an individual asset item is the higher of its net selling price and its value in use. Net selling price is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, after deducting any direct incremental disposal costs. Value in use is the present value of estimated future cash flows expected to be derived from continuing use of an asset and from its disposal at the end of its useful life.

If indications of impairment loss recognised for an asset in previous years no longer exist or partially do not exist, and based on the reassessed recoverable amount, the provision for asset impairment is reversed to the extent of impairment loss being recognised in previous years.

### (18) Foreseeable liabilities

When the Group has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and it is provided that a reliable estimate can be made, a foreseeable liability is recognised.

#### Guarantee loss

Any possible loss from any guarantee provided by the Company to outsiders is recognised if the amount can be reliably estimated and measured.

### (19) Revenue recognition

#### Construction contract

Revenue from construction contract includes initial revenue specified in the construction contract and other revenue resulted from variations in contract, claims and incentive payments. The Group recognises construction contract revenue by percentage of completion method at the balance sheet date when percentage of completion which is calculated based on cost incurred and budgeted total cost reaches 70%; the outcome of the contract can be reliably estimated, i.e. contract total income can be reliably measured; relevant economic benefits of the contract are expected to flow into the Group; percentage of completion and costs to be incurred to complete the contract as at balance sheet date can be reliably measured; and actual costs incurred for the contract can be clearly distinguished and actual costs are comparable with budgeted costs. While percentage of completion is below 70%, revenue is not recognised.

#### Sale of goods

Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the customer; no continuing managerial involvement nor effective control over the goods; it is probable that the economic benefits associated with the transaction will flow to the Group; and the relevant amount of revenue and costs can be measured reliably.

## Notes to the Financial Statements *(continued)*

For the year ended 31 December 2002  
(prepared under PRC Accounting Standards)  
(amounts expressed in Renminbi Yuan unless otherwise stated)  
(English translation for reference only)

### 2. PRINCIPAL ACCOUNTING POLICIES, ESTIMATES AND METHOD ADOPTED IN PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

#### (19) Revenue recognition *(continued)*

##### Rendering of service

Revenue is recognised when the service is provided.

Other revenue is recognised on the following bases:

Interest income - recognised on a time proportion basis on the amounts deposited and the effective yield;

Subsidy income - recognised on cash basis;

#### (20) Accounting for income tax

The Group accounts for enterprise income tax ("EIT") using the tax payable method.

#### (21) Method in preparation of consolidated financial statements

Consolidated financial statements comprise of the financial statements of the Company and its subsidiaries which are prepared in accordance with Cai Kuai Zi (1995) No. 11 "Circular Concerning the Distribution of Interim Articles on Consolidation of Financial Statements" promulgated by the Ministry of Finance of the PRC.

Significant transactions, balances and unrealised profits arising from intercompany transactions among the Company and its subsidiaries have been eliminated in preparing the consolidated financial statements. Minority interests in the consolidated financial statements comprise of the equity interests in the consolidated subsidiaries which are not owned by the Company.

Where the accounting policies adopted by the consolidated subsidiaries are not consistent with those adopted by the Company, adjustments are made to conform to the accounting policies adopted by the Company if the impact to the consolidated financial statements is significant.

### 3. TAXATION

The Group is subject to the following major taxes:

Taxes	Rates	Tax bases
EIT *	15% - 33%	Taxable income
Value added tax ("VAT")	17%	The balance of the taxable income from sale of goods and rendering of services deducting eligible VAT paid from purchase of goods and services
Business tax	5%	Consulting income
Land use tax	RMB1 per square meter	Actual area of land occupied
Real estate tax	1.2%	70% of original cost of buildings

\* Pursuant to Guo Shui Han Fa (1994) No. 62 Circular issued by the State Administration of Taxation, the Company is subject to EIT at the rate of 15%. The Company's subsidiaries are subject to EIT at the rate of 33%.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2002  
(prepared under PRC Accounting Standards)  
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### 4. CONSOLIDATED SUBSIDIARIES

Name	Place of registration and date of establishment	Percentage of equity interests owned by the Company	Registered capital RMB '000	Business scope
DFEM Equipment Engineering Co., Ltd. ("DFEM Engineering")	the PRC 16 August 2001	97.04% (direct) 2.22% (indirect)	13,500	Provision of services of repair and upgrade of electrical machinery equipment
DFEM Power Equipment Co., Ltd. ("DFEM Power")	the PRC 10 July 2000	98.83% (direct)	42,754	Production and sale of AD/DC electrical motors
DFEM Tooling and Moulding Co., Ltd. ("DFEM Tooling")	the PRC 13 March 2001	99.32% (direct)	14,600	Production and sale of tools and moulds
DFEM Control Equipment Co., Ltd. ("DFEM Control")	the PRC 18 May 2000	96.15% (direct)	13,000	Production and sale of control equipment of power generators

All the above subsidiaries have been included in the consolidated financial statements.

### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### (1) Cash and bank

	31 December 2002	31 December 2001
Cash on hand	33,838	31,533
Cash in banks	612,377,993	726,944,358
Other monetary funds	155,527,429	137,102,052
	<b>767,939,260</b>	<b>864,077,943</b>

As at 31 December 2002, included in cash in banks of the Group was cash amounting to RMB53,785,358 (2001: RMB13,500,000) deposited in China Dongfang Electric Corporation Finance Company, a related party of the Company (see Note 7(5)).

The following foreign currency balances are included in the cash and bank balance as at 31 December 2002:

Foreign currency	Amount	Exchange rate	RMB
US dollar	34,449,006	8.2773	285,144,757
Hong Kong dollars	73	1.0611	77
			<b>285,144,834</b>

## Notes to the Financial Statements *(continued)*

For the year ended 31 December 2002  
(prepared under PRC Accounting Standards)  
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### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

#### (1) Cash and bank *(continued)*

Cash and cash equivalents included in the cash flow statements are as follows:

	31 December 2002	31 December 2001
Cash and bank	<b>767,939,260</b>	864,077,943
Less: Time deposits with maturity over 3 months	<b>(257,584,414)</b>	(339,469,784)
Restricted cash and bank balance	<b>(155,527,429)</b>	(137,102,052)
	<b>354,827,417</b>	387,506,107

The restricted cash and bank balance of the Group represented bank deposits for issuing bank accepted notes.

#### (2) Short-term investments

	31 December 2002	31 December 2001
Investment cost –		
Investments in stock	<b>75,960</b>	75,960
Other investments	<b>—</b>	40,000,000
	<b>75,960</b>	40,075,960
Less: Provision for impairment loss in short-term investments	<b>(13,860)</b>	(6,727,260)
	<b>62,100</b>	33,348,700

Provision for impairment loss in short-term investments	Balance, beginning of year	Additions	Deductions	Balance, end of year
Investments in stock	13,860	—	—	13,860
Other investments	6,713,400	—	(6,713,400)	—
	6,727,260	—	(6,713,400)	13,860

The “Assets Entrust Management Agreement” and the “Assets Entrust Management Supplementary Agreement” that the Company entered into with Haitong Securities Co., Ltd. expired on 16 July 2002. The Company received principal and income amounting to RMB42,537,155, of which the principal is RMB40,000,000 and related investment income is RMB2,537,155 (see Note 5(28)).

# Notes to the Financial Statements *(continued)*

For the year ended 31 December 2002  
(prepared under PRC Accounting Standards)  
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## 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### (3) Notes receivable

	31 December 2002	31 December 2001
Commercial accepted notes	<b>1,156,129</b>	1,800,000
Bank accepted notes	<b>5,400,500</b>	16,365,416
	<b><u>6,556,629</u></b>	<u>18,165,416</u>

### (4) Accounts receivable and other receivables

#### (a) Accounts receivable

	31 December 2002	31 December 2001
Accounts receivable	<b>791,479,107</b>	675,191,207
Less: Provision for doubtful debts	<b>(57,896,175)</b>	(47,613,301)
	<b><u>733,582,932</u></b>	<u>627,577,906</u>

The ageing of accounts receivable and related provision for doubtful debts are analysed as follows:

Ageing	31 December 2002			31 December 2001		
	Amount	Provision for % doubtful debts		Amount	%	Provision for doubtful debts
Within 1 year	<b>449,284,425</b>	<b>56.77</b>	<b>(17,632,010)</b>	277,850,961	41.15	(7,312,728)
1-2 years	<b>61,022,101</b>	<b>7.71</b>	<b>(3,661,323)</b>	121,319,826	17.97	(7,279,189)
2-3 years	<b>63,448,335</b>	<b>8.02</b>	<b>(4,441,384)</b>	113,792,522	16.85	(7,965,477)
3-4 years	<b>94,836,405</b>	<b>11.98</b>	<b>(7,586,912)</b>	68,619,709	10.16	(5,489,577)
4-5 years	<b>61,459,033</b>	<b>7.77</b>	<b>(6,145,903)</b>	42,580,636	6.31	(4,258,064)
Over 5 years	<b>61,428,808</b>	<b>7.75</b>	<b>(18,428,643)</b>	51,027,553	7.56	(15,308,266)
	<b><u>791,479,107</u></b>	<b>100.00</b>	<b>(57,896,175)</b>	<u>675,191,207</u>	<u>100.00</u>	<u>(47,613,301)</u>

As at 31 December 2002, contract work retention money included in accounts receivable amounted to approximately RMB271,277,000 (2001: RMB264,317,000).

The aggregate amount of the five largest balances of accounts receivable as at 31 December 2002 was RMB245,991,585, accounting for 31% of the total balance of accounts receivable (2001: RMB230,017,898, 34%).

# Notes to the Financial Statements *(continued)*

For the year ended 31 December 2002  
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## 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### (4) Accounts receivable and other receivables *(continued)*

#### (b) Other receivables

	31 December 2002	31 December 2001
Other receivables	<b>89,812,537</b>	139,622,860
Less: Provision for doubtful debts	<b>(35,301,821)</b>	(55,046,627)
	<b>54,510,716</b>	84,576,233

The ageing of other receivables and related provision for doubtful debts are analysed as follows:

Ageing	31 December 2002			31 December 2001		
	Amount	Provision for % doubtful debts		Amount	%	Provision for doubtful debts
Within 1 year	<b>12,153,326</b>	<b>13.53</b>	<b>(2,539,915)</b>	11,973,896	8.58	(3,987,041)
1-2 years	<b>135,500</b>	<b>0.15</b>	<b>(54,200)</b>	671,833	0.48	(268,733)
2-3 years	<b>183,864</b>	<b>0.20</b>	<b>(73,545)</b>	242,645	0.17	(97,058)
3-4 years	<b>150,000</b>	<b>0.17</b>	<b>(60,000)</b>	787,989	0.56	(315,196)
4-5 years	<b>603,046</b>	<b>0.67</b>	<b>(241,218)</b>	48,843	0.03	(19,537)
Over 5 years	<b>76,586,801</b>	<b>85.28</b>	<b>(32,332,943)</b>	125,897,654	90.18	(50,359,062)
	<b>89,812,537</b>	<b>100.00</b>	<b>(35,301,821)</b>	139,622,860	100.00	(55,046,627)

Balance due from shareholders who hold more than 5% (inclusive) of the Company's voting rights is as follows:

	31 December 2002	31 December 2001
DFEVW		
- Accounts receivable	—	19,599,147
- Other receivables	<b>851,035</b>	—

The aggregate amount of the five largest balances of other receivables as at 31 December 2002 was RMB69,436,415, accounting for 77% of the total balance of other receivables (2001: RMB112,359,482, 80%).

Pursuant to the arbitration results of 2002 Yu Cai (Jing) Zi No. 61 and 62 issued by Chongqing Arbitration Committee on 21 October 2002, the Company and Chongqing Heima Properties Co., Ltd. ("Chongqing Heima") had a debt restructuring on the amount of RMB44,000,000 that Chongqing Heima due to the Company. Chongqing Heima used part of the floors of Huiyuan Building (an office building located in Chongqing City) to repay the above mentioned debt due to the Company (see Note 10(1)).

# Notes to the Financial Statements *(continued)*

For the year ended 31 December 2002  
(prepared under PRC Accounting Standards)  
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(English translation for reference only)

## 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### (4) Accounts receivable and other receivables *(continued)*

#### (b) Other receivables *(continued)*

Pursuant to the Debt Repayment Agreement entered into by the Company and Sichuan Huaxin Power Investment Co., Ltd. ("Huaxin Power") on 14 December 2001, the Company and Huaxin Power had a debt restructuring on the amount of RMB4,200,000 that Huaxin Power due to the Company. Huaxin Power used part of the floors of Huaxin Building (an office building located in Chengdu City, Sichuan Province) to repay the above mentioned debt due to the Company (see Note 10(2)).

In addition, as at 31 December 2002, other receivables of the Group included balances of approximately RMB56,502,000 which were collateralised and guaranteed by debtors' equity shares or assets.

### (5) Prepayments

Ageing	31 December 2002		31 December 2001	
	Amount	%	Amount	%
Within 1 year	<b>82,547,609</b>	<b>95.29</b>	88,679,824	87.53
1-2 years	<b>3,740,232</b>	<b>4.32</b>	11,839,008	11.69
2-3 years	<b>319,736</b>	<b>0.37</b>	253,128	0.25
Over 3 years	<b>15,850</b>	<b>0.02</b>	536,445	0.53
	<b>86,623,427</b>	<b>100.00</b>	101,308,405	100.00

There is no balance prepaid to shareholders who hold more than 5% (inclusive) of the Company's voting rights.

### (6) Inventories

	31 December 2002	31 December 2001
Raw materials	<b>238,082,793</b>	199,615,176
Work in progress	<b>273,902,186</b>	130,047,295
Finished goods	<b>49,317,560</b>	66,969,918
Consignment materials	<b>2,970,820</b>	401,728
Low value consumables	<b>1,935,718</b>	1,898,559
	<b>566,209,077</b>	398,932,676
Less: Provision for net realisable value	<b>(12,516,164)</b>	(11,591,520)
	<b>553,692,913</b>	387,341,156

Provision for net realisable value	Balance, beginning of year	Additions	Deductions	Balance, end of year
Raw materials	4,477,880	744,297	—	5,222,177
Work in progress	2,773,724	1,634,574	—	4,408,298
Finished goods	4,339,916	—	(1,454,227)	2,885,689
	11,591,520	2,378,871	(1,454,227)	12,516,164

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### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

#### (7) Construction contract in progress

	31 December 2002	31 December 2001
Accumulated costs incurred	<b>172,667,021</b>	204,121,194
Add: Accumulated recognised gross profit	<b>15,282,537</b>	13,992,243
Less: Accumulated progress billings	<b>(256,898,727)</b>	(393,540,926)
Recognised expected loss	<b>(1,538,110)</b>	—
	<b><u>(70,487,279)</u></b>	<u>(175,427,489)</u>
As shown on the balance sheet:		
Due from customers on construction contracts	<b><u>33,046,946</u></b>	12,401,858
Due to customers on construction contracts	<b><u>(103,534,225)</u></b>	<u>(187,829,347)</u>

As at 31 December 2002, construction contracts with a total amount of approximately RMB1,049,728,000 were in progress (2001: RMB631,494,000).

#### (8) Long-term investments

	1 January 2002	Additions	Deductions	31 December 2002
Associated companies (a)	158,725	8,112	—	166,837
Other equity investments (b)	1,766,314	—	—	1,766,314
Consolidation variances (c)	(1,581,532)	(4,511,742)	208,274	(5,885,000)
Long-term debt investments	60,940	—	(60,940)	—
Investments in stock (d)	44,263	—	—	44,263
	448,710	(4,503,630)	147,334	(3,907,586)
Provision for impairment of long-term investments	(310,941)	—	—	(310,941)
	137,769	(4,503,630)	147,334	<b><u>(4,218,527)</u></b>

The additions in consolidation variances of the Group in 2002 were generated from the fixed assets injected to a subsidiary, DFEM Power.

There is no significant restrictions on the realisation and receipt of investment income on the long-term investments of the Group.



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## 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### (8) Long-term investments (continued)

#### (a) Associated companies

	Investment period	Percentage of registered capital		Investment amount		Accumulated changes on equity			Balance	
		1 January	31 December	1 January	31 December	1 January	Additions/	31 December	1 January	31 December
		2002	2002	2002	2002	2002	(Deductions)	2002	2002	2002
Leshan Dongle Heavy Piece Handling Co., Ltd.	1997.07	49%	49%	490,000	490,000	(490,000)	—	(490,000)	—	—
Sichuan Dongfang Jixin Construction Supervising Co., Ltd.	2001.05	40%	40%	200,000	200,000	(41,275)	8,112	(33,163)	158,725	166,837
				690,000	690,000	(531,275)	8,112	(523,163)	158,725	166,837

#### (b) Other equity investments

	Investment period	Percentage of registered capital		Investment amount		Accumulated changes on equity			Balance	
		1 January	31 December	1 January	31 December	1 January	Additions/	31 December	1 January	31 December
		2002	2002	2002	2002	2002	(Deductions)	2002	2002	2002
Southwest He Pin Materials Trade Center	1984.12	Unknown	Unknown	60,000	60,000	—	—	—	60,000	60,000
Deyang Mechanical and Electrical Equipment Import and Export Co., Ltd.	1988.06	Unknown	Unknown	100,941	100,941	—	—	—	100,941	100,941
Wuxi Electrical Hotel	1988.07	2.3%	2.3%	150,000	150,000	—	—	—	150,000	150,000
Chengdu Sandian Co., Ltd.	1992.09	0.62%	0.62%	455,373	455,373	—	—	—	455,373	455,373
Sichuan Deyang Jinshi Real Estate Co., Ltd.	2001.04	12.5%	12.5%	1,000,000	1,000,000	—	—	—	1,000,000	1,000,000
				1,766,314	1,766,314	—	—	—	1,766,314	1,766,314

#### (c) Consolidation variances resulted from equity investment differences

	Initial amount	Balance, beginning of year	Additions	Amortisation	Accumulated amortisation	Balance, end of year
DFEM Power	(4,511,742)	—	(4,511,742)	37,598	37,598	(4,474,144)
DFEM Tooling	(1,082,221)	(983,016)	—	108,222	207,427	(874,794)
DFEM Engineering	(624,538)	(598,516)	—	62,454	88,476	(536,062)
Total	(6,218,501)	(1,581,532)	(4,511,742)	208,274	333,501	(5,885,000)

The consolidation variances of the Group are amortised using straight-line method over 10 years.

#### (d) Investments in stock

The market value of investments in stock of the Group as at 31 December 2002 was approximately RMB542,000.

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### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

#### (9) Fixed assets and accumulated depreciation

	Buildings and plant	Machinery and equipment	Instruments and devices	Motor vehicles	Total
Cost -					
Balance, beginning of year	261,787,608	375,575,068	69,853,222	6,912,062	714,127,960
Additions	23,370,080	93,585,801	9,992,693	589,153	127,537,727
Disposals	(8,684,918)	(2,503,627)	(1,396,983)	(62,607)	(12,648,135)
Balance, end of year	276,472,770	466,657,242	78,448,932	7,438,608	829,017,552
Accumulated depreciation -					
Balance, beginning of year	91,652,497	238,272,605	48,605,972	5,722,453	384,253,527
Additions	8,171,966	27,228,250	7,871,233	383,606	43,655,055
Disposals	(4,665,613)	(2,035,267)	(1,378,676)	(95,595)	(8,175,151)
Balance, end of year	95,158,850	263,465,588	55,098,529	6,010,464	419,733,431
Net -					
Balance, end of year	181,313,920	203,191,654	23,350,403	1,428,144	409,284,121
Balance, beginning of year	170,135,111	137,302,463	21,247,250	1,189,609	329,874,433
Provision for impairment loss of fixed assets	—	—	—	—	—
Net book value					
Balance, end of year	181,313,920	203,191,654	23,350,403	1,428,144	409,284,121
Balance, beginning of year	170,135,111	137,302,463	21,247,250	1,189,609	329,874,433

As at 31 December 2002, the registration of ownership certificates of the Group's buildings and plant amounting to approximately RMB85,650,000 was in process.

As at 31 December 2002, fixed assets of the Group with original cost of approximately RMB198,259,000 (2001: approximately RMB138,143,000) were fully depreciated and still in use.

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## 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### (10) Construction in progress

Project	Budget (RMB'000)	1 January 2002	Additions	Transferred into fixed assets	Other deductions	31 December 2002	Source of capital	Percentage of completion
Five coordinate mill	28,000	—	13,731,632	—	—	13,731,632	Loan and listing proceeds	49%
Heavy rotor groove mill	29,900	—	4,736,885	—	—	4,736,885	Loan and listing proceeds	16%
Anneal furnace	3,920	62,291	4,078,920	—	—	4,141,211	Loan and listing proceeds	106%
Digital belting machine	7,700	—	4,010,596	—	—	4,010,596	Loan and listing proceeds	52%
Improvement of electricity system	6,090	—	2,280,582	—	—	2,280,582	Self-financed	37%
Specialized borer	7,000	—	1,351,692	—	—	1,351,692	Loan and listing proceeds	19%
Relocation of 250 borer	1,300	167,600	317,779	—	—	485,379	Loan and listing proceeds	37%
Heavy span assemble and weld platform	3,590	3,159,094	52,079	(3,100,008)	—	111,165	Loan and listing proceeds	89%
Air pressure machine	530	470,281	47,389	(477,679)	—	39,991	Loan and listing proceeds	98%
Second engineering of fifth power distribution station	1,790	1,577,418	94,835	(1,659,000)	—	13,253	Loan and listing proceeds	93%
Second improvement power wire	1,980	1,884,089	419,047	(2,297,527)	—	5,609	Listing proceeds	116%
Materials factory building	1,150	1,059,934	431,953	(1,486,822)	—	5,065	Loan and listing proceeds	129%
Improvement of information system	1,140	1,086,575	—	(1,086,575)	—	—	Loan and listing proceeds	95%
Second improvement engineering of high platform	2,420	1,622,051	598,589	(2,220,640)	—	—	Loan and listing proceeds	92%
22 meters digital control machine	14,260	13,236,217	2,283,474	(15,519,691)	—	—	Loan and listing proceeds	109%
Three Gorges software	3,560	2,922,749	—	(2,922,749)	—	—	Loan and listing proceeds	82%
600KW steam generator test run station	11,270	11,158,757	317,913	(11,476,670)	—	—	Loan and listing proceeds	102%
Relocation of hydro-pressure platform	2,390	1,868,926	194,084	(2,063,010)	—	—	Loan and listing proceeds	86%
Horizontal WSD210-III	730	588,855	205,851	(794,706)	—	—	Loan and listing proceeds	109%
Oil pressure machine of sator oil	2,350	2,341,996	36,701	(2,378,697)	—	—	Self-financed	101%
16M multi-horizontal	1,800	900,238	388,132	(1,288,370)	—	—	Listing proceeds	72%
Bajiao hydro-electric plant	7,500	3,001,440	—	—	(3,001,440)	—	Loan and listing proceeds	N/A
Industrial and commercial building of Guanghan	5,790	1,156,063	—	—	(1,156,063)	—	Loan and listing proceeds	N/A
Others		20,229,152	37,792,168	(51,020,796)	—	7,000,524	Loan and listing proceeds	N/A
			68,493,726	73,370,301	(99,792,940)	(4,157,503)	37,913,584	
Including: Loan interest capitalised			13,711,248	1,019,742	(108,723)	—	14,622,267	
Less: Provision for impairment loss of construction in progress			(4,157,503)	—	—	4,157,503	—	
			64,336,223	73,370,301	(99,792,940)	—	37,913,584	

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### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

#### (10) Construction in progress *(continued)*

Bajiao Hydro-electric Plant represented amount paid to acquire land use rights for the original plan of setting up a sino-foreign joint venture with GE Canada and other foreign companies. The investment plan was cancelled in 1999. The Group has fully provided impairment loss for this project in the previous year. In 2002, the Group applied for return of this payment from Deyang Economic Development Zone Committee and obtained the approval. Thus, the Group transferred the balance to other receivables and reversed the provision for impairment loss accordingly.

In 2002 the Group wrote off the balance of Industrial and Commercial Building of Guanghan and reversed the provision for impairment loss provided in the previous year.

#### (11) Intangible assets

	Original amount	Accumulated amortisation	1 January 2002	Additions	Transferred out	Amortisation	31 December 2002	Residual amortisation period	Method of acquisition
Land use rights	35,626,000	(5,700,160)	29,925,840	—	—	(712,520)	29,213,320	492 months	Injection by shareholders
Technology know-how	2,553,250	(382,987)	2,170,263	2,750	—	(511,613)	1,661,400	39 months	Purchase
Goodwill	—	—	—	1,227,888	—	(163,719)	1,064,169	52 months	Acquisition of a business
Software	29,550	(2,463)	27,087	113,923	(1,930)	(31,707)	107,373	43 months	Purchase
	<u>38,208,800</u>	<u>(6,085,610)</u>	<u>32,123,190</u>	<u>1,344,561</u>	<u>(1,930)</u>	<u>(1,419,559)</u>	<u>32,046,262</u>		
Less: Provision for impairment loss of intangible assets			—	—	—	—	—		
			<u>32,123,190</u>	<u>1,344,561</u>	<u>(1,930)</u>	<u>(1,419,559)</u>	<u>32,046,262</u>		

Goodwill arose from the amount paid by the Group in the acquisition of the business and related net assets of Deyang Dong Dian Electrical Machinery Manufacturing Co., Ltd. ("DDEM") in excess of its fair value (see Note 11), which is amortised on a straight-line basis over 5 years. DDEM was dissolved after the acquisition.

#### (12) Long-term deferred expenditures

	Original amount	Accumulated amortisation	1 January 2002	Additions	Amortisation	31 December 2002	Residual amortisation period
Natural gas charges	1,100,000	(1,025,000)	75,000	—	(75,000)	—	—
Rental for buildings	1,969,031	(440,571)	1,528,460	—	(98,452)	1,430,008	170 months
Decoration costs	705,568	(58,797)	646,771	—	(141,114)	505,657	216 months
Others	1,542,093	(358,711)	1,183,382	158,190	(455,697)	885,875	24 months
	<u>5,316,692</u>	<u>(1,883,079)</u>	<u>3,433,613</u>	<u>158,190</u>	<u>(770,263)</u>	<u>2,821,540</u>	

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## 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### (13) Other long-term assets

	31 December 2002	31 December 2001
Huiyuan Building	<b>44,000,000</b>	—
Huaxin Building	<b>4,200,000</b>	—
Others	<b>200,000</b>	200,000
	<b>48,400,000</b>	200,000

The floors of Huaxin Building and Huiyuan Building were obtained from the debt restructuring between the Group and the debtors (see Note 5(4) and Note 10). As at 31 December 2002, the registration of the ownership certificates of the above two properties were in process.

### (14) Short-term loans

	31 December 2002	31 December 2001
Guaranteed bank loans	<b>157,100,000</b>	215,600,000
Credit bank loans	<b>105,000,000</b>	111,500,000
	<b>262,100,000</b>	327,100,000

As at 31 December 2002, the Group's short-term loans of RMB157,100,000 were guaranteed by DFEW (see Note 7(5)). The interest rates of guaranteed and credit loans ranged from 5.31% to 5.49% per annum (2001: 5.85%).

### (15) Notes payable

	31 December 2002	31 December 2001
Commercial accepted notes	<b>43,452,709</b>	34,350,877
Bank accepted notes	<b>80,768,932</b>	59,633,000
	<b>124,221,641</b>	93,983,877

All the Group's bank accepted notes as at 31 December 2002 were accepted by Industrial and Commercial Bank of China Deyang Branch Jingyang Sub-branch. The period of commercial and bank accepted notes are 3 to 6 months.

Balances due to shareholders who hold more than 5% (inclusive) of the Company's voting rights are as follows:

Notes Payable	31 December 2002	31 December 2001
DFEW	<b>5,023,390</b>	200,000

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### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

#### (16) Accounts payable, advances from customers and other payables

As at 31 December 2002, the Group had no material payables with ageing over 3 years.

As the manufacturing period of power generators is relatively long, the Group had advances from customers of approximately RMB236,000,000 with ageing over 1 year as at 31 December 2002.

Balances due to shareholders who hold more than 5% (inclusive) of the Company's voting rights as at 31 December 2002 were as follows:

<b>DFEM</b>	<b>31 December 2002</b>	31 December 2001
- Accounts payable	<b>1,255,460</b>	446,032
- Other payables	<b>28,075,809</b>	27,010,309

#### (17) Taxes payable

	<b>31 December 2002</b>	31 December 2001
VAT	<b>137,961,028</b>	152,895,962
Business tax	<b>1,227,065</b>	1,063,739
EIT	<b>1,054,500</b>	633,262
Others	<b>21,732,503</b>	20,550,099
	<b>161,975,096</b>	175,143,062

#### (18) Accrued expenses

	<b>31 December 2002</b>	31 December 2001
Cost of power generation products	<b>42,010,785</b>	27,057,252
Packaging costs	<b>7,114,916</b>	2,906,475
Staff uniform costs	<b>2,400,000</b>	—
Audit fee	<b>1,070,000</b>	1,420,000
Interest expense	<b>872,820</b>	1,056,522
Others	<b>3,537,901</b>	1,570,568
	<b>57,006,422</b>	34,010,817

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## 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### (19) Long-term loans

	31 December 2002	31 December 2001
Bank loans	<b>371,000,000</b>	392,358,582
Entrusted loans	<b>149,000,000</b>	149,000,000
	<b>520,000,000</b>	541,358,582
Less: Current portion	<b>(140,000,000)</b>	(91,358,582)
	<b>380,000,000</b>	450,000,000

As at 31 December 2002, the Group's long-term bank loans of RMB261,000,000 were guaranteed by DFEV. Entrusted loans were borrowed from China Dongfang Electric Corporation through National Development Bank (see Note 7(5)), which were unsecured. Bank loans and entrusted loans bear interest ranging from 3.51% to 6.21% per annum (2001: 4.05% to 6.21%).

### (20) Grants payable

	31 December 2002	31 December 2001
Research and development funds	<b>26,760,634</b>	14,338,635
Other funds	<b>1,278,000</b>	—
	<b>28,038,634</b>	14,338,635

Research and development funds and other funds are transferred to capital surplus when fixed assets are formed from the use of such funds, and are offset against grants payable if fixed assets are not formed.

### (21) Share capital

	1 January 2002	Addition	Placement	Bonus share	Transfer from capital surplus	Others	31 December 2002
Non-floating shares							
Promoter legal person shares	220,000,000	—	—	—	—	—	<b>220,000,000</b>
Including: Domestic promoter legal person shares	220,000,000	—	—	—	—	—	<b>220,000,000</b>
Total non-floating shares	220,000,000	—	—	—	—	—	<b>220,000,000</b>
Listed floating shares							
Domestic listed RMB ordinary shares	60,000,000	—	—	—	—	—	<b>60,000,000</b>
Overseas listed foreign investment shares	170,000,000	—	—	—	—	—	<b>170,000,000</b>
Total floating shares	230,000,000	—	—	—	—	—	<b>230,000,000</b>
Total number of shares	450,000,000	—	—	—	—	—	<b>450,000,000</b>

# Notes to the Financial Statements *(continued)*

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## 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### (22) Capital surplus

	1 January 2002	Additions	Deductions	31 December 2002
Share premium	522,548,287	—	—	<b>522,548,287</b>
Non-cash donations	323,000	—	—	<b>323,000</b>
Provision for equity investments	1,710,158	—	—	<b>1,710,158</b>
Transfer from grants payable	2,873,173	389,000	—	<b>3,262,173</b>
Assets revaluation surplus	78,725,614	—	—	<b>78,725,614</b>
Other capital surplus	—	928,738	—	<b>928,738</b>
	<b>606,180,232</b>	<b>1,317,738</b>	<b>—</b>	<b>607,497,970</b>

In 2002, the additions in transfer from grants payable of RMB389,000 represented fixed assets constructed by using the state research and development funds granted.

In 2002, the additions in other capital surplus of RMB928,738 represented payables which were written back by the Group because of ageing over 3 years and could not be paid.

### (23) Statutory surplus reserve funds

	Statutory surplus reserve fund	Statutory public welfare fund	Discretionary surplus reserve fund	Total
1 January 2002	27,592,694	25,997,137	—	53,589,831
Additions	48,836	24,418	—	73,254
31 December 2002	<b>27,641,530</b>	<b>26,021,555</b>	<b>—</b>	<b>53,663,085</b>

The additions of statutory surplus reserve fund and statutory public welfare fund represent the appropriations from the net profit of the Company's subsidiaries, DFEM Engineering, DFEM Tooling and DFEM Control in accordance with the Company Law and the companies' articles of association based on 10% and 5% of the current year net profit of the companies. As the Company's net profit in 2002 was not sufficient to cover the accumulated loss brought forward from previous years, no statutory surplus reserve fund, statutory public welfare fund or discretionary surplus reserve fund was appropriated.

### (24) Accumulated deficit

Balance as at 1 January 2002	(223,938,532)
Add: net profit for the year	20,011,406
Less: appropriations of statutory surplus reserve fund by subsidiaries	(48,836)
appropriations of statutory public welfare fund by subsidiaries	(24,418)
Balance as at 31 December 2002	<b>(204,000,380)</b>

As the Company's net profit in 2002 was not sufficient to cover the accumulated loss brought forward from previous years, based on the directors' resolution on 1 April 2003, no dividend was appropriated from the net profit for the year.



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## 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### (25) Segmental information for revenue from main operations and cost of main operations

Product type	2002		2001	
	Revenue from main operations	Cost of main operations	Revenue from main operations	Cost of main operations
Generators	<b>779,711,959</b>	<b>(614,992,158)</b>	314,073,735	(298,454,949)
Technology improvement services and others	<b>141,192,611</b>	<b>(83,046,781)</b>	56,218,921	(37,882,851)
	<b>920,904,570</b>	<b>(698,038,939)</b>	370,292,656	336,337,800

The aggregate sales amount of the five largest customers of the Group for the year ended 31 December 2002 was RMB472,750,914, accounting for 51% of total sales (2001: RMB224,044,937, 61%).

In 2002, revenue of generators of the Group included construction contract revenue RMB227,433,055 (2001: RMB197,689,815), the related cost of main operations was RMB206,509,570 (2001: RMB156,582,525).

### (26) Other operating income, net

	2002		2001	
	Other operating income	Other operating cost	Other operating income	Other operating cost
Materials and semi-finished goods	<b>55,714,738</b>	<b>(53,988,537)</b>	62,695,234	(64,207,341)
Energy	<b>8,449,597</b>	<b>(9,867,608)</b>	7,541,740	(8,098,686)
Others	<b>3,927,102</b>	<b>(1,277,586)</b>	489,648	(466,169)
	<b>68,091,437</b>	<b>(65,133,731)</b>	70,726,622	(72,772,196)

### (27) Financial expenses

	2002	2001
Interest expense	<b>40,000,809</b>	34,337,081
Less: Interest income	<b>(12,080,669)</b>	(15,181,992)
Exchange loss	<b>112,041</b>	873,530
Less: Exchange gain	<b>(87,289)</b>	(346,804)
Others	<b>662,075</b>	846,758
	<b>28,606,967</b>	20,528,573

## Notes to the Financial Statements *(continued)*

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### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

#### (28) Investment income

	2002	2001
Investments in stock	<b>9,250,114</b>	869,661
Investments in bonds	<b>64,060</b>	64,060
Increase (decrease) in equity interests by applying equity pick-up of investments at year end	<b>8,112</b>	(41,275)
Amortisation of consolidation variances	<b>208,274</b>	125,226
Provision for impairment loss of short-term investments	—	(6,727,260)
	<b>9,530,560</b>	(5,709,588)

The "Assets Entrust Management Agreement" and the "Assets Entrust Management Supplementary Agreement" that the Company entered into with Haitong Securities Co., Ltd. expired on 16 July 2002. The Company received principal and income amounting to RMB42,537,155, of which the principal is RMB40,000,000 and related investment income is RMB2,537,155. The impairment loss of short-term investments provided in the previous year amounting to RMB6,713,400 was reversed accordingly (see Note 5(2)).

There are no significant restrictions over the receipt of investment income of the Group.

#### (29) Subsidy income

	2002	2001
Tax refund for power generators	<b>8,030,000</b>	—
Financial refund	<b>140,000</b>	—
	<b>8,170,000</b>	—

Pursuant to Guo Shui Han (2002) No. 185 Circular issued by the State Administration of Taxation, the Group is subject to VAT refund of RMB21,625,000 for Guigang Hydro Power Station project and Mianhuatan Hydro Power Station project as the Group using funds from the World Bank and Asia Development Bank as well as in the form of international bidding for the two projects. The Group received such refund amounting to RMB8,030,000 in 2002 and recorded the amount as subsidy income in current year.

Financial refund represented the VAT refund that the Company's subsidiary, DFEM Engineering received in current year.

# Notes to the Financial Statements *(continued)*

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## 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### (30) Non-operating income and non-operating expenses

#### Non-operating income

	2002	2001
Bonuses from projects	<b>2,502,138</b>	—
Income from disposals of fixed assets	<b>281,091</b>	11,958
Gain on fixed assets count	<b>185,000</b>	—
Others	<b>222,567</b>	256,907
	<b>3,190,796</b>	268,865

#### Non-operating expenses

	2002	2001
Secondary and primary schools education charges (Note 7(5))	<b>4,155,000</b>	—
Reversal of provision for impairment loss of construction in progress	<b>(3,317,503)</b>	—
Loss on disposals of fixed assets	<b>1,179,914</b>	629,122
Others	<b>23,068</b>	549,168
	<b>2,040,479</b>	1,178,290

### (31) Other cash received from operating activities

	2002
Research and development funds received	<b>13,700,000</b>
Others	<b>1,494,470</b>
	<b>15,194,470</b>

### (32) Other cash paid for operating activities

	2002
Deposits for issuing bank accepted notes	<b>18,425,376</b>
Packaging costs	<b>17,261,194</b>
Travelling expenses	<b>7,890,486</b>
Housing fund	<b>7,044,436</b>
Office expenses	<b>5,018,183</b>
Marketing expenses	<b>3,497,575</b>
Consulting fees	<b>2,842,253</b>
Entertainment expenses	<b>2,133,509</b>
Others	<b>34,776,376</b>
	<b>98,889,388</b>

## Notes to the Financial Statements *(continued)*

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### 5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

#### (33) Other cash received from investing activities

	2002
Cash received from maturity of fixed deposits	81,885,369
Interest income received	12,080,669
	<b>93,966,038</b>

#### (34) Cash paid for investments

In order to facilitate DFEM Power to acquire DDEM, the Company's board of directors held a meeting on 28 February 2002 and approved the increase in investment in DFEM Power. On 8 April 2002, the Company injected cash of RMB9,398,645 to DFEM Power as additional capital injection.

Pursuant to the acquisition agreement entered into by DFEM Power and DDEM on 29 March 2002, DFEM Power acquired the net assets of DDEM as at 31 December 2001 amounting to RMB8,170,757 at a cash consideration of RMB9,398,645. The amount in excess of the fair value of the net assets acquired is accounted for as goodwill (see Note 5(11)) and is amortised using straight-line method in a period of 5 years. Details of the net assets acquired are as follows:

	RMB
Cash and bank	2,357,067
Accounts receivable	9,407,351
Provision for doubtful debts	(58,061)
Prepayments	8,105,903
Other receivables	275,770
Inventories	15,262,881
Deferred expenses	3,955
Fixed assets	4,226,611
Others	509,820
	<b>40,091,297</b>
Accounts payable	5,284,411
Advances from customers	22,573,584
Other payables	1,122,204
Welfare payable	551,972
Taxes payable	(673,505)
Accrued expenses	3,061,874
	<b>31,920,540</b>
Net assets	8,170,757
Goodwill	1,227,888
Cash paid to acquire the net assets	<b>9,398,645</b>

# Notes to the Financial Statements *(continued)*

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## 6. NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

### (1) Accounts receivable and other receivables

#### (a) Accounts receivable

	31 December 2002	31 December 2001
Accounts receivable	<b>749,180,179</b>	687,657,760
Less: Provision for doubtful debts	<b>(54,286,341)</b>	(48,228,313)
	<b><u>694,893,838</u></b>	<u>639,429,447</u>

The ageing of accounts receivable and related provision for doubtful debts are analysed as follows:

Ageing	31 December 2002			31 December 2001		
	Amount	Provision for % doubtful debts		Amount	Provision for % doubtful debts	
Within 1 year	<b>419,752,483</b>	<b>56.03</b>	<b>(14,792,170)</b>	291,129,191	42.34	(7,976,441)
1-2 years	<b>48,652,885</b>	<b>6.49</b>	<b>(2,919,173)</b>	120,508,149	17.52	(7,230,489)
2-3 years	<b>63,050,564</b>	<b>8.42</b>	<b>(4,413,540)</b>	113,792,522	16.55	(7,965,476)
3-4 years	<b>94,836,405</b>	<b>12.66</b>	<b>(7,586,912)</b>	68,619,709	9.98	(5,489,577)
4-5 years	<b>61,459,033</b>	<b>8.20</b>	<b>(6,145,903)</b>	42,580,636	6.19	(4,258,064)
Over 5 years	<b>61,428,809</b>	<b>8.20</b>	<b>(18,428,643)</b>	51,027,553	7.42	(15,308,266)
	<b><u>749,180,179</u></b>	<b>100.00</b>	<b>(54,286,341)</b>	<u>687,657,760</u>	<u>100.00</u>	<u>(48,228,313)</u>

The aggregate amount of the five largest balances of accounts receivable as at 31 December 2002 was RMB245,991,585, accounting for 33% of the total balance of accounts receivable (2001: RMB230,017,760, 33%).

#### (b) Other receivables

	31 December 2002	31 December 2001
Other receivables	<b>134,538,088</b>	145,239,337
Less: Provision for doubtful debts	<b>(38,101,092)</b>	(57,552,863)
	<b><u>96,436,996</u></b>	<u>87,686,474</u>

# Notes to the Financial Statements *(continued)*

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## 6. NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY *(continued)*

### (1) Accounts receivable and other receivables *(continued)*

#### (b) Other receivables *(continued)*

The ageing of other receivables and related provision for doubtful debts are analysed as follows:

Ageing	31 December 2002		31 December 2001	
	Amount	Provision for % doubtful debts	Amount	Provision for % doubtful debts
Within 1 year	<b>56,878,877</b>	<b>42.27 (7,037,407)</b>	17,590,373	12.11 (6,493,278)
1-2 years	<b>135,500</b>	<b>0.10 (54,200)</b>	671,833	0.46 (268,733)
2-3 years	<b>183,864</b>	<b>0.14 (73,546)</b>	242,645	0.17 (97,058)
3-4 years	<b>150,000</b>	<b>0.11 (60,000)</b>	787,989	0.54 (315,196)
4-5 years	<b>603,046</b>	<b>0.45 (241,218)</b>	48,843	0.03 (19,537)
Over 5 years	<b>76,586,801</b>	<b>56.93 (30,634,721)</b>	125,897,654	86.69 (50,359,061)
	<b>134,538,088</b>	<b>100.00 (38,101,092)</b>	145,239,337	100.00 (57,552,863)

The aggregate amount of the five largest balances of other receivables as at 31 December 2002 was RMB69,436,415, accounting for 52% of the total balance of other receivables (2001: RMB112,359,482, 77%).

Balances due from shareholders who hold more than 5% (inclusive) of the Company's voting rights are as follows:

	31 December 2002	31 December 2001
DFEW		
- Accounts receivable	—	19,599,147
- Other receivables	<b>851,035</b>	—

As at 31 December 2002, the collateral and guarantee on the Company's other receivables balances were the same as that mentioned in Note 5(4).

### (2) Long-term investments

	1 January 2002	Additions	Deductions	31 December 2002
Long-term equity investments -				
Subsidiaries (a)	48,785,310	17,754,340	(8,523,546)	<b>58,016,104</b>
Associated companies (b)	158,725	8,112	—	<b>166,837</b>
Other equity investments	1,766,314	—	—	<b>1,766,314</b>
Equity investment differences (c)	(1,581,532)	(4,511,742)	208,274	<b>(5,885,000)</b>
Investments in stock (d)	44,263	—	—	<b>44,263</b>
Long-term debt investments	60,940	—	(60,940)	—
	49,234,020	13,250,710	(8,376,212)	<b>54,108,518</b>
Provision for impairment loss of long-term investments	(310,941)	—	—	<b>(310,941)</b>
	48,923,079	13,250,710	(8,376,212)	<b>53,797,577</b>

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## 6. NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY (continued)

### (2) Long-term investments (continued)

#### (a) Subsidiaries

	Investment period	Percentage of registered capital		Investment cost		Accumulated changes on equity			Balance	
		1 January	31 December	1 January	31 December	1 January	Additions/	31 December	1 January	31 December
		2002	2002	2002	2002	2002	(Deductions)	2002	2002	2002
DFEM Power	2000.7	98.00%	<b>98.55%</b>	24,500,000	<b>42,254,340</b>	(15,309,631)	(9,515,539)	<b>(24,825,170)</b>	9,190,369	<b>17,429,170</b>
DFEM Control	2000.5	96.15%	<b>96.15%</b>	12,500,000	<b>12,500,000</b>	(175,048)	259,998	<b>84,950</b>	12,324,952	<b>12,584,950</b>
DFEM Tooling	2001.3	99.32%	<b>99.32%</b>	14,500,000	<b>14,500,000</b>	89,817	249,797	<b>339,614</b>	14,589,817	<b>14,839,614</b>
DFEM Engineering	2001.8	97.04%	<b>97.04%</b>	13,100,000	<b>13,100,000</b>	(419,828)	482,198	<b>62,370</b>	12,680,172	<b>13,162,370</b>
				64,600,000	<b>82,354,340</b>	(15,814,690)	(8,523,546)	<b>(24,338,236)</b>	48,785,310	<b>58,016,104</b>

#### (b) Associated companies

	Investment period	Percentage of registered capital		Investment amount		Accumulated changes on equity			Balance	
		1 January	31 December	1 January	31 December	1 January	Additions/	31 December	1 January	31 December
		2002	2002	2002	2002	2002	(Deductions)	2002	2002	2002
LeShan Dongle Heavy Piece Handling Co., Ltd.	1997.07	49%	<b>49%</b>	490,000	<b>490,000</b>	(490,000)	—	<b>(490,000)</b>	—	—
Sichuan Dongfang Jiaxin Construction Supervising Co., Ltd.	2001.05	40%	<b>40%</b>	200,000	<b>200,000</b>	(41,275)	8,112	<b>(33,163)</b>	158,725	<b>166,837</b>
				690,000	<b>690,000</b>	(531,275)	8,112	<b>(523,163)</b>	158,725	<b>166,837</b>

#### (c) Other equity investments

	Investment period	Percentage of registered capital		Investment amount		Accumulated changes on equity			Balance	
		1 January	31 December	1 January	31 December	1 January	Additions/	31 December	1 January	31 December
		2002	2002	2002	2002	2002	(Deductions)	2002	2002	2002
Southwest He Pin Materials Trade Center	1984.12	Unknown	<b>Unknown</b>	60,000	<b>60,000</b>	—	—	—	60,000	<b>60,000</b>
Deyang Mechanical and Electrical Equipment Import and Export Co., Ltd.	1988.06	Unknown	<b>Unknown</b>	100,941	<b>100,941</b>	—	—	—	100,941	<b>100,941</b>
Wuxi Electrical Hotel	1988.07	2.3%	<b>2.3%</b>	150,000	<b>150,000</b>	—	—	—	150,000	<b>150,000</b>
Chengdu Sandian Co., Ltd.	1992.09	0.62%	<b>0.62%</b>	455,373	<b>455,373</b>	—	—	—	455,373	<b>455,373</b>
Sichuan Deyang Jinshi Real Estate Co., Ltd.	2001.04	12.5%	<b>12.5%</b>	1,000,000	<b>1,000,000</b>	—	—	—	1,000,000	<b>1,000,000</b>
				1,766,314	<b>1,766,314</b>	—	—	—	1,766,314	<b>1,766,314</b>

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### 6. NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY *(continued)*

#### (2) Long-term investments *(continued)*

##### (d) Equity investment differences

	Initial amount	Balance, beginning of year	Additions	Amortisation	Accumulated amortisation	Balance, end of year
DFEM Power	(4,511,742)	—	(4,511,742)	37,598	37,598	(4,474,144)
DFEM Tooling	(1,082,221)	(983,016)	—	108,222	207,427	(874,794)
DFEM Engineering	(624,538)	(598,516)	—	62,454	88,476	(536,062)
Total	(6,218,501)	(1,581,532)	(4,511,742)	208,274	333,501	(5,885,000)

The equity investment differences are amortised on a straight-line basis over a period of 10 years.

##### (e) Investments in stock

The market value of investments in stock of the Company as at 31 December 2002 was approximately RMB542,000.

#### (3) Fixed assets and depreciation

	Buildings and plant	Machinery and equipment	Instruments and devices	Motor vehicles	Total
Cost –					
Balance, beginning of year	259,821,936	330,902,372	64,179,454	6,557,721	661,461,483
Additions	12,162,455	90,145,489	9,140,989	59,275	111,508,208
Disposals	(8,684,917)	(2,155,088)	(1,329,904)	—	(12,169,909)
Balance, end of year	263,299,474	418,892,773	71,990,539	6,616,996	760,799,782
Accumulated depreciation –					
Balance, beginning of year	91,621,900	209,932,086	45,843,455	5,647,097	353,044,538
Additions	8,024,244	23,227,963	6,918,537	259,818	38,430,562
Disposals	(4,665,613)	(1,989,500)	(1,283,663)	—	(7,938,776)
Balance, end of year	94,980,531	231,170,549	51,478,329	5,906,915	383,536,324
Net –					
Balance, end of year	168,318,943	187,722,224	20,512,210	710,081	377,263,458
Balance, beginning of year	168,200,036	120,970,286	18,335,999	910,624	308,416,945
Provision for impairment loss	—	—	—	—	—
Net book value					
Balance, end of year	168,318,943	187,722,224	20,512,210	710,081	377,263,458
Balance, beginning of year	168,200,036	120,970,286	18,335,999	910,624	308,416,945

As at 31 December 2002, the registration of ownership certificates of the Company's buildings and plant amounting to approximately RMB82,098,000 was in process.

In 2002, the Company used its buildings and plant with a net book value of approximately RMB3,844,000 to invest in its subsidiary, DFEM Power (see Note 11).



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## 6. NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY *(continued)*

### (4) Segmental information for revenue from main operations and cost of main operations

Product type	2002		2001	
	Revenue from main operations	Cost of main operations	Revenue from main operations	Cost of main operations
Generators	711,120,442	(553,499,068)	279,162,055	(268,322,792)
Technology improvement services and others	126,562,330	(92,810,373)	56,117,445	(39,755,380)
	<b>837,682,772</b>	<b>(646,309,441)</b>	335,279,500	(308,078,172)

The aggregate sales amount of the five largest customers of the Company for the year ended 31 December 2002 was RMB472,750,914, accounting for 56% of total sales (2001: RMB224,044,937, 67%).

### (5) Investment income

	2002	2001
Investments in stock	9,250,113	869,661
Investments in bonds	64,060	64,060
Decrease in equity interests by applying equity pick-up of investments at year end	(8,515,434)	(12,570,048)
Amortisation of equity investment differences	208,274	125,226
Provision for impairment loss of short-term investments	—	(6,727,260)
	<b>1,007,013</b>	(18,238,361)

## 7. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

### (1) Related party with controlling relationship

Enterprise name	Registered address	Principal activities	Relationship with the Company	Nature or type of business	Legal representative
DFEW	188 Huanghe West Road Deyang, Sichuan	Production and sale of generators and AC/DC electrical motors	Parent company	State-owned	Si Zefu

### (2) Registered capital and changes in registered capital of related parties with controlling relation

Enterprise name	1 January 2002	Addition	Deduction	31 December 2002
DFEW	128,420,000	—	—	128,420,000

Except for DFEM Power, the registered capital of the other subsidiaries of the Company has no change during the year (see Note 4). The registered capital of DFEM Power increased from RMB25,000,000 as at 1 January 2002 to RMB42,754,000 as at 31 December 2002.

## Notes to the Financial Statements *(continued)*

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### 7. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(continued)*

#### (3) Equity shares and changes in equity shares held by the related party that can control the Company

Enterprise name	1 January 2002		Addition		Deduction		31 December 2002	
	Amount	%	Amount	%	Amount	%	Amount	%
DREW	220,000,000	48.89	—	—	—	—	220,000,000	48.89

#### (4) Related parties without controlling relationship

Name of related party	Relationship with the Company
China Dongfang Electric Corporation ("DFEC")	Superior administrative organisation of DREW
Leshan Dongle Heavy Piece Handling Co., Ltd. ("Leshan Dongle")	Associated company
China Dongfang Electric Corporation Finance Company	Subsidiary of DFEC

#### (5) Related party transactions

##### (i) Pricing policies

The products price for sales to related parties by the Group are at market prices.

##### (ii) Purchase of goods

	2002	2001
DREW	<b>16,626,091</b>	2,700,000

##### (iii) Subcontract income

	2002	2001
DFEC	<b>27,947,286</b>	1,594,017
DREW	<b>384,103</b>	—
	<b>28,331,389</b>	1,594,017

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## 7. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(continued)*

### (5) Related party transactions *(continued)*

- (iv) Pursuant to the agreement entered into between DFEW and the Company, expenses paid or payable by the Company to DFEW are shown as follows:

	2002	2001
Staff quarter management fees	<b>1,772,401</b>	1,583,101
Product packaging costs	<b>15,935,330</b>	9,052,547
Environmental, hygiene, and greenery management fees	<b>1,965,461</b>	3,432,672
Nursery service for staff salaries and management fees	<b>1,057,751</b>	2,445,101
Retired staff retirement expenses	<b>1,101,023</b>	1,541,865
Transportation and repairs and maintenance expenses	<b>29,758,061</b>	4,161,015
Staff education and management training expenses	<b>—</b>	5,651,697
Industrial labor protection and office expenses	<b>3,745,596</b>	4,518,065
Medical expenses for staff and their families	<b>996,270</b>	1,590,665
Secondary and primary schools education expenses	<b>4,155,000</b>	—
Others	<b>1,039,353</b>	4,901,481
	<b>61,526,246</b>	38,878,209

Pursuant to the agreement entered into between DFEW and the Company, DFEW is responsible for inspecting, packaging and delivering finished goods for the Company. As a return, DFEW receives 2.2% (2001: 2.7%) of the total sales of the Company as product packaging cost.

Pursuant to the agreement entered into between DFEW and the Company, DFEW manages and pays retirement benefits to the retired staff on behalf of the Company.

- (v) Pursuant to the agreement entered into between the Company and DFEW, charges received or receivable by the Company from DFEW are shown as follows:

	2002	2001
Utilities	<b>8,449,597</b>	4,016,966
Office rental	<b>—</b>	25,920
Raw materials	<b>693,205</b>	3,070,841
Services and others	<b>940,993</b>	354,012
	<b>10,083,795</b>	7,467,739

- (vi) The guarantee for bank loans provided by DFEW for the Company are as follows:

As at 31 December 2002, short-term bank loans amounting to RMB157,000,000 (2001: RMB157,100,000) and long-term bank loans amounting to RMB261,000,000 (2001: RMB301,100,000) of the Group were guaranteed by DFEW.

## Notes to the Financial Statements *(continued)*

For the year ended 31 December 2002  
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(amounts expressed in Renminbi Yuan unless otherwise stated)  
(English translation for reference only)

### 7. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(continued)*

#### (5) Related party transactions *(continued)*

##### (vii) Entrusted loans

As at 31 December 2002, entrusted loans amounting to RMB149,000,000 of the Group were borrowed from DFEC through National Development Bank, which were unsecured and bore interest ranging from 5.94% to 6.21% per annum (2001: RMB149,100,000, 5.94% to 6.21%).

##### (viii) Bank deposits

As at 31 December 2002, bank deposits amounting to RMB53,785,358 (2001: RMB13,500,000) included in cash in banks of the Group were deposited in China Dongfang Electric Corporation Finance Company, a related party of the Company. Such current deposits enjoyed an interest of 0.72% per annum (2001: 0.72%).

##### (ix) Balances of amount due from and due to related parties are as follows:

	31 December 2002	31 December 2001
Accounts receivable		
DFEW	—	19,599,147
DFEC	<b>34,093,099</b>	40,315,023
	<b>34,093,099</b>	59,914,170
Other receivables		
Leshan Dongle	<b>10,887,853</b>	11,857,852
DFEW	<b>851,035</b>	—
	<b>11,738,888</b>	11,857,852
Notes payable		
DFEW	<b>5,023,390</b>	200,000
Advances from customers		
DFECF	<b>8,266,561</b>	8,352,371
Accounts payable		
DFEW	<b>1,255,460</b>	446,032
Other payables		
DFEW	<b>28,075,809</b>	27,010,309

# Notes to the Financial Statements *(continued)*

For the year ended 31 December 2002  
(prepared under PRC Accounting Standards)  
(amounts expressed in Renminbi Yuan unless otherwise stated)  
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## 8. CONTINGENT LIABILITIES

The Company provides cross guarantee to Shaanxi Machinery Equipment Import and Export Company Limited for fulfilment of contract for an amount of USD166,864. The guarantee is effective from the validation date to the expiring date of the performance guarantee.

## 9. COMMITMENTS

Capital commitments

As at 31 December 2002, the Company had the following capital commitments which was approved, but not contracted and no need to recognise in the financial statements:

	31 December 2002	31 December 2001
Buildings, plant and machinery	<b>61,850,000</b>	60,225,000

## 10. DEBT RESTRUCTURING

- (1) Chongqing Heima is a real estate development company registered in Chongqing City, the PRC. During the year of 1996 and 1997, the Company lent RMB156,000,000 to Chongqing Heima for funding its real estate projects in the form of entrusted loans through China Construction Bank Chongqing Branch Luohuang Sub-branch. At the end of 2000, the Company had a receivable from Chongqing Heima amounting to RMB95,671,630. In order to speed up the collection of the receivable, the Company entered into the "Debt Confirmation Agreement" with Chongqing Heima on 29 March 2001 as well as the "Agreement" on 16 June 2001 in which Chongqing Heima promised to repay all its debts by the end of 31 December 2001. However, due to shortage of cash, Chongqing Heima failed to repay its debts. On 18 October 2002, the Company sued the debtor at Chongqing Arbitration Committee claiming repayment from Chongqing Heima for part of its debts amounting to RMB44,000,000. Pursuant to the arbitration results of 2002 Yu Cai (Jing) Zi No. 61 and No. 62:

Chongqing Heima shall repay the amount of RMB44,000,000 by using certain floors of Huiyuan Building and 90 parking sites located in Chongqing City owned by Chongqing Heima. The above properties should be transferred to the Company within 15 days after the delivery of this arbitration. Ownership certificate should be obtained within 6 months for the Company.

The above properties have been revalued by Chongqing Huifeng Assets Appraisal Co., Ltd. with a market value of RMB44,137,300. The properties have been obtained by the Company on 5 November 2002 and are under the control of the Company. The registration of ownership certificate is in process.

The Company based on the repayment of debt of RMB40,000,000 as cost and recorded such properties in other long-term assets, and offset the amount of other receivables accordingly.

- (2) As at 31 December 2001, Huaxin Power owed principal and interest amounting to RMB4,200,000 to the Company. Pursuant to the "Debt Repayment Agreement" entered into by the two parties on 24 December 2001, Huaxin Power repaid all its debts by using the 7th floor (area is 851.3 square meters) of Huaxin Building, located in No. 28 Taisheng Beilu, Chengdu City, Sichuan Province. The property has been transferred to the Company on 30 October 2002. The registration of ownership certificates is in process.

The Company based on the repayment of debt of RMB4,200,000 as cost and recorded such property in other long-term assets, and offset the amount of other receivables accordingly.

# Notes to the Financial Statements

For the year ended 31 December 2002  
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## 11. OTHER SIGNIFICANT EVENTS

### (1) Acquisition of DDEM

DDEM is a state-owned company registered in Deyang City, Sichuan Province, the PRC on 16 January 1995, with a registered capital of RMB8,000,000. The shareholders of DDEM were Deyang Dong Dian Electrical Appliances Co., Ltd. and Deyang Dong Dian Machinery and Electric Set Co., Ltd., which owned 96.25% and 3.75% of its equity interests respectively. The legal representative was Zhou Hongxi. DDEM was principally engaged in the production and sale of small to medium sized hydro power generators.

In order to reinforce the productivity and strength of DFEM Power and DDEM, DFEW and the Company submitted the proposal of "Increase Investment in DFEM Power Equipment Co., Ltd. and Acquisition of Deyang Dongfang Electrical Machinery Manufacturing Co., Ltd." to DFEC on 16 April 2001. The plan is to increase the capital of DFEM Power and for it to use cash to acquire the net assets related to the small to medium sized hydro power generators of DDEM.

According to the acquisition agreement entered into by DFEM Power and DDEM on 29 March 2002, DFEM Power acquired the business and related net assets of DDEM as at 31 December 2001 with a fair value of RMB8,170,757 at a consideration of RMB9,398,645 in cash (see Note 5(34)). The amount of the cash consideration in excess of the fair value of DDEM's net assets acquired is accounted for as goodwill (see Note 5(10)) and amortised on a straight-line basis over 5 years. Zhou Hongxi was also appointed as the legal representative of DFEM Power by the Company in December 2001.

### (2) Capital injections to DFEM Power

In order to facilitate DFEM Power to acquire DDEM, the Company's board of directors held a meeting on 28 February 2002 and approved the increase in investment in DFEM Power. On 8 April 2002, the Company injected cash of RMB9,398,645 to DFEM Power as additional capital injection. The additional capital injection was verified by Tianjian Xinde Certified Public Accountants and confirmed by their capital verification report Xinde Yan Zi Bao Zi (2002) No. 9. On 28 October 2002, the Company increased its investment in DFEM Power again by using its fixed assets with a revalued amount of RMB8,355,695. The capital addition has been verified by Chongqing Kanghua Certified Public Accountants and confirmed by their capital verification report Chong Kang Kuai Yan Bao Zi (2002) No. 27.

After the above two capital injections, the paid-in capital of DFEM Power has been increased from RMB25,000,000 to RMB42,754,340.

## 12. EVENTS AFTER THE BALANCE SHEET DATE

The Group has no significant post balance sheet event that requires adjustment or disclosure.

## 13. COMPARATIVE FIGURES

Certain account captions and comparative figures have been reclassified to conform to the Accounting System for Business Enterprises effective 1 January 2001 and Article of the Disclosure Regulations for Public Companies No.15 - General Requirements of Financial Statements. The financial statements of the Company and the Group for the year ended 31 December 2001 were audited by another certified public accountants firm, who expressed an unqualified opinion with explanatory paragraph on 1 April 2002.