

6. FINANCIAL REPORTS

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

Financial statements for the six months ended 30th June 2003

Consolidated Balance Sheet

As at 30th June 2003

Expressed in Renminbi

	Notes	2003.6.30 (Unaudited)	2002.12.31 (Audited)
ASSETS			
Current assets			
Cash and bank balance	5	733,021,638	767,939,260
Short-term investments		62,100	62,100
Notes receivable	6	24,440,000	6,556,629
Accounts receivable	2(8), 7, 38(3)	677,569,875	733,582,932
Other receivables	2(8), 7, 38(3)	55,699,464	54,510,716
Prepayments	8, 38(3)	144,055,202	86,623,427
Inventories	2(9), 9	638,089,586	553,692,913
Amount due from customers on construction contracts	25	69,843,268	33,046,946
Deferred expenses		412,781	159,632
Total current assets		2,343,193,914	2,236,174,555
Long-term investments:			
Long-term equity investments	2(10), 10	(3,959,231)	(4,218,527)
Including: consolidation variance		(5,574,075)	(5,885,000)
Total long-term investments		(3,959,231)	(4,218,527)
Fixed Assets:			
Fixed assets, cost	2(11), 11	832,135,697	829,017,552
Less: Accumulated depreciation	2(11), 11	441,358,536	419,733,431
Fixed assets - net book value		390,777,161	409,284,121
Construction materials		13,311,211	2,534,334
Construction in progress	2(12), 12	104,117,273	37,913,584
Total fixed assets		508,205,645	449,732,039
Intangible assets and other assets			
Intangible assets	2(14), 13	31,303,065	32,046,262
Long-term deferred expenditures	2(15), 14	2,455,556	2,821,540
Other long-term assets	15	48,200,000	48,400,000
Total intangible assets and other assets		81,958,621	83,267,802
TOTAL ASSETS		2,929,398,949	2,764,955,869

**Consolidated Balance Sheet (continued)**

As at 30th June 2003

Expressed in Renminbi

	Notes	2003.6.30 (Unaudited)	2002.12.31 (Audited)
Liabilities and shareholders' equity			
Current liabilities			
Short-term loans	16	175,600,000	262,100,000
Notes payable	17, 38(3)	118,364,106	124,221,641
Accounts payable	18, 38(3)	103,072,781	81,834,280
Advances from customers	19, 38(3)	666,575,279	416,745,317
Salaries payable		20,961,475	30,788,232
Welfare payable		18,395,362	14,903,503
Dividends payable		1,977	—
Other payable	20, 38(3)	32,544,680	45,196,006
Taxes payable	21	132,118,506	161,975,096
Other unpaid amounts	22	8,216,488	8,630,078
Accrued expenses	23	74,444,482	57,006,422
Provision for estimated losses		—	1,387,569
Long-term liabilities, current portion	24	320,000,000	140,000,000
Amount due to customers on construction contracts	25	118,931,391	103,534,225
Total current liabilities		1,789,226,527	1,448,322,369
Long term liabilities:			
Long-term loans	26	194,000,000	380,000,000
Long-term payables	27	685,253	685,253
Grants payables	28	29,124,085	28,038,634
Total long-term liabilities		223,809,338	408,723,887
TOTAL LIABILITIES		2,013,035,865	1,857,046,256
Minority interests	2(19)	1,074,586	748,938
Shareholders' equity:			
Share capital	29	450,000,000	450,000,000
Capital surplus	30	607,497,970	607,497,970
Surplus reserve	31	53,663,085	53,663,085
Including: statutory public welfare fund		26,021,555	26,021,555
Undistributed profits(Accumulated losses)	32	(195,872,557)	(204,000,380)
Total shareholders' equity		915,288,498	907,160,675
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		2,929,398,949	2,764,955,869

(The accompanying notes form an integral part of the consolidated financial statements)

Balance Sheet

As at 30th June 2003

Expressed in Renminbi

	Notes	2003.6.30 (Unaudited)	2002.12.31 (Audited)
ASSETS			
Current assets			
Cash and bank balance		708,720,059	745,923,359
Short-term investments		62,100	62,100
Notes receivable		19,110,000	6,156,629
Accounts receivable	2(8), 37(1)	637,327,535	694,893,838
Other receivables	2(8), 37(1)	81,729,537	96,436,996
Prepayments		155,640,691	97,124,673
Inventories		559,301,168	493,370,351
Amount due from customers on construction contracts		69,843,268	33,046,946
Deferred expenses		403,524	134,076
Total Current Assets		2,232,137,882	2,167,148,968
Long-term investments:			
Long-term equity investment	2(10), 37(2)	59,702,426	53,797,577
Fixed Assets:			
Fixed assets, cost	2(11)	763,640,719	760,799,782
Less: Accumulated depreciation	2(11)	402,541,698	383,536,324
Fixed assets - net book value		361,099,021	377,263,458
Construction materials		13,461,211	4,026,255
Construction in progress	2(12)	102,850,453	37,783,183
Total fixed assets		477,410,685	419,072,896
Intangible assets and other assets			
Intangible assets	2(14)	30,275,172	30,891,957
Long term deferred expenditures	2(15)	2,021,338	2,213,635
Other long-term assets		48,200,000	48,400,000
Total intangible assets and other assets		80,496,510	81,505,592
TOTAL ASSETS		2,849,747,503	2,721,525,033

**Balance Sheet (continued)**

As at 30th June 2003

Expressed in Renminbi

	Notes	2003.6.30 (Unaudited)	2002.12.31 (Audited)
Liabilities and shareholders' equity			
Current liabilities			
Short-term loans		175,600,000	262,100,000
Notes payable		118,364,106	124,571,709
Accounts payable		93,272,410	67,107,580
Advances from customers		621,091,269	386,458,100
Salaries payable		20,371,780	28,808,481
Welfare payable		13,046,507	10,467,450
Other payable		132,037,021	161,152,832
Taxes payable		8,060,132	8,465,143
Other unpaid amounts		29,149,840	41,263,972
Accrued expenses		58,161,821	71,095,652
Provision for estimated losses		—	1,387,569
Long-term liabilities, current portion		320,000,000	140,000,000
Amount due to customers on construction contracts		118,931,391	103,534,225
Total current liabilities		1,708,086,277	1,406,412,713
Long-term liabilities:			
Long-term borrowings		194,000,000	380,000,000
Long-term payables		685,253	685,253
Grants payables		28,571,635	27,471,634
Total long-term liabilities		223,256,888	408,156,887
TOTAL LIABILITIES		1,931,343,165	1,814,569,600
Shareholders' equity:			
Share capital	29	450,000,000	450,000,000
Capital surplus		607,497,970	607,497,970
Surplus reserve		53,589,831	53,589,831
Including: Statutory public welfare fund		25,997,137	25,997,137
Undistributed profits (Accumulated losses)		(192,683,463)	(204,132,368)
Total shareholders' equity		918,404,338	906,955,433
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		2,849,747,503	2,721,525,033

(The accompanying notes form an integral part of the financial statements)

Consolidated Income and Income Appropriations Statements

For the six months ended 30th June 2003

Expressed in Renminbi

	Notes	2003.1.1-6.30 (Unaudited)	2002.1.1-6.30 (Unaudited)
Revenue	2(17), 33	441,425,319	252,482,084
Less: Cost of sales	33	302,905,680	182,462,740
Sales tax and surcharges	3(1)	991,723	376,417
Profit from principle operations		137,527,916	69,642,927
Add: Other operating income		3,707,222	1,406,145
Less: Selling expenses		16,500,653	12,858,507
General and Administrative expenses		106,581,385	72,774,175
Financial expenses	34	10,660,577	14,600,447
Operating profit /(loss)		7,492,523	(29,184,057)
Add: Investment income	35	259,296	104,550
Subsidy income	36	2,504,088	140,000
Non-operating income		597,186	1,876,463
Less: Non-operating expenses		2,783,624	2,537,740
Profit/(loss) before tax		8,069,469	(29,600,784)
Less: Minority interests		(58,354)	130,887
Net profit/(loss)		8,127,823	(29,731,671)
Add: Retained earnings/(Accumulated loss), beginning of period	32	(204,000,380)	(223,938,532)
Distributable profits		(195,872,557)	(253,670,203)
Less: Statutory surplus reserve fund	32	—	—
Statutory public welfare fund	32	—	—
Retained earnings/(Accumulated losses), end of period	32	(195,872,557)	(253,670,203)

(The accompanying notes form an integral part of the consolidated financial statements)

**Income and Income Appropriations Statement**

For the six months ended 30th June 2003

Expressed in Renminbi

	Notes	2003.1.1-6.30 (Unaudited)	2002.1.1-6.30 (Unaudited)
Revenue	2(17), 37(3)	414,474,347	223,121,801
Less: Cost of sales	2(17), 37(3)	294,804,504	161,680,603
Sales tax and surcharges		766,241	—
Profit from principle operations		118,903,602	61,441,198
Add: Other operating income		1,753,046	(356,728)
Less: Selling expenses		14,639,476	10,562,575
General and administrative expenses		91,246,719	62,532,729
Financial expenses		9,471,013	14,491,035
Operating profit/(loss)		5,299,440	(26,501,869)
Add: Investment income	37(4)	6,193,536	3,420,345
Subsidy income		2,070,088	—
Non-operating income		603,158	1,823,870
Less: Non-operating expenses		2,717,317	2,350,293
Net profit/(loss)		11,448,905	(23,607,947)
Add: Retained earnings/(Accumulated losses), beginning of period		(204,132,368)	(224,204,138)
Distributable profits		(192,683,463)	(247,812,085)
Less: Statutory surplus reserve fund		—	—
Statutory public welfare fund		—	—
Retained earnings/(Accumulated losses), end of period		(192,683,463)	(247,812,085)

(The accompanying notes form an integral part of the financial statements)

Consolidated Cash Flow Statement and Cash Flow Statement

For the six months ended 30th June 2003

Expressed in Renminbi

	Notes	2003.1.1-6.30 Consolidated (Unaudited)	2003.1.1-6.30 The Company (Unaudited)
1. Cash flow from operating activities			
Cash received from sales of goods and rendering of services		848,734,365	801,470,803
Refund of tax		2,490,088	2,070,088
Other cash received relating to operating activities		58,070,536	55,628,161
Sub-total of cash inflows		909,294,989	859,169,052
Cash paid for goods and services		468,006,900	459,511,663
Cash paid to and on behalf of employees		109,817,532	94,793,579
Payment of all types of taxes		52,865,399	47,762,978
Other cash paid relating to operating activities		84,666,036	77,236,565
Sub-total of cash outflows		715,355,867	679,304,785
Net cash flows from operating activities		193,939,122	179,864,267
2. Cash flows from investing activities			
Cash received from return on investment		—	288,687
Other cash received relating to investing activities		152,546,668	152,546,668
Sub-total of cash inflows		152,546,668	152,835,355
Cash paid to acquire of fixed assets, intangible assets and other long-term assets		76,052,351	75,148,831
Other cash paid relating to investing activities		396,970	—
Sub-total of cash outflows		76,449,321	75,148,831
Net cash flows from investing activities		76,097,347	77,686,524

**Consolidated Cash Flow Statement and Cash Flow Statement (continued)**

For the six months ended 30th June 2003

Expressed in Renminbi

	Notes	2003.1.1-6.30 Consolidated (Unaudited)	2003.1.1-6.30 The Company (Unaudited)
3. Cash flows from financing activities			
Cash received from borrowing		104,600,000	104,600,000
Sub-total of cash inflows		104,600,000	104,600,000
Cash paid for loan repayment		197,100,000	197,100,000
Cash paid for distribution of dividends or profit and for interest expenses		18,253,306	18,253,306
Other cash payments relating to financing activities		13,000,000	—
Sub-total of cash outflows		228,353,306	215,353,306
Net cash flows from financing activities		(123,753,306)	(110,753,306)
4. Effect of changes in foreign exchange rate on cash		(247,977)	(247,977)
5. Net increase in cash and cash equivalents	2(6), 5	<u>146,035,186</u>	<u>146,549,508</u>

Consolidated Cash Flow Statement and Cash Flow Statement (continued)

For the six months ended 30th June 2003

Expressed in Renminbi

	Notes	2003.1.1-6.30 Consolidated (Unaudited)	2003.1.1-6.30 The Company (Unaudited)
1. Reconciliation of net profit to cash flows from operating activities			
Net profit		8,127,823	11,448,905
Add: Minority interests		(58,354)	—
Provision for impairment of assets		(10,202,842)	(12,986,754)
Depreciation of fixed assets		23,624,167	19,005,374
Amortization of intangible assets		753,928	616,785
Amortization of long-term deferred expenditures		365,984	192,296
Decrease in deferred expenses (or deduct: increase)		253,147	(269,447)
Increase in accrued expenses (or deduct: decrease)		17,438,060	(12,933,830)
Loss on disposal of fixed assets, intangible assets and other long-term assets (or deduct: gains)		890,894	828,356
Financial expenses		18,713,487	18,961,464
Investment losses (or deduct: gains)		(259,294)	(6,193,536)
Decrease in inventories (or deduct: increase)		(126,197,549)	(106,585,150)
Decrease in operating receivables (or deduct: increase)		14,195,555	39,928,137
Increase in operating payables (or deduct: decrease)		215,954,522	233,864,346
Others		30,339,594	(6,012,679)
Net cash flows from operating activities		193,939,122	179,864,267
2. Net increase in cash and cash equivalents			
Cash and cash equivalents, end of the period		500,862,602	482,309,749
Less: cash and cash equivalents, beginning of the period		354,827,416	335,760,241
Net increase in cash and cash equivalents	2(6), 5	146,035,186	146,549,508

(The accompanying notes form an integral part of the consolidated financial statements)



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in Renminbi Yuan unless otherwise stated)

NOTE 1. INTRODUCTION

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

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

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

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

On 25 May 2001, AGM of the Company for the year 2000 resolved to widen the scope of operation of the Company, which include contracting with electricity generating facilities outside PRC, machinery, whole project and tendering project in PRC; the employee for the above project to be performed outside PRC, the manufacture and sale of equipment generating electricity by wind force, manufacture and forging, compressor and insulator.

In 2 April 2003, the Company obtained its new business license (License no. 5106001800189).

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

(1) Accounting system

The Company and its subsidiaries implement the "Accounting Standards for Enterprises" and "Accounting System for Enterprises" and supplementary rules.

(2) Accounting period

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

(3) Reporting currency

The Company and its subsidiaries maintain their books and records in Renminbi ("RMB").

- (4) Basis of accounting and principle of measurement
Accounting records are prepared on an accrual basis. Properties are recorded at actual cost at time of acquisition. If properties are impaired subsequently, provisions for impairment losses are provided in accordance with "Accounting System for Enterprises".
- (5) Foreign currency translation
Transactions in foreign currencies during the year are translated into RMB at the medium market rates of exchange ("market rates") ruling on the first day of the respective month promulgated by the People's Bank of China. At the end of the month, monetary assets and liabilities denominated in foreign currencies are adjusted to translate into RMB at the market rates ruling on that date. Exchange differences arising therefrom are charged against current year profit and loss account of the year.
- (6) Determination for cash equivalent
Cash equivalent is short-term, current, easily converted into known amount of cash and low-risk investments held by the Company and its subsidiaries. Fixed deposit with maturity over three months and bank deposit with restricted usage are not included in cash and cash equivalent.
- (7) Computation of short-term investments
Short-term investments refer to investments of the Company and its subsidiaries, which are held for a period less than one year (including one year), and can be realized at any time.
Short-term investments are initially stated at cost at the time of acquisition. Cash dividends or interest on short-term investments are offset against the carrying amount of investments upon receipts. The difference between weighted average cost and the actual proceeds received will be recognised as investment income at the time of disposal.
Short-term investments are carried at the lower of cost and market value at the period end. Provision for short-term investments is recorded if the market value is lower than the cost. The provision for short-term investments is dealt with in the profit and loss account for the period.
- (8) Computation for bad debts
Any accounts receivable of the Company and its subsidiaries which are unrecoverable after the liquidation of a debtor's assets at his bankruptcy or recovery of a debtor's heritage after his death; and those which are apparently unrecoverable after the debtor has failed to make repayment are confirmed as bad debts.
Bad debts are provided for using "allowance method". Bad debts are provided for by the Company and its subsidiaries on the ages of the accounts receivable at the period end and according to financial position and cash flow of the debtors, which are dealt with in the profit and loss account for the period.

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

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

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

The Company and its subsidiaries determine the provision for bad debts at 40% of the other receivable balance at the period end and charged against current year profit and loss account.

Details of provision for bad debts are set out in Note 7.

(9) Computation of inventories

Inventories are made up of raw materials, work-in-progress, self-produced semi-finished goods, consigned reprocessing goods, finished products, consumables and spare parts. Daily inventory transactions are accounted for using standard costs. Variance between standard cost and actual cost at the end of the month is allocated to the cost of inventories and cost of sales based on the proportion of incoming and outgoing of each category of inventories in order to adjust the closing inventories to actual costs.

DFEM Power System Company Limited ("DFEM Power System Co., Ltd.", formerly known as Dongfang Electrical Machinery Large and Medium Electrical Machinery Co. Ltd.) has recorded the daily raw material transactions at actual cost and used the method of "last-in, first-out" in dispatching the raw materials.

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

On balance sheet date, the inventories are stated at the lower of cost and net realizable value. Provision for net realisable value will be provided if the individual inventory cost is higher than the net realisable value and charged to the profit and loss account at the end of the period. Provision for net realisable value is charged to the profit and loss account for the period.

Consumables and spare parts are charged to the profit and loss account when they are consumed.

Details of inventories and provision for inventory are set out in Note 9.

(10) Long-term investments

- A. Investments in securities are stated at cost.
- B. The long-term equity investments of the Company and its subsidiaries are accounted for as follows:

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

The Company and its subsidiaries apply the equity method on those long-term investments. "Equity investments difference" is the difference between initial investment cost and the shareholders' funds of the investee companies, which is amortized on a straight line basis by loggers and recognized in the investment income. On consolidated financial statements, the difference between equity interest held by subsidiaries and the shareholders' funds shared by the subsidiaries will be net off and those consolidation difference will be reflected in long-term investment.

- C. When the recoverable amount of long-term equity investment is less than its book value due to a continuous decrease in market price or the operation status of the invested company is adverse on the balance sheet date, and the devaluation is not recoverable in the foreseeable future, the Company provides for devaluation of long-term investment based on the difference between the recoverable amount and the book value of the long-term equity investment, and the loss on the long-term investment is dealt with in the profit and loss account for the period.

Details of long-term investments are set out in Note 10.

(11) Fixed assets and depreciation

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

Classification	Depreciation period (Year)	Annual depreciation rate(%)
Buildings and structures		
Including: Productive buildings and structures	30	3.23
Non-productive buildings and structures	35	2.77
Plant and machinery	9	10.78
Equipment	6	16.17
Motor vehicle	6	16.17

As diminution value of fixed assets incurs due to the reasons including outdated technology, broken and obsoleted on the balance sheet date, the Company and its subsidiaries provide for devaluation of the individual fixed assets based on the difference between the recoverable amount and the book value of such fixed assets, and the loss is charged to the profit and loss account of the period.

During the period, no devaluation of fixed assets was provided as the recoverable amount of fixed assets is not less than its book value.

Details of fixed assets and accumulated depreciation are set out in Note 11.

(12) Construction in progress

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

On the balance sheet date, diminution in value of construction in progress incurred due to the reasons of the three years' continuous adjournment, outdated capability and technology. The Company and its subsidiaries provide for devaluation of construction in progress on the difference between the recoverable amount and the book value, and the projected loss is dealt with in the income statement for the current period.

There is no evidence showing that any decrease in value of construction in progress has incurred during the period. Therefore, the Company and its subsidiaries has not made any provision on decrease in value of construction in progress in the current period.

Details of construction in progress are set out in Note 12.

(13) Borrowing cost

Borrowing costs represent interest expenses and foreign exchange difference on loans. Borrowings costs are capitalized as being attributable to the construction of the asset in which three conditions are fulfilled. That is borrowing cost incurred at the time of acquisition, borrowing cost is incurred and assets are necessarily taken a period of time to get ready for its intended use. While construction of asset is in use, capitalization of interest will be ceased and subsequent borrowing cost will be charged to income statement. Other interest expenses, depreciation or amortization and foreign exchange are expensed in the profit and loss account.

Other auxiliary expenses incurred due to specific loan agreement, will be capitalized into acquired fixed assets, which are assets ready for their intended use; the auxiliary expenses incurred subsequently will be recognized in the profit and loss account in the period in which they are incurred.

Capitalized interest should be calculated as follows:

Capitalized interest for the accounting period	=	Weighted average of the accumulated fixed assets acquisition amount for the period	x	Capitalization ratio
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Details of capitalization of finance costs are in note 12.

(14) Intangible assets and their amortization

Intangible assets of Company and its subsidiaries including land use right, patent, goodwill, purchased computer software, etc. Intangible asset which is acquired or granted by Court dealt on the actual payment. The intangible asset arising from investment provides in amount of mutual discussion. Intangible assets will amortize under the straight line amortization method according to their useful life.

As diminution in value of intangible assets incurs due to the reasons including decline of market value, replaced by new technology or expire on protection of law on setting day. The Company and its subsidiaries provides for devaluation of intangible assets based on the difference between the projected recoverable amount and the book value of such intangible assets, and the projected loss is charged to the profit and loss account of the period.

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

Details of intangible assets are set out in Note 13.

(15) Amortization of long-term deferred expenses

Long-term deferred expense refers the lump-sum payment made for the Company's rental property and expenditure paid which should be amortized over one year. Such payments shall be equally amortized on a monthly basis over the period of the lease agreement.

Details of amortization of long-term deferred expenses are set out in Note 14.

(16) Accounting for construction contracts

Construction contract project is stated as the amount that the accrued costs incurred and the gross profit minus the settled amount for the contract. Construction contract project is stated at actual basis, which includes direct materials, direct labor, other direct cost and non-direct cost accordingly. The difference between the accrued costs incurred for the contract and the confirmed amount that the gross profit is greater than the settled amount for the contract is stated by the Company as a “completed but unsettled amount”, a current asset in the balance sheet to reflect an account receivable of the Company from the client. The difference between the accrued costs incurred for the contract of the construction in progress and the confirmed amount that the gross profit is smaller than the settled amount for the contract of the construction in progress is stated by the Company as a “settled but uncompleted amount”, a current liability in the balance sheet to reflect an unearned revenue of the Company which is to be repaid with service in the future.

Details of construction contract are set out in Note 25.

(17) Principles for revenue recognition

A. Construction contracts

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

When the result of the construction contract nets 70% completion and may be reliably estimated, that is the total contract cost can be reliably stated and the economic benefit relating to the contract can flow into the Company and its subsidiaries, where the completion progress and cost incurred in order to perform the contract can be reliably stated on the date of the balance sheet, contract cost incurred can be clearly differentiated and reliably stated and the actual contract cost can be compared with the previous projected cost, the contract income is confirmed on the date of balance sheet and stated at completion percentage. When the result of the constructed contract is less than 70% completed, no contract revenue is recognized.

When the completed result of the construction project cannot be reliably estimated, yet the amount of cost on construction project can be reasonably expected to be recovered, the Company recognizes contract revenue according to the amount of actual cost which can be recovered and recognizes contract expense in the corresponding accounting period; for contract costs which deemed to be unrecoverable, such costs are expensed immediately with no revenue recognized.

B. Sales of goods

Revenue from sales of goods are recognized by the Company and its subsidiaries when the significant risks and rewards of ownership of the goods have been transferred to the customers, neither continuing managerial involvement nor effective control over the goods sold are retained, the economic benefits associated with the transaction can be received and the amount of revenue and costs can be measured reliably.

C. Service revenue

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

D. Other revenue

Interest income - Such income is recognized according to deposit term of the funds and the prevailing interest rate of the time.

Subsidy income - Such income is recognized upon the actual receipt of funds.

Details of revenue from principal operations are set out in Note 33.

(18) Enterprise income tax

The Company and its subsidiaries accounts for enterprise income tax using tax payable method.

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

(19) Basis on preparation for the consolidation of financial statements

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

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

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

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

NOTE 3. TAXATION AND OTHERS

Details of taxes payable for the Company and its subsidiaries are shown as follows:

(1) Turnover tax

Taxes	Tax item	Tax rate
Sales of goods and others	Value added tax ("VAT")	17%
Revenue of production	Value added tax ("VAT")	17%
Revenue of service	Sales Tax	5%

VAT payable represents the net amount of output VAT less input VAT.

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

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

(2) Enterprise Income Tax

Name of the Company	Tax Rate
The Company	15% *
DFEM Control Equipment Company Limited	33% **
DFEM Power System Company Limited	33% ***
DFEM Tooling & Moulding Company Limited	33% **
DFEM Equipment Engineering Company Limited	33%

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

** According to Notice of the Sichuan Municipal Government in 2001 Document No. 10 "The Promotion of Development Zone in Sichuan" on 20 March 2001, newly developed High-tech companies are 100% exempted from enterprise income tax during the first two years since from its first profitable year, and are 50% exempted from the enterprise income tax during the third to fifth year. DFEM Control Equipment Company and DFEM Tooling and Moulding Company were certified by 四川省科學技術廳 to be High-tech companies on 22 April 2002 and 18 November 2002 respectively. Their registration numbers are 0251006B0111 and 0251006B0209, and thus status is valid for two years. The current accounting period qualified for a full tax exemption, and thus, no Enterprise Income Tax has been provided.

*** DFEM Power System Co. incurred an operating loss during the current period, and thus does not need to provide for enterprise income tax.

(3) Real estate tax

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

(4) Land use tax

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

(5) Personal income tax

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

NOTE 4. SUBSIDIARIES AND ASSOCIATES

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

Company Name	Nature of Business	Registered Capital	Actual Investment	Interest Held	Principal Operations	Corporate Classification
1. DFEM Control Equipment Co. Ltd*	Manufactory	13,000,000	12,500,000	96.15%	Design, Production and Sale of Power generating equipment and A.C. and D.C. motors	Limited liability company
2. DFEM Power System Co. Ltd**	Manufactory	42,754,340	42,254,340	98.83%	Design, Production and Sale of Large and Medium A.C. and D.C. motors and Special motors.	Limited liability company
3. DFEM Tooling and Moulding Co. Ltd.***	Manufactory	14,600,000	14,500,000	99.32%	Moulding, design, manufacturing; Sales of knife, machinery, parts producing and Sales.	Limited liability company
4. DFEM Equipment Engineering Co. Ltd.****	Manufactory	13,500,000	13,100,000	97.04%	Maintenance of Machinery, Technology improvement, Sales machine system manufacturing, environment protection facilities, Specified facilities design, sales, etc.	Limited liability company

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

On 15 October 2001, Deyang Changsheng Supply and Marketing Company transferred its 3.85% of DFEM Tooling and Moulding shares (totaling 500,000 shares) to Deyang Development Zone Co.

** DFEM Power System Co.,Ltd is a joint venture with limited liability established by the Company and Deyang Changsheng Supply and Marketing Company. It's original name is 東方電機大 中 型 交 直 流 電 機 有 限 公 司, which changes to its present name on 5th December 2001. Its actual capital was audited by Schinda Accounting Firm and recorded in Capital Verification Report of Schinda Yan Zi Bao (2000) No. 11.

On 20 February 2002, Deyang Changsheng Supply and Marketing Company transferred all the 2% shares (in the amount of 500,000 shares) of DFEM Power to Deyang Jinghu Development Zone Statement-owned Property Operation Co. Ltd., which was renamed to "Deyang Economic and Technology Development Zone Statement owned by Prospecting Operation Co. Ltd.", hereafter "Deyang Development Zone Co." as of 21 September 2002.

The Company's board of directors held a meeting on 28 February 2002 and approved the increase in investment in DFEM Power, the increasing investment will be contributed by the company with cash which amount to RMB 9,398,645 and assets which amount to RMB 8,355,695 (the asset is appraised at the value of RMB 8,355,695 by Chongqing Kanghua CPA Firms under Appraisal Report [2002] 24). On 8 April 2002, the Company injected cash of RMB 9,398,645 to DFEM Power as additional capital injection. The additional capital injection was verified by Pan-China Schinda Certified Public Accountants and confirmed by their capital verification report Schinda 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 RMB 8,355,695. 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. The relevant ownership transfer process was completed as at 31 December 2002.

*** DFEM Tooling and Moulding Co. Ltd is a joint venture with limited liability established by the Company and Deyang Changsheng Supply and Marketing Company. Its actual capital was audited by Schinda Accounting Firm and recorded in Capital Verification Report of Schinda Yan Zi Bao (2001) No. 04.

On 12 February 2002, Deyang Changsheng Supply and Marketing Company transferred its 0.68% DFEM Tooling and Moulding shares (totaling 100,000 shares) to Deyang Development Zone Co.

**** DFEM Equipment Engineering Co. Ltd. is a joint venture with limited liabilities established by the MouHen Digital Co. Ltd, DFEM Control Equipment Co. Ltd, DFEM Power System Co. Ltd, DFEM Tooling and Mouldings Co. Ltd. Its actual capital was audited by Schinda Accounting Firm and recorded in Capital Verification Report of Schinda Yan Zi Bao (2001) No. 15.

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

Company Name	Nature of Business	Registered Capital	Actual Investment	Interest Held	Principal Operations	Corporate Classification
1. Leshan City Dongle Heavy Piece Handling Company*	Manufactory	1,000,000.00	490,000.00	49%	Handling transportation and warehousing	Limited liability company
2. Sichuan Dongfang Jijixin Construction Supervisory Co. Ltd.	Construction & Management	500,000.00	200,000.00	40%	Consultancy and management of construction	Limited liability company
3. Sichuan Deyang Jinshi Real Estate Development Co. Ltd.***	Real Estate	8,000,000.00	1,000,000.00	12.5%	Real Estate Development	Limited liability company

* Leshan City Dongle Heavy Piece Handling Company is a joint venture company with limited liability established by the Company and Leshan City Chuanjiang Harbor Shipping Development Company. Its actual capital was audited by Leshan Accounting Firm and recorded in Capital Verification Report of [Lezhanguai Shen Zi] (2001) No.005.



- ** *Sichuan Dongfang Jiaxin Construction Supervisory Co. Ltd. is a joint venture with limited liabilities established by Company and DFEM factory. Its actual capital was audited by [Nantong] Accounting Firm and recorded in Capital Verification Report of [Tun Tong] (2001) No. 185.*
- *** *Sichuan Deyang Jinshi Real Estate Development Co. Ltd. is jointed funded by DFEM and the Company. Its investment capital is verified by Sichuan Wangtong Public Accountants and recorded in Capital Verification Report of [Chuan Dong] (2001) No. 65.*

NOTE 5. CASH AND BANK BALANCE

- (1) Details of cash at banks and in hand are as follows:

Item	2003.6.30			2002.12.31		
	Original Currency	Ex. Rate	Amount in RMB	Original Currency	Ex. Rate	Amount in RMB
Cash on hand	58,788	—	58,788	33,838	—	33,838
Cash at bank	USD21,259,480	8.2766	175,973,898	USD34,449,006	8.2781	285,144,757
	HKD2,823	1.0613	2,997	HKD73	1.0614	77
	428,524,996	—	428,524,996 *	327,233,159	—	327,233,159
			604,501,891			612,377,993
Other bank deposit	USD1,661,729	8.2766	13,754,705			
	114,706,254	—	114,706,254	155,527,429	—	155,527,429
			128,460,959			155,527,429
			733,021,638			767,939,260

- * Including amount RMB 13,840,403 saving deposit in DFEM Electricity Finance Company.

- (2) Details of cash and cash equivalents are listed as follows:

	2003.6.30	2002.12.31
Cash at bank	733,021,638	767,939,260
Less: Fixed deposits with a period longer than 3 months	(105,037,746)	(257,584,414)
Other restricted amount*	(127,121,289)	(155,527,429)
	500,862,603	354,827,417

- * *The restricted cash amount of the Company refers the security deposits made for Bank Acceptance Drafts, Project Bids, and covenants of contract.*

NOTE 6. NOTES RECEIVABLE

- Details of notes payable are as follows:

	2003.6.30	2002.12.31
Commercial acceptance bill	5,800,000	1,156,129
Bank acceptance bill	18,640,000	5,400,500
	24,440,000	6,556,629

As at 30th June 2003, all the notes receivable by the Company and its subsidiaries were not discounted.

NOTE 7. ACCOUNTS RECEIVABLES AND OTHER RECEIVABLES

- (1) Details of aging of accounts receivable and other receivables of the Company and its subsidiaries are shown as follows:

	2003.6.30			2002.12.31		
	Amount	Percentage	Provision for bad debts	Amount	Percentage	Provision for bad debts
Within 1 year	478,816,905	65.71%	15,484,157	449,284,425	56.77%	17,632,010
1-2 years	48,355,086	6.64%	3,654,873	61,022,101	7.71%	3,661,323
2-3 years	48,005,973	6.59%	5,854,258	63,448,335	8.02%	4,441,384
3-4 years	75,862,477	10.41%	10,575,938	94,836,405	11.98%	7,586,912
4-5 years	52,782,803	7.24%	7,332,281	61,459,033	7.77%	6,145,903
Over 5 years	24,816,371	3.41%	8,168,233	61,428,808	7.75%	18,428,643
	728,639,615	100.00%	51,069,740	791,479,107	100.00%	57,896,175

As at 30th June 2003, Product Quality Deposits totalling RMB 168,431,453 were included in the amount of accounts receivable due within 1 year.

- (2) The top five largest accounts receivables over the total accounts receivables of the Company and its subsidiaries are as follows:

	2003.6.30	2002.12.31
Top Five largest accounts receivables	237,638,285	245,991,585
Total of accounts receivables	728,639,615	791,479,107
Ratio	32.61%	31.08%

- (3) Details of the major accounts receivables of the Company and its subsidiaries are as follows:

	2003.6.30
Amount due from related parties	48,659,845
Yifute-GEC Canada- Siemens	96,266,832
Mechanical Equipment Import and Export Company of Sichuan	43,361,715
Yunnan Dazhaoshan Hydro Electric Company Ltd	38,978,000
Sichuan Jilingjiang Electric Development Co.	32,258,695
Sichuan Panlong Electric Co. Ltd	26,773,044

- (4) Details of aging of other receivables of the Company and its subsidiaries are shown as follows:

	2003.6.30			2002.12.31		
	Amount	Percentage	Provision for bad debts	Amount	Percentage	Provision for bad debts
Within 1 year	12,724,505	13.90%	4,365,437	12,153,326	13.53%	2,539,915
1-2 years	1,094,024	1.20%	431,317	135,500	0.15%	54,200
2-3 years	26,601	0.03%	5,320	183,864	0.20%	73,545
3-4 years	724,130	0.79%	254,646	150,000	0.18%	60,000
4-5 years	855,437	0.93%	342,174	603,046	0.67%	241,218
Over 5 years	76,122,770	83.15%	30,449,109	76,586,801	85.27%	32,332,943
	91,547,467	100.00%	35,848,003	89,812,537	100.00%	35,301,821

- (5) The top five largest balances of other accounts receivables of the Company and its subsidiaries totals RMB 71,664,839, which constituted 78.28% of the total other accounts receivables.

- (6) The details of major other accounts receivables of the Company and its subsidiaries are shown as follows:

	2003.6.30	Year of receivable inception
Chongqing Youji (Group) Co. Ltd., & Peiling Zhongshan Co. Ltd.	8,471,630 *	1998
Chongqing Xinlongda Real Estate Development Co. Ltd.	40,000,000 **	1999
Leshan City Dongle Heavy Piece Handling Company	11,635,592	1999
Sichuan Ruixin Company	8,030,000 ****	1996
Sichuan Mianzhu Tiankang Medical Equipment Co. Ltd.	3,527,617	1995
Reserves	9,760,113	—

* The Company originally owns accounts receivables from Chongqing Youji and Peiling Zhongshan in the amount of RMB 2,471,630, Chongqi Tengyi Automobile Co. Ltd. in the amount of RMB 6,000,000, and Chongqing Stallion Estate Company in the amount of RMB 44,000,000. On 18 October 2002, the Company sued the debtor at Chongqing Arbitration Committee claiming repayment from Chongqing Stallion Estate for part of its debts amounting to RMB 44,000,000. Pursuant to the arbitration results of 2002 Yu Cai (Jing) Zi No. 61 and No. 62: Chongqing Stallion Estate shall repay the amount of RMB 44,000,000 by using certain floors of Huiyuan Building which located in Chongqing City owned by Chongqing Stallion Estate. 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 Huiteng Assets Appraisal Co., Ltd. with a market value of RMB 44,137,300. 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.

According to the "Debt Confirmation Agreement" signed on 31 March 2003 between Chongqi Youji Co., Peiling Co., Tengyi Co. and the Company, Chongqi Youji Co. and Pengling Co. agree to repay the Company the outstanding account receivable in the amount of RMB 6,000,000.00 on behalf of Tengyi Co. Therefore, the Company owns account receivable from Chongqi Youji Co. and Peiling Co. in the amount of RMB 8,471,630.

Pursuant to the arbitration results of 2003 De Zhong Cai Zi No. 71: Chongqi Youji Co. and Peiling Co. bear the joint-responsibility in repaying the outstanding debt in the amount of RMB 8,471,163, and shall make the repayment within 10 days after the delivery of the arbitration. Chongqi Youji Co. and Peiling Co. are jointly responsible for any outstanding amounts unpaid after the arbitration payment deadline.

** Chongqing Yangguang Real Estate Development Co. Ltd. ("Yangguang Co.") originally owes the Company in the amount of RMB 40,000,000. According to the "Agreement" signed on 20 March 2002 between Yangguang Co., Chongqing Yuzhong Real Estate Company, Chongqing Xinlongda Real Estate Development Co. Ltd. ("Xinlongda Co.") and the Company, Xinlongda Co. will take over the construction, buildings, land and all related rights of Chongqing World Trade Center. Pursuant to the agreement:

- (1) The debt owed by Yangguang Co. to the Company in the amount of RMB 10,000,000 shall be repaid by Xinlongda Co. Chongqi World Trade Center remains to be the collateral of this loan.
- (2) The assets as a form of payment from Yangguang Co. to the Company in the amount of RMB 30,000,000 shall be made by Xinlongda Co.

- (3) *Xinlongda Do confirmed that it owes the Company in the amount of RMB 40,000,000, and shall provide detailed payment schedule upon the signing of the "Agreement". Such debt bears no interest during the agreement repayment period. According to the agreement, the liability transfer agreement as said above is conditional upon the successful transfer of all legal titles of the Chongqing World Trade Centre. As of 8 January 2002, Chongqing Xinlongda Co. obtained the necessary sales permit according to the 1997 Chongqi City State Land Resources and Property Administrative Bureau Yu Guo Tu Fang Guan Yu Zi No. 0185. Thus, the agreement official comes into effect.*

Therefore, Chongqi Xinlongda owes the Company debt in the amount of RMB 40,000,000. Yangguang Co. is no longer responsible for such liabilities.

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

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

On 15 March, 2001, Dongfang Electrical Machinery Company Limited, Leshan City Dongle Heavy Piece Handling Company and the Company entered into an "Agreement on the implementation of pricing differences in respect of Leshan Heavy Piece Handling Project" where all of the handling charge for heavy piece shall be billed by Leshan Dongle Heavy Piece Handling Company, the Company will only pay 60% of the charges, and the remaining 40% will be net off with the above mentioned loan. As at 30 June 2003, the Company received RMB 364,408 from Leshan Dongle Heavy Piece Handling Company for the net-off of loan.

**** *As of 31 December 2000, account receivable from Run Xin Company ("Run Xin") amount to RMB9,400,000. Because Run Xin does not follow the repayment agreement, the Company has sectioned to Middle Renmin Court in 16 January 2001 for immediate repayment of loan amounted to RMB9,400,000 as well as RMB1,107,450 loss incurred. Moreover, Deyang People's Insurance Company, the Guarantor, is also responsible on this event as well as the legal fee incurred. As of 28 February 2001 ruling of Middle Renmin Court (2001) No. 17, Run Xin must pay RMB 200,000 immediately to the Company, before 25 April 2001 Run Xin must pay RMB 2,800,000. As of 31 May 2001, Run Xin must pay RMB 6,400,000 as well as RMB 20,000 for compensation. Deyang People's Insurance Company is responsible on one-third on unsettled amount. The legal operation fee and other legal fee are RMB 57,010 and RMB 14,250 respectively equivalent to RMB 71,260. This amount is bounded by Run Xin.*

As of 24 July 2001, Chengdu Tai Yeng Real Estate Limited ("Taiyeng") signs the agreement with company "Chengdu Tai Yeng Company Guarantee Payment Agreement", Tai Yeng guarantees payment, the pledged asset is part of the "Haifeng Shopping Centre". As of 27 November 2001, Run xin, Tai Yeng and company sign "Execution and resolution agreement" Tai Yeng voluntarily pays the unsettled amount. In order to guarantee payment, the Middle RenMin Court gets the control on the 4th floor equal to 3,500 squared meters of "Haifeng Shopping Centre". Shu Yin has repaid in total RMB 1,370,000 to the Company, while leaving RMB 8,030,000 outstanding as at June 30, 2003.

- (7) The amount due from related party and party that holding over 5% of shares of Company is shown in Note 38(3)

NOTE 8. PREPAYMENTS

- (1) Details of the aging of prepayments of the Company and its subsidiaries are shown as follows:

	2003.6.30		2002.12.31	
	Amount	Percentage	Amount	Percentage
Within 1 year	131,845,591	91.52%	82,547,609	95.29%
1-2 years	7,602,622	5.28%	3,740,232	4.32%
2-3 years	4,299,859	2.98%	319,736	0.37%
Over 3 years	307,130	0.22%	15,850	0.02%
	144,055,202	100.00%	86,623,427	100.00%

The prepayments of the Company and its subsidiaries over 1 year are for materials and equipments purchased but not yet received.

- (2) Details of major prepayments are show as follows:

	2003.6.30	Payment Inception	Purpose
Wuyang Southwest Sale Company	20,892,111	2002	Material Procurement
Chengdo Tianrong Commercial Trade Co. Ltd.	13,217,213	2002	Material Procurement
The ANDRITZ Company of Austria	12,096,696	2002	Material Procurement
Shanghai Jiu Hua Co. Ltd.	8,246,154	2002	Material Procurement
Wuhan Xingjing Steel Processing Co.	7,583,231	2002	Material Procurement
Chengdu Tianqi Company Limited	7,338,763	2002	Material Procurement

- (3) Prepayments made to parties with 5% or above shareholdings in the Company are shown in Note 38 (3).

NOTE 9. INVENTORIES AND PROVISION FOR INVENTORY WRITE-DOWN

Details of inventories and provision for inventory write down are shown as follows:

	2003.6.30			2002.12.31		
	Amount	Provision for inventory	Net Amount	Amount	Provision for inventory	Net Amount
Raw materials	207,596,633	1,249,391	206,347,242	238,082,793	5,222,177	232,860,616
Materials in transit	—	—	—	—	—	—
Consumables	3,055,996	—	3,055,996	1,935,718	—	1,935,718
Subcontracted for reprocessing	753,593	—	753,593	2,970,820	—	2,970,820
Spare parts	—	—	—	—	—	—
Work-in-progress	364,063,516	4,644,509	359,419,007	273,902,186	4,408,298	269,493,888
Finished goods	71,213,424	2,699,676	68,513,748	49,317,560	2,885,689	46,431,871
	<u>646,683,162</u>	<u>8,593,576</u>	<u>638,089,586</u>	<u>566,209,077</u>	<u>12,516,164</u>	<u>553,692,913</u>

NOTE 10. LONG-TERM INVESTMENT

(1) Details of long-term investment are listed as follows:

	2003.1.1			2003.6.30		
	Amount	Provision for Impairment	Increase	Decrease	Amount	Provision for Impairment
Equity investment	44,263	—	—	—	44,263	—
Other equity investment	(3,951,849)	310,941	310,925	51,629	(3,692,553)	310,941
Including:						
Associate companies	1,933,151	310,941	—	51,629	1,881,522	310,941
Equity investment difference	(5,885,000)	—	310,925	—	(5,574,075)	—
	<u>(3,907,586)</u>	<u>310,941</u>	<u>310,925</u>	<u>51,629</u>	<u>(3,648,290)</u>	<u>310,941</u>

(2) Equity investment of the Company and its subsidiaries are listed as follows:

Invested Company	Category	Number of shares	2003.6.30		Provision for impairment
			Ratio against invested company	Investment amount	
	Legal person shares				
Chengdu Shudu Mansion Co., Ltd	(A shares)	38,044	0.02%	44,263	—

- (3) Other equity investments of the Company and its subsidiaries are listed as follows:

Invested Company	Investment period	% of registered capital held	Initial investment	2003.1.1		Increase of cost	Increase (Decrease) of equity	Cash dividend received	Accumulated increase/ (decrease) of equity	2003.6.30	
				Amount	Provision for impairment					Amount	Provision for impairment
Leshan City Dongle Heavy Piece Handling Company	1997.07	49.00%	490,000	—	—	—	—	—	(490,000)	—	—
Southwest Production Materials Trade Center	1984.12	Unknown	60,000	60,000	60,000	—	—	—	—	60,000	60,000
Deyang Import and Export Company of Mechanical and Electrical Equipment	1988.06	Unknown	100,941	100,941	100,941	—	—	—	—	100,941	100,941
Wuxi Electrical Power Hotel	1988.07	2.30%	150,000	150,000	150,000	—	—	—	—	150,000	150,000
Chengdu Sandian Co., Ltd.	1992.09	0.62%	455,373	455,373	—	—	—	—	—	455,373	—
Sichuan Deyang Jinshi Real Estate Company Limited	2001.04	12.50%	1,000,000	1,000,000	—	—	—	—	—	1,000,000	—
Sichuan Dongfang Jiaxin Construction Supervisory Company Limited	2001.05	40.00%	200,000	166,837	—	—	(51,629)	—	(84,792)	115,208	—
Equity investments difference			(6,218,500)	(5,885,000)	—	—	310,925	—	644,425	(5,574,075)	—
Total			(3,762,186)	(3,951,849)	310,941	—	259,296	—	69,633	(3,692,553)	310,941

- (4) Equity investment difference are listed as follows:

Invested Company	Original investment	Amortization term	2003.1.1	Increase	Amortization	2003.6.30	Remaining term of amortization
DFEM Power System Co. Ltd.	(4,511,741)*	120 Months	(4,474,144)	—	(225,587)	(4,248,557)	113 Months
DFEM Tooling and Moulding Co. Ltd.	(1,082,221)**	120 Months	(874,794)	—	(54,111)	(820,683)	91 Months
DFEM Equipment Engineering Co. Ltd.	(624,538)***	120 Months	(536,062)	—	(31,227)	(504,835)	97 Months
	(6,218,500)		(5,885,000)	—	(310,925)	(5,574,075)	

* As noted in 4(1), in 2002 the Company increases its investment to DFEM Power System with assets which have a appraisal value of RMB 8,355,695. The book value of investment assets is RMB 3,843,954. The investment gain is RMB 4,511,741 and to be amortized in ten years in the beginning of December 2002.

** As noted in 4(1), the investment cost of DFEM Tooling and Moulding Co., Ltd is RMB 13,417,779 compared with the equity of this company was RMB 14,500,000. The investment gain is RMB 1,082,221, and to be amortized in ten years in the beginning of February 2001.

*** As noted in 4(1), the investment cost of DFEM Equipment Engineering Co., Ltd is RMB 12,475,462 compared with the equity of this company is RMB 13,100,000. The investment gain is RMB 624,538 and to be amortized in ten years in the beginning of August 2001.

- (5) Provision for impairment of long-term equity investment remains unchanged; see details in financial references 4.

NOTE 11. FIXED ASSETS AND ACCUMULATED DEPRECIATION

	1 January 2003	Increase	Decrease	30 June 2003
Cost				
Building and plant	276,472,770	286,904	492,790	276,266,884*
Machinery and equipment	465,036,685	3,253,688	310,889	467,979,484
Instruments and devices	80,069,488	677,472	1,272,930	79,474,030
Motor vehicles	7,438,609	976,690	—	8,415,299
	<u>829,017,552</u>	<u>5,194,754**</u>	<u>2,076,609</u>	<u>832,135,697</u>
Accumulated depreciation:				
Building and plant	95,158,850	4,308,664	305,058	99,162,456
Machinery and equipment	263,482,354	15,842,631	450,157	278,874,828
Instruments and devices	55,082,332	3,223,747	1,243,847	57,062,232
Motor vehicles	6,009,895	249,125	—	6,259,020
	<u>419,733,431</u>	<u>23,624,167</u>	<u>1,999,062</u>	<u>441,358,536</u>
Net book value	<u>409,284,121</u>			<u>390,777,161</u>

* As at 30th June 2003, net book value of building and plant in which the Company has not processed the ownership certificate was totalling RMB82,382,585.

** An increase of RMB4,829,883 in the fixed assets of this year is transferred from construction-in-progress upon completion.

NOTE 12. CONSTRUCTION IN PROGRESS

(1) Details of construction in progress are listed as follows:

Project Name	1 January 2003	Additions	Transfer to fixed asset	30 June 2003	Source of capital	Percentage of completion
1. Five coordinate mill	13,731,632	12,664,250	—	26,395,882	Loan and self-raised capital	92%
2. 260 boring machine	839,266	26,306,058	—	27,145,324	Loan and self-raised capital	94%
3. Digital belting machine	4,010,596	3,723,266	—	7,733,862	Loan and self-raised capital	86%
4. Specialized borer	1,351,692	6,162,920	—	7,514,612	Loan and self-raised capital	96%
5. Heavy rotor groove mill	4,736,885	746,675	—	5,483,560	Loan and self-raised capital	90%
6. Anneal furnace	4,141,211	63,823	—	4,205,034	Loan and self-raised capital	90%
7. Plasma cutting machine	—	3,515,357	—	3,515,357	Loan and self-raised capital	98%
8. Improvement of electricity system	2,280,582	365,174	—	2,645,756	Loan and self-raised capital	90%
9. 400T Stator ball bearing frame	—	1,551,214	—	1,551,214	Loan and self-raised capital	99%
10. Ventilate groove lacquer production line	182,504	975,522	—	1,158,026	Loan and self-raised capital	90%
11. Others	6,639,216	14,959,313	4,829,883	16,768,646	Loan and self-raised capital	
	<u>37,913,584</u>	<u>71,033,572</u>	<u>4,829,883</u>	<u>104,117,273</u>		
Including: loan interest capitalised	14,807,154	1,991,858	—	16,799,012		

- (2) The Company determined the capitalised borrowing cost on a quarterly basis, the interest rate of capitalized borrowing cost for each quarter are as follows:

	First quarter	Second quarter
Capitalization interest rate	1.45%	1.48%

NOTE 13. INTANGIBLE ASSETS

Details of intangible assets are listed as follows:

Type	Original Amount	1 January 2003	Increase this year	Amortization this year	Accumulated Amortization	30 June 2003	Remaining months of amortization
Land use rights	35,626,000	29,213,320	—	356,260	6,768,940	28,857,060 *	486
Technology know-how	2,556,000	1,661,400	—	255,600	1,150,200	1,405,800 **	30
Goodwill	1,227,888	1,064,169	—	122,788	286,507	941,381	46
Software	154,203	107,373	10,730	19,279	55,379	98,824	15
	<u>39,564,091</u>	<u>32,046,262</u>	<u>10,730</u>	<u>753,927</u>	<u>8,261,026</u>	<u>31,303,065</u>	

* The revaluated amount as of 31st December 1993 of the land use right of an area of 470,955.31 square meters injected into the Company by the ultimate holdings company DFEW on 28 January 1994 and confirmed by China Real Estate construction center were RMB 108,319,712. By the approval documents Guo Tu Pi (1994) No. 31 of the State Land Administration and Guo Zi Qi Han Fa (1994) No.43 of SAAB, the land use right was injected into the Company at a consideration of RMB 35,626,000 on 28 January 1994 and was amortized for 50 years since then under straight-line method.

** Company purchased the technology of 600MW Electricity Generating Machine from Japan HTC Company, and it would be amortized for 5 years since 20 April 2001.

NOTE 14. LONG-TERM DEFERRED EXPENDITURES

Details of long-term deferred expenditures are listed as follows:

Type	Original amount	1 January 2003	Additions	Amortisation	30 June 2003	Remaining months of amortization
Rental for building	1,969,031	1,430,009	—	49,226	1,380,783	168
Software	725,135	277,968	—	72,514	205,454	17
Decoration costs	705,568	505,657	—	70,556	435,101	37
Special plastic for VPI facilities	975,148	607,906	—	173,688	434,218	16
	<u>4,374,882</u>	<u>2,821,540</u>	<u>—</u>	<u>365,984</u>	<u>2,455,556</u>	

NOTE 15. OTHER LONG-TERM DEFERRED ASSETS

Details of other long-term assets are listed as follows:

	30 June 2003		31 December 2002	
	Amount	Percentage	Amount	Percentage
Part of Huiyuan Building and parking lot	44,000,000	91.29%	44,000,000	90.91%
The seventh floor of Huaxin Building	4,200,000	8.71%	4,200,000	8.68%
Deyang Shifang power plant	—	—	200,000	0.41%
	<u>48,200,000</u>	<u>100.00%</u>	<u>48,400,000</u>	<u>100.00%</u>

NOTE 16. SHORT-TERM LOANS

Details of short-term loans are listed as follows:

Loan type	30 June 2003	31 December 2002
Credit bank loans	50,000,000 *	105,100,000
Guaranteed bank loans	125,600,000 **	157,000,000
	<u>175,600,000</u>	<u>262,100,000</u>

* The loan made by the Company from China Construction Bank Deyang Branch was RMB 50,000,000 on 30th June 2003.

** Under the Letter of Guarantee signed between DFEW and Bank of China Deyang Branch on 10th July 2002, DFEW agreed to provide guarantee for the Company's loan from Bank of China Deyang Branch under Gong Dai Zhi 2002 No. 039 Loan Contract. The loan made by the Company from Bank of China Deyang Branch was RMB 60,000,000 on 30th June 2003.

DFEW signed the Maximum Guarantee Contract with China Industrial and Commercial Bank Deyang City Qiyang Branch on 25th March 2002, under the contract DFEW would provide guarantee limited to RMB 77,100,000 loan made by the Company from China Industrial and Commercial Bank Deyang City Qiyang Branch, the term of guarantee is from 25th March 2002 to 24th March 2004. The loan made by the Company from China Industrial and Commercial Bank Deyang City Qiyang Branch was RMB 65,600,000 on 30th June 2003.

NOTE 17. NOTES PAYABLE

(1) Details of notes payable are listed as follows:

	30 June 2003	31 December 2002
Commercial accepted notes	59,940,438	43,452,709
Bank accepted notes	58,423,668	80,768,932
	<u>118,364,106</u>	<u>124,221,641</u>

(2) Balances due to related parties and parties that holding no less than 5% of the Company's shares are shown in notes 38(3).

NOTE 18. ACCOUNTS PAYABLE

Details of accounts payable are listed as follows:

	30 June 2003	31 December 2002
Amounts due to related parties	6,078,322*	1,255,460
Heilongjian First Heavy Machinery Company	3,058,000	—
China Second Heavy Machinery Group Co.	1,652,271	—
Dalian Rilibaowa Machinery Company	1,241,240	—
Accrued purchases	67,036,433	65,118,660
Others	24,006,515	15,460,160
	<u>103,072,781</u>	<u>81,834,280</u>

Accounts payable over three years amount to RMB 274,317, is arising from absence of suppliers invoices.

* Details of the amount due to related parties and parties that holding no less than 5% of the Company's shares are listed in Note 38(3).

NOTE 19. ADVANCES FROM CUSTOMERS

Details of the advances from customers are listed as follows:

	30 June 2003	31 December 2002
Amounts due to related parties	685,560*	8,266,561
Fuyite-GE Canada-Siemens		
Three Gorges Co.	75,871,598	84,693,382
Guizhou Electric Power Co.	70,340,000	48,246,500
Guizhou Wu River Waterpower		
Development Co., Ltd	52,719,272	52,719,272
Inter Mongolia Datangtuo		
Power Supply Co., Ltd	47,351,500	22,581,000
Changshu Second Power Supply		
Constructing Department	43,835,000	6,200,000
Others	375,772,349	194,038,602
	<u>666,575,279</u>	<u>416,745,317</u>

* Details of the amounts due to related parties and parties that holding no less than 5% of the Company's shares are listed in Note 38(3).

NOTE 20. OTHER PAYABLES

(1) Details of the other payables are listed as follows:

	30 June 2003	31 December 2002	Contents
Amounts due to related parties	15,085,798*	28,075,809	Service charge payable to DFEW
Pension contributions	—	483,792	Individual contribution payable to the Social Security Bureau
Union expenses	3,842,866	2,741,505	Union expenses
Education expenses	3,594,418	3,529,413	Education expenses
Others	10,021,598	10,365,487	Stamp duty, construction fee
	<u>32,544,680</u>	<u>45,196,006</u>	

- (2) Details of the amounts due to related parties and parties that holding no less than 5% of the Company's shares are listed in Note 38(3)
- (3) A majority of other payables over three years amount to RMB 137,912, were unpaid oversea travelling expenditures.

NOTE 21. TAXES PAYABLE

Details of the taxes payable are listed as follows:

	30 June 2003	31 December 2002
VAT	110,711,257	137,961,028
Business tax	1,317,460	1,227,065
Urban development tax	14,297,066	16,046,596
Corporate income tax	507,119	1,054,051
Real estate tax	4,032,571	4,500,772
Land use tax	922,756	922,756
Personal income tax	330,277	262,828
	132,118,506	161,975,096

NOTE 22. OTHER UNPAID AMOUNTS

Details of other unpaid amounts are listed as follows:

	30 June 2003	31 December 2002
Education surcharge	4,735,329	8,630,078
Housing reserve	3,479,392	—
Others	1,767	—
	8,216,488	8,630,078

NOTE 23. ACCRUED EXPENSES

Details of accrued expenses are listed as follows:

	30 June 2003	31 December 2002	Reason
Fixed cost of power generation product	60,771,329*	42,010,785	Paid upon installation
Packing cost	4,907,971**	7,144,916	Paid upon due date
Uniform cost	2,400,000	2,400,000	Paid upon due date
Loan interest	860,797***	872,820	Paid upon due date
Others	5,504,385	4,577,901	
	74,444,482	57,006,422	

* Represent the installation cost of hydropower products provided according to standard cost specification.

** As states in Note 38(2) A, according to the service agreement signed between DFEM and the Company, the Company accrues 2.2% of turnover as packaging costs.

*** Unpaid loan interest to Import and Export Bank of China for the period from 21st June 2003 to 30th June 2003.

NOTE 24. CURRENT PORTION OF LONG-TERM LOANS

Details of current portion of long-term loans are listed as follows:

Bankers	30 June 2003	Period of Loan	Annual interest rate (%)	Terms of loans
State Development Bank	10,000,000 *	1997.12—2003.11	5.76	Consignment loan
State Development Bank	20,000,000 *	1997.12—2003.11	5.94	Consignment loan
Import & Export Bank of China	25,000,000 **	1998.10—2003.7	3.51	Guarantee
Import & Export Bank of China	50,000,000 **	1998.10—2003.8	3.51	Guarantee
Import & Export Bank of China	50,000,000 **	1998.10—2004.1	3.51	Guarantee
Import & Export Bank of China	95,000,000 **	1998.10—2004.2	3.51	Guarantee
Import & Export Bank of China	50,000,000 **	1998.10—2004.5	3.51	Guarantee
Construction Bank of China	1,000,000 **	2001.12—2003.12	5.49	Guarantee
Construction Bank of China	19,000,000 **	2002.12—2003.12	5.49	Guarantee
	320,000,000			

* The superior administrative organization of the Company's parent company—DFEC consigned State Development Bank to provide loan to the Company.

** The loans were made under the guarantee of DFEW—parent company of the Company.

NOTE 25. CONSTRUCTION CONTRACTS IN PROGRESS

When the accrued costs incurred for the contract of the construction are in progress and the confirmed amount of gross profit is greater than the settled amount for the contract of construction in progress, the difference is stated as “Amount due from customers on construction contracts”, a current asset in the balance sheet to reflect an account receivable by the Company from the client. When the accrued costs incurred for the contract of the construction in progress and the confirmed amount of the gross profit are less than the settled amount of the contract for construction in progress, the difference is stated by the company as “Amount due to customers on construction contracts”, a current liability in the balance sheet to reflect an unearned revenue of the Company which is to be repaid with service in the future.

Details of construction contracts in progress are listed as follows:

	30 June 2003	31 December 2002
Accumulated cost incurred	232,052,765	172,667,021
Accumulated recognized gross profit	3,538,958	15,282,537
Less: Accumulated progress billings	284,679,846	256,898,727
Recognised expected loss	—	(1,538,110)
	(49,088,123)	(70,487,279)
	30 June 2003	31 December 2002
As shown on the balance sheet		
Amount due from customers on construction contracts	69,843,268	33,046,946
Amount due to customers on construction contracts	(118,931,391)	(103,534,225)

Total amount of the construction contracts in progress was RMB 1,856,148,059 as at 30th June 2003.

NOTE 26. LONG-TERM LOANS

Details of the long-term loans are listed as follows:

Type of loan	30 June 2003	31 December 2002
Entrust Loan	119,000,000*	119,000,000
Guaranteed bank loan	75,000,000**	261,000,000
	<u>194,000,000</u>	<u>380,000,000</u>

* The superior administrative organization of the Company's parent company—DFEC consigned State Development Bank to provide loan to the Company.

** The loans were made under the guarantee of DFEW—parent company of the Company.

NOTE 27. LONG-TERM PAYABLES

Details of the long-term payables are listed as follows:

	30 June 2003	31 December 2002
Authorised reserve fund	685,253	685,253

NOTE 28. GRANTS PAYABLE

	30 June 2003	31 December 2002
Research and development fund	28,313,085*	26,760,634
Other funds	811,000	1,278,000
	<u>29,124,085</u>	<u>28,038,634</u>

* Represents the government grant for research and development to the Company and its subsidiaries.

NOTE 29. SHARE CAPITAL

Details of the share capital are listed as follows:

	30 June 2003	31 December 2002
Non-floating shares:		
Promoter legal person shares		
Domestic promoter legal person shares	220,000,000	220,000,000
Listed floating shares:		
Overseas listed foreign investment shares (H Shares)	170,000,000	170,000,000
Domestic listed Renminbi ordinary shares (A Shares)	60,000,000	60,000,000
Total number of floating shares	230,000	230,000
Total number of shares	<u>450,000,000</u>	<u>450,000,000</u>

The above paid-up share capital has been audited by certified public accountants of PRC.

NOTE 30. CAPITAL SURPLUS

Details of capital surplus are listed as follows:

	1 January 2003	Additions	Deductions	30 June 2003
Share premium	522,548,287	—	—	522,548,287
Non-cash donation	323,000	—	—	323,000
Transfer from grants payable	3,262,173	—	—	3,262,173
Provision for equity investment	1,710,158	—	—	1,710,158
Other transfers from capital reserve	79,654,352	—	—	79,654,352
	<u>607,497,970</u>	<u>—</u>	<u>—</u>	<u>607,497,970</u>

NOTE 31. SURPLUS RESERVE

Details of surplus reserves are listed as follows:

	1 January 2003	Additions	Deductions	30 June 2003
Statutory surplus reserve	27,641,530	—	—	27,641,530
Statutory public welfare fund	26,021,555	—	—	26,021,555
	<u>53,663,085</u>	<u>—</u>	<u>—</u>	<u>53,663,085</u>

NOTE 32. UNDISTRIBUTED PROFITS

Details of the undistributed profits are listed as follows:

	30 June 2003	30 June 2002
Balance at the beginning of the period	(204,000,380)	(223,938,532)
Add : Net profit/(loss) for the period	8,127,823	(29,731,671)
Less : Transfer to statutory surplus reserve	—	—
Transfer to statutory public welfare fund	—	—
Balance at the end of the period	<u>(195,872,557)</u>	<u>(253,670,203)</u>

NOTE 33. PRINCIPAL ACTIVITIES

(1) Details of principal activities are listed as follows:

	Revenue from principal activities		Cost of principal activities		Gross profit of principal activities	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2003	2002	2003	2002	2003	2002
Machinery manufacturing:						
Electric power generating equipment	386,611,500	210,561,831	266,929,975	158,620,899	119,681,525	51,940,932
Technology in improvement services and others	54,813,819	41,920,253	35,975,705	23,841,841	18,838,114	18,078,412
Total	<u>441,425,319</u>	<u>252,482,084</u>	<u>302,905,680</u>	<u>182,462,740</u>	<u>138,519,639</u>	<u>70,019,344</u>

(2) Aggregate income from the top five customers for the period are as follows:

	Amount	Percentage
2003.1.1 - 6.30	190,839,577	43.23%

NOTE 34. FINANCIAL EXPENSES

Details of financial expenses are listed as follows:

	Six months ended 30 June	
	2003	2002
Interest expense	18,713,487	22,767,251
Less: Interest income	8,905,461	8,713,102
Exchange loss	627,305	29,376
Less: exchange gain	379,328	53,620
Others	604,574	570,542
	<u>10,660,577</u>	<u>14,600,447</u>

NOTE 35. INVESTMENT GAIN (LOSS)

Details of investment gain/(loss) are listed as follows:

	Six months ended 30 June	
	2003	2002
Amortisation of consolidation variances	310,925	104,991
Decrease in equity interests of associates on equity method	(51,629)	—
Loss on other investment	—	(441)
	<u>259,296</u>	<u>104,550</u>

There are no significant restrictions on remittance of investment income to the Group.

NOTE 36. SUBSIDY INCOME

Details of subsidy income are listed as follows:

	Six months ended 30 June	
	2003	2002
VAT refund for international project	2,070,088*	—
Others	434,000	140,000
	<u>2,504,088</u>	<u>140,000</u>

* According to Guo Shui Han (2002) No.185 "State Administration of Taxation approved tax rebates on winning the bids for machinery and electrical products of DFEM Boiler Co., Ltd and DFEM Co., Ltd" on 5th March 2002 and Chuan Guo Shui Han (2002) No.131 "Sichuan Provincial Tax Department approved the tax rebates of DFEM Co., Ltd on winning the bid for machinery and electrical products" on 14th May 2002, the Company was entitled to a tax rebate amounting to RMB 21,625,150 for winning the international bid for the Guigang Hydro Power Station Project and Mianhuatan Hydro Power Station Project. The rebate received in the current period was RMB 2,070,088, and the accumulated rebate received by the Company was amounting RMB 10,100,088.

NOTE 37. RELATED NOTES TO THE FINANCIAL STATEMENT OF THE HOLDING COMPANY.

(1) Accounts receivable and other receivable

A. Aging of accounts receivable

	30 June 2003			31 December 2002		
	Amount	Percentage	Provision for bad debts	Amount	Percentage	Provision for bad debts
Within one year	447,121,632	65.16%	13,934,509	419,752,483	56.03%	14,792,170
1 to 2 years	39,093,404	5.70%	3,099,172	48,652,885	6.49%	2,919,173
2 to 3 years	46,631,536	6.80%	5,758,048	63,050,564	8.42%	4,413,540
3 to 4 years	75,740,185	11.04%	10,566,155	94,836,405	12.66%	7,586,912
4 to 5 years	52,782,803	7.69%	7,332,281	61,459,033	8.20%	6,145,903
Over 5 years	24,816,371	3.61%	8,168,231	61,428,809	8.20%	18,428,643
	686,185,931	100.00%	48,858,396	749,180,179	100.00%	54,286,341

B. As at 30th June 2003, top five accounts receivable are as follows:

	30 June 2003	31 December 2002
Total amount of top five debtors	237,638,285	245,991,585
Total accounts receivable	686,185,931	749,180,179
Percentage	34.63%	32.83%

C. Aging of other receivable

	30 June 2003			31 December 2002		
	Amount	Percentage	Provision for bad debts	Amount	Percentage	Provision for bad debts
Within in one year	38,751,042	33.02%	4,175,451	56,878,877	42.27%	7,037,407
1 to 2 year	1,062,602	0.912%	425,041	135,500	0.10%	54,200
2 to 3 years	1	—	—	183,864	0.14%	73,546
3 to 4 years	549,099	0.47%	219,639	150,000	0.11%	60,000
4 to 5 years	855,435	0.73%	342,174	603,046	0.45%	241,218
Over 5 years	76,122,771	64.87%	30,449,108	76,586,801	56.93%	30,634,721
	117,340,950	100.00%	35,611,413*	134,538,088	100.00%	38,101,092

* As at 30th June 2003, no bad debts have been provided for the interest receivable from fixed deposits and amount due from subsidiaries totalling RMB1,312,415 and RMB27,000,000 respectively.

D. As at 30th June 2003, the total amount of top five other receivables are amounting to RMB 71,664,839, which equals to 61.07% of the total other receivable.

E. Details of major other receivables are listed as follows:

	30 June 2003	Year of inception	Particulars
Chongqing Xinlongda Real Estate Development Co., Ltd	40,000,000 *	1999	Entrusted deposit
Leshan City Dongle Heavy Piece Handling Company	11,635,592 *	1999	Borrowing
Chongqing Youji Co.,Ltd and Fuling Corporate Company	8,471,630 *	1998	Temporary advance
Sichuan Ruixin Corporate Company	8,030,000 *	1996	Temporary advance
Sichuan Mianzhutiankang Medical Equipment Company	3,527,617	1995	Temporary advance
Reserve	8,697,141	—	Reserve borrowing by sub-plant and office

* Refers to Note 7(6).

(2) Long-term investments

A. Long-term investments are listed are follows:

	1 January 2003			30 June 2003		
	Amount	Provision for drop	Additions	Deductions	Amount	Provision for drop
Investments in stock	44,263	—	—	—	44,263	—
Other equity investment	54,064,255	310,941	6,245,165	340,316	59,969,104	310,941
Including:						
Subsidiaries	58,016,104	—	5,934,240	288,687	63,661,657	—
Associates	1,933,151	310,941	—	51,629	1,881,522	310,941
Equity investment differences	(5,885,000)	—	310,925	—	(5,574,075)	—
	<u>54,108,518</u>	<u>310,941</u>	<u>6,245,165</u>	<u>340,316</u>	<u>60,013,367</u>	<u>310,941</u>

B. Details of investments in stock are listed as follows:

		30 June 2003			
Invested Company	Category	Number of shares	Percentage of equity held	Investment cost	Provision for impairment
Chengdu Shudu Mansion Co., Ltd	Legal person share (A Shares)	38,044	0.02%	44,263	—

C. Detail of other equity investments are listed as follows:

Invested Company	1 January 2003						30 June 2003				
	Percentage of registered capital held		Amount of initial investment	Provision for impairment	Amount	Provision for impairment	Additions	increase (decrease) of Equity	Cash (decrease) of dividend received	increase (decrease) of Accumulated equity	Provision for impairment
	Investment period	registered capital held	investment	Amount	impairment	Additions	of Equity	received	equity	Amount	impairment
Leshan City Dongle Heavy Piece Handling Co.	1997.7	49.00%	490,000	—	—	—	—	—	(490,000)	—	—
Southwest Production Materials Trade Center	1984.12	Unknown	60,000	60,000	60,000	—	—	—	—	60,000	60,000
Deyang Import and Export Company of Mechanical and Electrical Equipment	1988.6	Unknown	100,941	100,941	100,941	—	—	—	—	100,941	100,941
Wuxi Electric Power Hotel	1988.7	2.30%	150,000	150,000	150,000	—	—	—	—	150,000	150,000
Chengdu Sandian Company Ltd	1992.9	0.62%	455,373	455,373	—	—	—	—	—	455,373	—
Sichuan Deyang Jiaxin Real Estate Co., Ltd	2001.4	12.50%	1,000,000	1,000,000	—	—	—	—	—	1,000,000	—
Sichuan Dongfang Jiaxin Construction Supervisory Co., Ltd	2001.5	40.00%	200,000	166,837	—	—	(51,629)	—	(84,792)	115,208	—
Equity investment differences			(6,218,500)	(5,885,000)	—	—	310,925	—	644,425	(5,574,075)	—
DFEM Control Equipment Co., Ltd	2000.5.18-2010.5.17	96.15%	12,500,000	12,584,950	—	—	4,364,415	—	4,449,365	16,949,365	—
DFEM Power System Co., Ltd	2000.7.10-2010.7.9	98.83%	42,254,340	17,429,170	—	—	(4,682,372)	—	(29,507,542)	12,746,798	—
DEEM Tooling and Moulding Co., Ltd	2001.3.13-2021.3.12	99.32%	14,500,000	14,839,614	—	—	4,873,859	288,687	4,924,786	19,424,786	—
DFEM Equipment Engineering Co., Ltd	2001.8.16-2021.8.15	97.04%	13,100,000	13,162,370	—	—	1,378,338	—	1,440,708	14,540,708	—
			78,592,154	54,064,255	310,941	—	6,193,536	288,687	(18,623,050)	59,969,104	310,941

D. Details of equity investment differences are listed as follows:

Invested Company	Initial Investment	Amortisation term	1 January 2003	Additions	Amortisation	30 June 2003	Remaining term of amortisation
DFEM Power System Co., Ltd	(4,511,741)	120 Months	(4,474,144)	—	(225,587)	(4,248,557)	113 Months
DFEM Tooling and Moulding Company Limited	(1,082,221)	120 Months	(874,795)	—	(54,111)	(820,684)	91 Months
DFEM Equipment Engineering Company Limited	(624,538)	120 Months	(536,061)	—	(31,227)	(504,834)	97 Months
	<u>(6,218,500)</u>		<u>(5,885,000)</u>	<u>—</u>	<u>(310,925)</u>	<u>(5,574,075)</u>	

* Refer to Note 10(4).

(3) Principal activities

A: Details of principal activities are listed as follows:

	Income from principal activities		Cost of principal activities		Gross profit of principal activities	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2003	2002	2003	2002	2003	2002
Machinery manufacturing:						
Electric power generating equipment	384,190,487	208,134,043	272,423,640	154,108,043	111,766,847	54,026,000
Technology improvement services and others	30,283,860	14,987,758	22,380,864	7,572,560	7,902,996	7,415,198
	<u>414,474,347</u>	<u>223,121,801</u>	<u>294,804,504</u>	<u>161,680,603</u>	<u>119,669,843</u>	<u>61,441,198</u>

B. Aggregate income from the top five customers for the period are as follows:

	Amount	Percentage
2003.1. 1-6.30	190,839,577	46.04%

(4) Investment gain (loss)

Details of investment gain the listed as follows:

	Six months ended 30 June	
	2003	2002
Amortisation for equity investment	310,925	85,338
Equity interest in subsidiaries and associates, net increase (decrease) amount	5,882,611	3,335,007
	<u>6,193,536</u>	<u>3,420,345</u>

There are no significant restrictions on remittance of investment income to the Company.

(5) Cash and bank balance

Details of cash and bank balance are listed as follows:

	30 June 2003	31 December 2002
Cash at banks and cash on hand	708,720,059	745,923,359
Less: Fixed deposit over 3 months	(103,037,746)	(255,584,415)
Other restricted cash	(123,372,564)	(154,578,703)
	<u>482,309,749</u>	<u>335,760,241</u>

NOTE 38. RELATED PARTIES AND TRANSACTIONS

1. Details of the related parties are stated as follows:

A. Related parties with controlling relationship

Company Name	Registered Place	Principal operations	Relationship with the Company	Corporate nature	Legal representative
DFEW	188 Huanghe West Road Deyang, Sichuan, PRC	Manufacturing and Selling of Power Generating Equipment, AC & DC Motors	Parent Company	State Owned	Zhu Yuan Chao

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

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

Company Name	1 January 2003	Additions	Deductions	30 June 2003
DFEW	128,420,000	—	—	128,420,000
DFEM Control Equipment Co., Ltd	13,000,000	—	—	13,000,000
DFEM Power System Co., Ltd	42,754,340	—	—	42,754,340
DFEM Tooling & Moulding Co.,Ltd	14,600,000	—	—	14,600,000
DFEM Equipment Engineering Co., Ltd	13,500,000	—	—	13,500,000

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

Company Name	1 January 2003		Additions		Deductions		30 June 2003	
	Amount	%	Amount	%	Amount	%	Amount	%
DFEW	220,000,000	48.89	—	—	—	—	220,000,000	48.89
DFEM Control Equipment Co., Ltd	12,499,500	96.15	—	—	—	—	12,499,500	96.15
DFEM Power System Co., Ltd	42,254,114	98.83	—	—	—	—	42,254,114	98.83
DFEM Tooling & Moulding Co.,Ltd	14,500,720	99.32	—	—	—	—	14,500,720	99.32
DFEM Equipment Engineering Co., Ltd	13,100,400	97.04	—	—	—	—	13,100,400	97.04

D. Related parties without controlling relationship.

Company name	Relationship with the company
Leshan City Dongle Heavy Piece Handling Co	Associated company
Sichuan Dongfang Jiaxin Construction Supervisory Co., Ltd	Associated company
China Dongfang Electric Corporation (DFEC)	Superior administrative organization of DFEM

(2) Related parties transactions

- A. Expenses payable by the Company and its subsidiaries to DFEW are listed as follows:

	Six months ended 30 June	
	2003	2002
Staff quarter management fees	1,064,728	956,476
Product packing costs	8,996,900*	5,103,467
Environmental hygiene and plantation cost	1,093,582	1,093,582
Staff messing	701,520	766,075
Staff cost and administration fee of kindergarten	2,741,125	2,741,250
Staff retirement expenses	643,404**	659,829
Purchase of raw materials	18,539,596	33,450,000
Labour charge	2,391,685	—
Freight and maintenance cost	16,118,015	10,004,828
Medical expenses for staff and their families	795,333	795,333
Others	1,268,704	515,161
	54,354,592	56,086,001

* Under the agreement with DFEW, DFEW is responsible for receiving and checking the finished goods, arranging, packing and delivering these goods for the Company, and DFEW receives 2.2% of the turnover of the Company as the packing income.

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

- B. Charges receivable by the Company and its subsidiaries from DFEW are listed as follows:

	Six months ended 30 June	
	2003	2002
Utilities	2,021,979	2,457,691
Raw materials and finished goods	451,359	1,443,292
Services and others	851,449	104,961
	3,324,787	4,005,944

- C. As stated in Note 16, 24, and 26, as at 30th June 2003, the bank loans amounting RMB490,600,000 of the Group were guaranteed by DFEW;

- D. As stated in Note 24, and 26, DFEC had provided entrusted loan to the Company through State Development Bank amount to RMB 149,000,000 as at 30th June 2003.

- E. Income from sales handled by DFEC on behalf of the Company are listed as follows:

	Six months ended 30 June 2003	2002
Income from sales on behalf of the Company	<u>28,716,665</u>	<u>8,590,000</u>

- F. Remuneration paid by the Company to senior management are listed as follows:

	Six months ended 30 June 2003
Remuneration	<u>294,965</u>

- (3) Amounts due/ from to related parties are set out as follows:

Item	Related company names	30 June 2003		31 December 2002	
		Amount	Percentage to the account balance	Amount	Percentage to the account balance
Accounts receivable	DFEC	47,993,972	6.59%	34,093,099	4.55%
	DFEW	665,873	0.09%	—	—
		<u>48,659,845</u>	<u>6.68%</u>	<u>34,093,099</u>	<u>4.55%</u>
Prepayment	DFEW	2,199,842	1.53%	—	—
Other receivable	DFEW	2,967,436	3.24%	851,035	0.63%
	Leshan City Dongle Heavy Piece Handling Co.	11,635,592	12.71%	10,887,853	8.10%
		<u>14,603,028</u>	<u>15.95%</u>	<u>11,738,888</u>	<u>8.73%</u>
Advance from customers	DFEC	537,510	0.08%	8,266,561	2.14%
	DFEW	148,050	0.02%	—	—
		<u>685,560</u>	<u>0.10%</u>	<u>8,266,561</u>	<u>2.14%</u>
Other payable	DFEW	15,085,798	46.35%	28,075,809	68.04%
Account payable	DFEW	6,078,322	5.90%	1,255,460	1.00%
Notes payable	DFEW	6,151,876	5.20%	5,023,390	4.03%
	DFEC	5,642,326	4.77%	—	—
		<u>11,794,202</u>	<u>9.97%</u>	<u>5,023,390</u>	<u>4.03%</u>

NOTE 39. CONTINGENT ITEM

There exists no material contingent item.

NOTE 40. CAPITAL COMMITMENTS

Detail of the approved capital expenditures within one year as at 30th June 2003 are listed as follows:

	30 June 2003
Approved and contracted	80,379,722
Approved but not contracted	35,000,000

NOTE 41. EVENTS AFTER THE BALANCE SHEET DATE

According to Cai Shui (2001) No.133 "About the tax policy for third line enterprises during the Tenth 5 Years Plan" issued by The Ministry of Finance and State Administration of Taxation and Cai Shui (2002) No.145 "The notice about DFEM could entitle the same tax policy as a third line enterprise" issued by The Ministry of Finance, Cai Zhu Chuan Jian Tui Zi (2003) No. 251 " Approval for tax rebate applied by DFEM" issued by the financial supervisor from The Ministry of Finance in Sichuan Province on 7th July 2003, the Company and its subsidiaries are entitled to a refund of VAT for the year 2002 totalling RMB 60,711,932.00. Among the tax refunds, RMB 52,395,894 was directed to the Company; RMB 3,316,158 was directed to DFEM Control Equipment; RMB 3,191,074 was directed to DFEM Power System; RMB 1,513,471 was directed to DFEM Tooling and Moulding; RMB 295,335.00 was directed to DFEM Equipment Engineering. According to The Ministry of Finance and State Administration of Taxation (2001) No.133 file, the rebate to third line enterprises should be solely used for the renovation of building and plants. Until 24 July 2003, the Company and its subsidiaries had received the tax refund totalling RMB 60,711,932.

NOTE 42. OTHER SIGNIFICANT EVENTS

During the accounting period, the Company has written off account receivable totalling RMB 18,788,549 for those which have been outstanding for a prolonged period of time and are largely considered uncollectable. The Company has also written off RMB 8,880,036 (net value RMB 4,907,250) in inventory for those which have been in stored for a prolonged period of time or are considered have been significantly impaired in value. All of the above write-offs were approved during the 6th meeting of 4th Board of directors .

NOTE 43. COMPARATIVE FIGURES

The comparative figures on Balance Sheet and Consolidated Balance Sheet are taken from 31st December 2002's audited figures. The comparative figures of Profit and Profit Distribution Statement, and Consolidated Profit and Profit Distribution Statement are taken from 30th June 2002 unaudited figures.

NOTE 44. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been approved by the Board of Directors on 12th August 2003.



Other financial information (I)

Supplement information on DFEM's consolidated income statement

For the Six Months ended 30th June 2003

Expressed in Renminbi

Details of non-recurring items in income statement:

Items	Consolidated	
	Six months ended 30 June	
	2003	2002
1. Disposal of department or investment	—	—
2. Natural disaster	—	—
3. Profit increase (decrease) due to change of accounting policy	—	—
4. Profit increase (decrease) due to change of accounting estimate	—	—
5. Debt restructuring	—	—
6. Other non-recurring items	317,651	(521,277)
Including: Non-operating income	597,186	1,876,463
Subsidy income	2,504,088	140,000
Non-operating expenses	(2,783,623)	(2,537,740)
	<u>317,651</u>	<u>(521,277)</u>
Percentage of total of above items to consolidated net profit	(3.91%)	1.75%

Other financial information (II)

Difference between accounts prepared under Accounting Principles Generally Accepted in Hong Kong and PRC Accounting Standards

For the Six Months ended 30th June 2003

Expressed in Renminbi

	Notes	Net assets	Net profit
Net assets/net profit as reported in accordance with accounting principles generally accepted in Hong Kong		924,458,977	5,746,810
Adjustments made to conform with PRC Accounting Standards			
—Timing difference for recognising subsidy income	1	(11,525,062)	2,070,088
—Investment income	2	2,354,583	310,925
Net amount of (decrease)/increase		(9,170,479)	2,381,013
Net assets/net profit as reported in accordance with PRC Accounting Standards		915,288,498	8,127,823

Note 1. Timing differences on recognition of subsidy income

In 2002, the overseas certified public accountants adopted accrual basis and recognised the subsidy income not yet received amounting to RMB13,595,150 in the income statement for the year 2002. However, the domestic certified public accountants adopted cash basis in recognising the subsidy income. During the reporting period, the Company actually received subsidy income amounting to RMB2,070,088 (subsidy income not yet received amounting to RMB11,525,062). Accordingly, there were timing differences of RMB2,070,088 in net profit and RMB11,525,062 in net assets.

Note 2. Investment income

In respect of the equity investment difference for subsidiaries, the overseas certified public accountants recognised the amount in the income statement as incurred. However, the domestic certified public accountants have capitalised the equity investment difference and amortised on a straight-line basis over 10 years. As a result, the Company's net profit for the period was increased by RMB311,925.

Other financial information (III)

Details of return on net assets and earning on per share

For the Six Months ended 30th June 2003

Expressed in Renminbi

	Return on net asset (%)		Earning per share (RMB/share)	
	Fully Diluted	Weighted average	Fully Diluted	Weighted average
Profit from principal operations	15.03%	15.09%	0.306	0.306
Operating profit	0.82%	0.82%	0.017	0.017
Net profit	0.89%	0.89%	0.018	0.018
Net profit after deducting non-recurring profit and loss items	0.85%	0.86%	0.017	0.017

Other financial information (IV)

Statement of provisions for impairment of assets

As at 30th June 2003

Expressed in Renminbi

	1 January 2003	Additions	Deductions	30 June 2003
1. Total amounts of bad debts provided	93,197,996	546,182	6,826,436	86,917,742
Including: Account receivable	57,896,175	—	6,826,436	51,069,739
Other receivable	35,301,821	546,182	—	35,848,003
2. Total provisions for short-term investments	13,860	—	—	13,860
Including: Stock investment	13,860	—	—	13,860
3. Total amounts of inventory write-down provided	12,516,164	236,211	4,158,799	8,593,576
Including: Raw Material	5,222,177	—	3,972,786	1,249,391
Work in process	4,408,298	236,211	—	4,644,509
Finished goods	2,885,689	—	186,013	2,699,676
4. Total amounts provided for impairment of long term investments	310,941	—	—	310,941
Including: Long term equity investment	310,941	—	—	310,941
5. Provision for impairment of construction in process	—	—	—	—

2. CONDENSED FINANCIAL STATEMENTS AND NOTES THERETO PREPARED IN ACCORDANCE WITH ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN HONG KONG

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2003

		Six months ended 30th June	
		2003	2002
		RMB'000	RMB'000
	NOTES	(Unaudited)	(Unaudited)
Turnover	(4)	440,434	252,106
Cost of sales		(302,906)	(182,463)
Gross profit		137,528	69,643
Other operating income		13,643	9,987
Distribution costs, administrative and other expenses		(126,718)	(85,262)
Profit / (loss) from operations	(5)	24,453	(5,632)
Finance costs		(18,713)	(23,314)
Share of results of associates		(52)	105
Profit / (loss) before tax		5,688	(28,841)
Income tax credit	(6)	385	—
Profit / (loss) before minority interests		6,073	(28,841)
Minority interests		(326)	(131)
Net profit / (loss) for the period		5,747	(28,972)
Dividend	(7)	—	—
Basic earnings / (loss) per share	(8)	RMB0.013	(RMB0.064)

**CONDENSED CONSOLIDATED BALANCE SHEET**

AS AT 30TH JUNE 2003

	NOTES	30/6/2003 RMB'000 (Unaudited)	31/12/2002 RMB'000 (Audited)
Non-current assets			
Intangible assets		2,446	2,833
Property, plant and equipment	(9)	417,603	432,459
Construction in progress	(9)	161,428	88,648
Interests in associates		115	167
Investment securities		1,499	1,499
		583,091	525,606
Current assets			
Inventories		638,090	553,693
Amount due from customers on construction contracts		69,843	33,047
Trade receivables	(10)	702,010	733,583
Other receivables and prepayment		200,815	151,689
Other investment		62	62
Amount due from an associate		11,636	10,888
Bank deposit with maturity over three months		232,159	413,112
Bank balances and cash		500,863	354,827
		2,355,478	2,250,901
Current liabilities			
Trade payables	(11)	221,436	206,056
Other payables and receipt in advance		850,949	601,992
Amount due to customers on construction contracts		118,931	104,922
Tax payable		132,118	161,975
Borrowings - amount due within 1 year		320,000	140,000
Short-term bank loans - unsecured		175,600	262,100
		1,819,034	1,477,045
Net current assets		536,444	773,856
		1,119,535	1,299,462

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

AS AT 30TH JUNE 2003

	NOTES	30/6/2003 RMB'000 (Unaudited)	31/12/2002 RMB'000 (Audited)
Capital and reserves			
Share capital	(12)	450,000	450,000
Reserves		474,461	468,714
		<u>924,461</u>	<u>918,714</u>
Minority interests		1,074	748
Non-current liability			
Long-term borrowings		194,000	380,000
		<u>1,119,535</u>	<u>1,299,462</u>



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30TH JUNE 2003

	Total equity RMB'000
At 1st January 2002	883,974
Net loss for the six months ended 30th June 2002	<u>(28,972)</u>
At 30th June 2002	855,002
Net profit for the six months ended 31st December 2002	<u>63,712</u>
At 31st December 2002	918,714
Net profit for the six months ended 30th June 2003	<u>5,747</u>
At 30th June 2003	<u><u>924,461</u></u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2003

	Six months ended 30th June	
	2003	2002
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
NET CASH GENERATED FROM / (USED IN) OPERATING ACTIVITIES	148,665	(70,372)
NET CASH FROM INVESTING ACTIVITIES	108,584	137,318
NET CASH USED IN FINANCING ACTIVITIES	<u>(111,213)</u>	<u>(73,419)</u>
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	146,036	(6,473)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	354,827	440,427
CHANGE IN EXCHANGE RATE	<u>—</u>	<u>16</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<u><u>500,863</u></u>	<u><u>433,970</u></u>



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30TH JUNE 2003

1. GENERAL

Dongfang Electrical Machinery Company Limited (the “Company”) was established on 28th 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’s ultimate holding company is DFEW and the superior administrative organization of DFEW is China Dongfang Electric Corporation (“DFEC”).

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 9th 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 (“HKSE”) since 6th June 1994. On 4th 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 10th October 1995.

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Statement of Standard Accounting Practice 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants (“HKSA”) and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the HKSE.

3. ACCOUNTING POLICIES / ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

The condensed consolidated financial statements have been prepared under the historical cost convention, certain investment in securities are stated at fair value.

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st December 2002, except as described below.

3. ACCOUNTING POLICIES / ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE (Continued)

In the current period, the Group has adopted SSAP 12 (Revised) "Income taxes" issued by the HKSA. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision, if any, was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions.

The adoption of this standard has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

4. BUSINESS AND GEOGRAPHICAL SEGMENT INFORMATION

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

An analysis of the Group's revenue for the six months ended 30th June 2003 and 2002 is as follows :

	Six months ended 30th June	
	2003	2002
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sales revenue of generator	385,620	210,186
Provision of related construction and engineering services and others	54,814	41,920
	<u>440,434</u>	<u>252,106</u>

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.



5. PROFIT / (LOSS) FROM OPERATIONS

	Six months ended 30th June	
	2003	2002
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit / (loss) from operations has been arrived at after charging:—		
Depreciation on property, plant and equipment	24,214	24,595
Amortisation of intangible assets	398	665
Loss on disposal and written off of property, plant and equipment	323	30
	<u>24,935</u>	<u>25,290</u>

6. INCOME TAX CREDIT

	Six months ended 30th June	
	2003	2002
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
The tax credit comprises :		
Taxation attributable to the Company and its subsidiaries		
PRC income tax		
Over-provision in prior periods	385	—
	<u>385</u>	<u>—</u>

Income tax in the PRC has been provided at the prevailing rates on the estimated assessable profit applicable to each individual company within the Group in the PRC.

No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements as the Group's income neither arises in, nor is derived from, Hong Kong.

6. INCOME TAX CREDIT (Continued)

The tax credit for the period can be reconciled to the profit / (loss) before tax per the income statement as follows :

	Six months ended 30th June	
	2003	2002
	RMB'000	RMB'000
Profit / (loss) before tax	5,688	(28,841)
Tax (charge) / credit at applicable tax rate of 15% (2002 : 15%)	(853)	4,326
Tax effect of adjustment for non-assessable or disallowed items	592	(62)
Tax effect of decrease / (increase) in tax losses	85	(4,328)
Deferred tax asset on tax losses not recognised	(1,750)	(1,288)
Over-provision in prior periods	385	—
Effect of different tax rates of subsidiaries operating under other statutory income tax rates	1,926	1,352
Tax credit for the period	385	—

The applicable tax rate represented the rate of taxation prevailing in the territories in which the major companies of the Group operate.

At the balance sheet date, deferred tax assets arising from estimated unused tax losses and other temporary differences of RMB29,780,000 (31st December 2002 : RMB29,403,000) and RMB15,524,000 (31st December 2002 : RMB17,032,000) respectively have not been recognised in the financial statements due to the unpredictability of future profit streams.

Included in estimated unused tax losses are losses of RMB 181,718,000 (31st December 2002 : RMB184,425,000) that will expire at various dates up to and including 2008.

7. DIVIDEND

The directors do not recommend the payment of an interim dividend.



8. BASIC EARNINGS / (LOSS) PER SHARE

The calculation of basic earnings / (loss) per share was based on the unaudited consolidated net profit of RMB 5,747,000 for the six months ended 30th June 2003 (corresponding period of 2002: loss of RMB28,972,000) divided by the weighted average number of 450,000,000 ordinary shares (corresponding period of 2002: 450,000,000 shares) in issue during the period.

The diluted earnings / (loss) per share was not calculated, because no diluted shares existed.

9. PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION IN PROGRESS

	Six months ended 30th June 2003 (Unaudited)		
	Property, plant and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Balance, beginning of period	432,459	88,648	521,107
Additions	573	81,945	82,518
Reclassification	9,165	(9,165)	—
Disposal and written off	(380)	—	(380)
Depreciation	(24,214)	—	(24,214)
Balance, end of period	<u>417,603</u>	<u>161,428</u>	<u>579,031</u>

10. TRADE RECEIVABLES

	30/6/2003 RMB'000 (Unaudited)	31/12/2002 RMB'000 (Audited)
Within one year	502,786	449,284
1 - 2 years	48,761	61,022
2 - 3 years	48,071	63,448
Over 3 years	153,462	217,725
	<u>753,080</u>	<u>791,479</u>
Less : Provision for doubtful debts	<u>(51,070)</u>	<u>(57,896)</u>
	<u>702,010</u>	<u>733,583</u>

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.

11. TRADE PAYABLES

30/6/2003	31/12/2002
RMB'000	RMB'000
(Unaudited)	(Audited)

An aged analysis of trade payables is as follows :

Within one year	213,265	203,455
1 - 2 years	7,126	1,751
2 - 3 years	771	626
Over 3 years	274	224
	<hr/>	<hr/>
	221,436	206,056
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12. SHARE CAPITAL

There were no movements in share capital of the Company during the period from 1st January 2002 to 30th June 2003.

13. RELATED PARTY TRANSACTIONS AND BALANCES

- (a) Details of transactions between the Group and the ultimate holding company and its subsidiaries and the superior administrative organization of ultimate holding company, which were carried out in the normal course of the Group's business, are as follows :

Six months ended 30th June	
2003	2002
RMB'000	RMB'000
(Unaudited)	(Unaudited)

Ultimate holding company and its subsidiaries

Expenditure :

— Management expenses on staff quarters	1,065	956
— Packing costs	8,997	5,103
— Environmental hygiene and plantation cost	1,094	1,093
— Staff cost and administration fee of kindergarten	2,741	2,741
— Pension and expenses for retired workers	643	660
— Freight and maintenance costs	16,118	10,005
— Staff mealing	702	766
— Medical expenses	795	795
— Purchase of materials	18,540	33,450
— Others	3,661	515
	<hr/>	<hr/>

Total	54,356	56,084
	<hr/>	<hr/>



13. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

	Six months ended 30th June	
	2003	2002
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue :		
— Sales of power	2,022	2,457
— Sales of materials and products	451	1,443
— Others	851	105
Total	<u>3,324</u>	<u>4,005</u>
Superior administrative organization of ultimate holding company		
Income from sales on behalf of the Company	<u>28,717</u>	<u>8,590</u>

- (b) Current accounts with ultimate holding company and its subsidiaries and the superior administrative organization of the ultimate holding company are as follows:—

Name of related company		30/6/2003	31/12/2002
		RMB'000	RMB'000
		(Unaudited)	(Audited)
DFEC	Amount due therefrom	47,994	34,093
	Amount due thereto	6,180	8,267
	Loan advanced therefrom	149,000	149,000
DFEW	Amount due therefrom	5,833	851
	Amount due thereto	<u>27,464</u>	<u>34,354</u>

In addition, guarantees were given by DFEW in respect of banking facilities utilized by the Group amounting to RMB490,600,000 (31st December 2002 : RMB418,100,000).

14. COMMITMENTS

(a) Capital commitments

At the balance sheet date, there were capital commitments in respect of acquisition of machinery and equipment for production purposes, so far as not provided for in the financial statements are as follows:—

	30/6/2003 RMB'000 (Unaudited)	31/12/2002 RMB'000 (Audited)
Contracted but not provided for	80,380	15,902
Authorised but not contracted for	35,000	61,850
	<u>115,380</u>	<u>77,752</u>

(b) Operating lease commitment

The Group has no material operating lease commitment as of 30th June 2003.

15. POST BALANCE SHEET EVENT

In accordance with the approval of The Ministry of Finance and State Administration of Taxation, on 7th July 2003 財政部駐四川省財政監察專員辦事處 approved that the Group is entitled to receive a Value Added Tax refund for year 2002 totalling RMB 60,712,000 for the purpose of capital improvement in assets. The Group have received the full amount on 24th July 2003.